

KEEP FOR MEETING

CONFIDENTIAL

April 1, 1967

TO: Senator DeConcini  
 FROM: Laurie A. Sedlmayr  
 RE: Background for Meeting with Chairman Gray

**LAWSUITS**

American Continental has filed two cases against Gray and the FHLBB in recent weeks. The first is a lawsuit attacking the FHLBB's authority to issue the direct investment regulation. It was filed March 17 in U.S. District Court for the District of Columbia before Judge Casell. (Lincoln Savings v. The Federal Home Loan Bank Board and Lincoln Savings v. Edwin Gray). On March 29 they filed a petition with the Federal Home Loan Bank Board asking for the recusal of Ed Gray in any matters involving Lincoln Savings. This petition asks that if Gray refuses to recuse himself that the other Board members disqualify him. Failing that, Lincoln is asking for discovery and conduct of an evidentiary hearings on an expedited basis for the purpose of exploring the extent of Gray's bias and prejudgment toward Lincoln.

**WHAT AMERICAN CONTINENTAL WOULD LIKE**

Per your meeting with Mr. Keating, they would like a truce in the ongoing recriminations. The direct investment question is currently in the courts and will be resolved there. Until that time, Keating would hope that the FHLBB would refrain from any precipitous actions based on the direct investment issue.

Second, is the issue of incorrectly appraised assets. A third party appraisal would seem to be the solution to this problem. Almost any Arizonan would tell you that Lincoln's investments have been drastically under appraised.

Because of these two problems--under appraisal and the ongoing direct investment controversy Lincoln could wind up with a low net worth. Under appraisals cause a lowering of Lincoln's net worth. The direct investment provision of the capital regulation results in an increase in Lincoln's net worth requirement. A two-edged sword.

**WHAT AMERICAN CONTINENTAL WILL DO**

Lincoln will dedicate 85% of new deposits this year to a new home-loan program to begin April 1967.

Lincoln has upgraded books and recordkeeping to comply with all FHLBB practices.

Lincoln will limit junk bond investments to 16% of assets.

Lincoln would agree to limit or curtail further land investments

Lincoln would divest itself of all insured deposits over a ten-year period.

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