

1 MR. BENNETT: Were you making a statement or were you  
2 asking me a question?

3 MR. GARMENT: I was asking a question.

4 MR. BENNETT: There's been prior testimony that  
5 witnesses believed that these came from ACC.

6 THE WITNESS: Thank you.

7 MR. GARMENT: I ask a lot of questions and I don't get  
8 answers, but I appreciate it.

9 MR. BENNETT: I wasn't sure if you were making -- THE  
10 WITNESS: I don't have direct recollection of that.

11 MR. BENNETT: All right.

12 BY MR. BENNETT:

13 Q Was there any discussion with any of the Senators  
14 before their meeting started?

15 A About?

16 Q Anything.

17 A Before we sat down and it started? No. Just,  
18 "Good evening, Mr. Gray," that kind of thing. "You can sit  
19 over here."

20 Q Now, you testified that what was very much in  
21 your mind when you went to that meeting was this FSLIC  
22 recapitalization bill.

23 Is that right?

24 A That's right.

25 Q Did any of these Senators in any way threaten to

1 hold up FSLIC recapitalization legislation if you did not  
2 accede to what was being asked of you?

3 A No.

4 Q Did you feel intimidated by any of these  
5 Senators?

6 (Pause.)

7 A Yes. I felt awkward and pressured. The whole  
8 setting was an intimidating one under these circumstances  
9 because I had never had a meeting like this before.

10 Q Well, what made this meeting different from other  
11 meetings that caused you to feel that you were pressured, or  
12 in a pressure situation?

13 A Because there were only five there. Only five  
14 principals -- myself and four United States Senators. No  
15 one else to hear. No one else to know what was said. It  
16 was just us. I recognized that immediately.

17 Q When the subject of the San Francisco regulators  
18 came up, did you testify that Senator McCain asked whether  
19 such a meeting would be proper?

20 A I don't recall him asking that, but I do recall  
21 him saying on a number of occasions, or asking on a number  
22 of occasions whether this or that were proper. And I said,  
23 "It's not improper to ask questions." That's always the way  
24 I answered.

25 Q I guess the question, you know, that just keeps

1 coming up in my mind is that, if you, indeed, felt that you  
2 were under so much pressure and you were being intimidated  
3 by the situation, why didn't you take this as sort of a  
4 safety net? You know, a rope to a drowning swimmer, to get  
5 yourself out of there?

6 A Well, because I had a certain amount of personal  
7 dignity, at least I thought I did. I was with five -- four  
8 United States Senators. I had been in meetings with members  
9 of Congress where they expressed disagreements about our  
10 policy -- policies.

11 Also about regulations. And so the unusual aspects of  
12 this were, first, the request that I withdraw the  
13 regulation; and, secondly, that it was with four Senators  
14 and myself, and nobody else was present.

15 And I expressed that when I returned from. But, I -- I  
16 also had some dignity as the head of that agency. And I  
17 felt I wanted to have that. And I just wanted to answer  
18 what questions I could to these people who exercised  
19 oversight over my agency.

20 Q If none of them threatened you with holding up  
21 legislation, was there any concern on your part as to that  
22 legislation?

23 A Oh, absolutely. One of the reasons that I  
24 probably acted and didn't raise this matter of propriety at  
25 the time was because I needed their votes desperately for

1 the legislation that we were pushing. And it was not my  
2 intent to get in a big fight with these people when I needed  
3 their votes.

4 Q But, none of them said anything --

5 A No, they didn't. But, I didn't want to --

6 Q Let me finish. Let me finish.

7 None of them said anything or did anything at that  
8 meeting or subsequently, did they, to suggest to you that  
9 they would hold up that legislation.

10 Is that a fair statement or not?

11 A They did not. That's a fair statement.

12 Q What is the basis then of your concern that had  
13 you taken them on, so to speak, you would be somehow  
14 jeopardizing...

15 A Well, because --

16 Q ...your legislative needs?

17 A Because we were pushing for legislation that  
18 would have provided \$15 billion in bonding authority. It  
19 was not just us, it was the Treasury Department. And we had  
20 worked for many, many months to get that legislation.

21 I was living and dying by my hopes to get that  
22 legislation. And the last thing I wanted to do was to make  
23 a bunch of Senators angry at me in a meeting when our Thrift  
24 Insurance Fund was bankrupt, and we needed it desperately.

25 Q You would agree with me, wouldn't you, that it

1 was not unusual for members of Congress to inquire about  
2 delays in the bureaucracy?

3 A Inquire about what?

4 Q Delays in the bureaucracy.

5 A Not unusual, no, not at all. I personally  
6 received many calls about, you know, "Why it's taking so  
7 long for this application to get processed." "I've got this  
8 constituent on my back." "To just do something. I don't  
9 care what you do. Just get them off my back. Just do  
10 something, but don't keep it in limbo."

11 Q You, I take it from just the tone of your answers  
12 to many of my questions and your experience, you would agree  
13 with me, wouldn't you, that there is a certain rough and  
14 tumble between a productive and healthy rough and tumble  
15 between Congress and agencies of government?

16 A I guess so. But, in this case, our Thrift  
17 Insurance Fund was bankrupt. So, yes, there is. Yes.

18 Q Did you feel that this was different in any way  
19 from the normal rough and tumble?

20 A Absolutely.

21 Q And did you feel that, as of the end of the  
22 meeting, did you, Ed Gray, feel that something improper had  
23 occurred or not?

24 A Yes, I did.

25 Q I want you to be as precise as you can.

1           What did you feel specifically was improper?

2           A       That they had asked me to withdraw a duly adopted  
3 regulation. Or, Senator DeConcini said, "We want you to  
4 withdraw the regulation."

5           Q       Now, what did you do -- how did the meeting end?

6           A       Well, I had told them, of course, repeatedly,  
7 that I couldn't answer their questions and that only the San  
8 Francisco regulators could. And it came down to whether  
9 they would want to meet with the regulators.  
10 And the way we left it was that Senator DeConcini said he  
11 would call back if they decided they wanted to meet with  
12 them.

13          Q       All right, now what did you do when you left --  
14 what time did the meeting end?

15          A       Oh, probably, around 7 o'clock, I think. It went  
16 about an hour.

17          Q       And what did you do?

18          A       I went down and got in my car and went back to  
19 the Bank Board.

20          Q       And what did you do when you went back to the  
21 Bank Board?

22          A       I called from the car to say, "Make sure that  
23 everybody's there. I want to give them a report," my senior  
24 people.

25          And when I got back, I told them what had happened.

1 Q Would you look at Special Counsel Exhibit 418?

2 (Pause.)

3 A This is an affidavit by Shannon Fairbanks, my  
4 chief of staff.

5 Q Did you report to her on what occurred at the  
6 meeting?

7 A Yes.

8 Q The entire affidavit is in evidence, but I would  
9 appreciate it if you would read paragraphs two, three and  
10 four.

11 A Yes, sir.

12 Q And then I have a few questions about them.

13 A Starting with two:

14 "Although I did not attend FHLBB Chairman Edwin Gray's  
15 meeting on March 6, 1987 with Senator Donald Riegla, I  
16 learned that it was during this meeting that Senator Riegla  
17 proposed that Chairman Gray meet with members of the Senate  
18 on April 2, 1987. At some time prior to the April 2nd  
19 meeting, I learned that the meeting would address the matter  
20 of Lincoln Savings and Loan. However, the Chairman and I  
21 concluded that the meeting provided an opportunity to  
22 discuss FSLIC recapitalization, an issue of primary  
23 importance to Chairman Gray and the FHLBB at the time.

24 If Chairman Gray was aware of the Senator --."

25 Q Could you slow down because the reporter is

1 trying to...

2 A I'm sorry.

3 "If Chairman Gray was aware of which Senators were to be  
4 in attendance at the April 2, 1987 meeting, he did not share  
5 this information with me. Sometime between the Chairman's  
6 March 6, '87 meeting with Senator Riegle and the April 2nd  
7 meeting, Chairman Gray informed me that he was directed to  
8 attend the meeting without any staff members.

9 "Chairman Gray was upset and irritated that he was  
10 required to attend the April 2nd meeting alone. Chairman  
11 Gray asked FHLBB staff members, William Black, Mary Ellen  
12 Taylor and myself, to remain in the office until he returned  
13 from his April 2, 1987 meeting for a debriefing. Upon  
14 returning from the meeting, Chairman Gray was very angry and  
15 frustrated. He explained that the meeting was not arranged  
16 to hear his views but, instead, was an attempt at  
17 intimidation, which he characterized as "inappropriate."

18 "Chairman Gray stated that the meeting involved some of  
19 the most powerful Senators regarding Banking matters and  
20 that he was unaware until the meeting they had such an  
21 interest in Lincoln."

22 Q Read five, as well, please.

23 A Number five:

24 "During the debriefing, Chairman Gray further explained  
25 that the Direct Investment Rule was the focus of the



1 discussion. The Chairman commented that it appeared that  
2 Senators Dennis DeConcini and Alan Cranston acted as  
3 principals during the meeting. Chairman Gray stated that  
4 Senator DeConcini took the lead in attempting to have the  
5 Board modify or withdraw the rule with regard to Lincoln.

6 "Chairman Gray expressed his outrage that Senator  
7 DeConcini had proposed withdrawal of the rule for  
8 Lincoln's benefit. He also expressed his concern that  
9 he felt he had lost ground on FSLIC recapitalization."

10 Q Now, what time did you have that -- is that  
11 accurate? Did you tell her those things?

12 A Uh...I probably did.

13 Q At what time?

14 A At -- it must have been around 7:20, 7:25. It  
15 takes that time to get from the Senate back to the Bank  
16 Board.

17 Q Would you look at Special Counsel Exhibit 425?

18 A This is an affidavit of Mary Ellen Taylor.

19 Q And who was she?

20 A She was my -- she was Assistant to the Chairman  
21 for Legislative and Regulatory Policy.

22 Q All right. Now, again, this affidavit is in  
23 evidence. Would you read paragraphs three and four, please?

24 A "I was present when Chairman Gray returned to his  
25 office on the evening of April 2nd after a meeting with the

1 Senators to discuss Lincoln. He was angered and surprised  
2 by what he had heard at the meeting. According to Chairman  
3 Gray, the Senators wanted the Direct Investment Rule to be  
4 withdrawn on behalf of Lincoln. He said something to the  
5 effect, 'They want us to withdraw regulation and they'll  
6 push Charlie Keating to make more home loans.'

7 "Chairman Gray felt it was irresponsible for the  
8 Senators to suggest that he withdraw the regulation  
9 limiting direct investments, a move which he felt would  
10 leave the Federal Savings and Loan Insurance Corporation a  
11 Fund extremely vulnerable."

12 Q Paragraph four, please.

13 A "I do not believe that the actions of any of the  
14 five Senators under investigation affected the FSLIC  
15 Recapitalization Bill. In fact, Senator Riegle was  
16 particularly helpful to the FHLBB at the time of  
17 consideration of the FSLIC Recapitalization Bill."

18 Q Thank you.

19 Do you know or have any knowledge as to why Senator  
20 Riegle did not attend the April 2nd meeting?

21 A No.

22 Q Did there come a time when you discussed this  
23 meeting with Mr. William Seidman?

24 A I'm sure there was. I discussed it with all of  
25 my close regulatory colleagues, I think.

1 Q Would you look -- I'm sorry.

2 A These and many other things.

3 Q All right. Would you look at Special Counsel  
4 Exhibit 44, please?

5 (Pause.)

6 MR. GARMENT: We have it.

7 BY MR. BENNETT:

8 Q Would you be kind enough to read paragraphs three  
9 and four, please? First of all, would you identify who Mr.  
10 Seidman is? Just read the first sentence of his first  
11 paragraph. We don't need to get into -- the whole thing is  
12 in evidence, so just...

13 A Mr. Seidman is Chairman of the Federal Deposit  
14 Insurance Corporation.

15 Q All right. Would you read paragraphs three and  
16 four, please?

17 A "While Edwin Gray was Chairman of the Federal  
18 Home Loan Bank Board, we would meet periodically to  
19 discuss matters of mutual --"

20 Q Keep your voice up, please.

21 A Yes.

22 "In early 1987, Chairman Gray told me that he had  
23 attended a meeting on April 2, 1987 with Senators  
24 Cranston, DeConcini, Glenn and McCain to discuss  
25 Lincoln Savings and Loan Association. In fact,

1 Chairman Gray may have spoken to me about the April 2nd  
2 meeting prior to a meeting on April 9, 1987 between  
3 regulators from the FHLBB-San Francisco and those Senators,  
4 as well as Senator Donald Riegle, to discuss Lincoln.

5 "Chairman Gray told me that the purpose of the April 2nd  
6 meeting was, in his words, to pressure him to withdraw the  
7 Direct Investment Rule. Chairman Gray also told me that he  
8 had been asked to go to the meeting without staff. He asked  
9 if I had ever received a request to attend a meeting with  
10 members of Congress without staff, and I told him I had  
11 never received such a request."

12 Q Paragraph four, please.

13 A "In my experience at FDIC there have been  
14 occasions when members of Congress contacted me  
15 regarding institutions in their District, but I have  
16 never been contacted by four or five Senators on behalf of a  
17 single institution. Generally, the members of Congress with  
18 whom I spoke were careful to avoid in depth discussions  
19 related to pending supervisory or regulatory matters  
20 regarding a particular institution and Congressional and  
21 regulatory staff were always present. FDIC policy is to  
22 provide only a status report in response to a Congressional  
23 Inquiry."

24 Q Now, if you were so concerned about the propriety  
25 of this meeting of April 2nd, did you ever report it to the

1 Department of Justice?

2 A No.

3 Q Did you ever write a memo to the file on what  
4 occurred?

5 A No.

6 Q Let me -- can you tell me what the circumstances  
7 that led up to this meeting of April 9, 1987? This came up  
8 at the meeting of April 2nd. You said you didn't have  
9 information, they'd have to talk to the regulators.

10 Is that right?

11 A Yes.

12 Q All right. Well, what happened then? What did  
13 you do regarding the San Francisco regulators?

14 A Well, I received several days later a telephone  
15 call, or I returned a telephone call, one or the other.  
16 But, I...

17 Q Well, from who?

18 A From Senator DeConcini, who said they had  
19 decided, the regulators had decided they wanted to meet with  
20 the San Francisco regulators.

21 Q Now, was that -- do you recollect was that  
22 actually Senator DeConcini or was that his office?

23 A Senator DeConcini himself.

24 Q And what, to the best of your recollection, are  
25 the words he used and the words that you used?

1           A        I said, "Fine, I'll get a hold of my San  
2           Francisco regulators and tell them." He said that they  
3           "wanted to meet in his office at the same time, same place,  
4           this week." It turned out to be April 9th.

5           And then I called, I believe I called Jim Cirona, who  
6           was the principal supervisory agent in San Francisco. I  
7           also am sure I talked to Bill Black, who, at the time, was  
8           on loan from the Federal Home Loan Bank of San Francisco to  
9           our agency in Washington, that the Senators wanted to meet.

10          And I recall the President of the Federal Home Loan Bank  
11          of San Francisco and the principal supervisory agent, Mr.  
12          Cirona, telling me that this would cause them to have to  
13          change their plans because, apparently, they were on their  
14          way to another meeting. I'm not sure where it was. I seem  
15          to recall it was New York.

16          But, I said, "Well, I'm sorry, you know, there are four  
17          Senators." I didn't know there would be a fifth. "There  
18          are four Senators who want to meet with you. They want to  
19          ask questions about Lincoln that I couldn't answer."

20          And so he said they would do it. They would change  
21          their plans and come to the meeting.

22          Q        Would you look at Special Counsel Exhibit 415?  
23          Is that the affidavit of Mr. Cirona?

24          (Pause.)

25          A        Yes.