

DATE: May 6, 1988  
TO: Alan/Roy  
FROM: Carolyn  
SUBJECT: Lincoln Savings and Loan Association

I received a call from Jim Grogin regarding your meeting. Jim said that the Federal Home Loan Bank Board had met and decided to take an enforcement action against Lincoln S&L in spite of the fact and admission by the FHLBB that fraud had been committed by FHLBB examiners against Lincoln S&L. He said they are proposing:

1. that a monitor be put in S&L to oversee it
2. that Lincoln sign a supervisory agreement immediately
3. a new special examination be conducted
4. they would permit Lincoln to move out of the FHLBB of San Francisco District to another bank district because of the bias found at that Bank against Lincoln

The signing of a supervisory agreement triggers required reports to shareholders and the public. It can affect the value of Lincoln stock and will depress prices and affect liquidity.

Discussion With the FHLBB

I called the FHLBB and talked to both Jim Boland, Special Assistant to Danny Wall and Carl Hoyle, Congressional Affairs on a three way call.

1. They said they were precluded from discussing this FHLBB enforcement action under the confidentiality rules.
2. However, they confirmed that what Grogin had said to me seemed accurate.
3. They said they had spoken to Keatings people, had

knowledge that he may leave the Association, and encourage him not to take any action until they sat down with his lawyers and him personally to discuss the parameters of this action.

4. I told them you were very concerned that the Board would choose the supervisory approach after all that had come out about the behavior of Ed Grey's people at the PHLBB of San Francisco, and additionally when Lincoln had over 6% net worth and was not losing any money.
5. Jim Boland suggest that you wait until after the discussions with Mr. Keating and his lawyers next week before taking any action. That they wanted to be as fair as possible in this situation. That Mr. Keating and his lawyers will have an opportunity to refute the need for action with their facts. That the order of the PHLBB is not in writing and is subject to some degree of negotiation.

The FSLIC and enforcement people are trying to schedule a meeting with Mr. Keating the latter part of next week.

#### Discussion with Keating

1. Keating says he has been in meetings with the PHLBB for two years. He wants no more meetings, they lie, promise and nothing happens. He wants this all to be put out in the open in a hearing.
2. He says it is incredible for the PHLBB to put a "monitor" in his shop when he made \$40 million in profit last year and has made money since 1984. (certified by the audits)

In January the PHLBB ask Keating to dismiss his lawsuit against them further indicating that they wanted to work this matter out amicably. Keating dismissed the suit.

He feels that the PHLBB of San Francisco has recommended this strong course of action (Black, the general counsel at SFPHLBB was Ed Grey's general counsel who precipitated this whole

thing) and that the PHLBB here i.e. Danny Wall is too weak to stand up against him. Keating said that Rodger Martin a member of PHLBB said as much to him, he is opposed to this action but Danny Wall and Larry White, the other two Board members went along with the SFFHLBB's suggestion for strong supervisory action.

There does not appear to be any new events at Lincoln between January and now that could account for the change in the posture of the PHLBB. It is pretty amazing, when the whole industry is going down the tube that the PHLBB could spend this kind of time hassling an S&L that is not losing money.

Mr. Keating has the most problem with their idea of putting a "monitor" in his shop. When a monitor is installed, all day to day decisions must be cleared thru the monitor, it is tantamount to the PHLBB running the S&L. I have never heard of any one putting a monitor in an S&L that is meeting its net worth standard. There are hundreds of S&Ls below the net worth standard without monitors in them. I don't know how the PHLBB can justify the use of manpower here when there are so many more crisis S&Ls out there.

#### Possible Hearing

The Banking Committee is conducting oversight hearings on the condition of FSLIC May 19 and possibly the 26 of May. This issue could be raised at that time. There has not been true oversight of the PHLBB during Jake Garn tenure and the first real oversight under Senator Proxmire is the May 19 hearing.

The House Banking Committee has done extensive oversight on these kind of issues and has the quantity of staff needed to conduct these kind of hearings, which they do frequently. I have spoken to Gary Bowsher (225-2924) of the Subcommittee on Financial Institutions of the House Banking Committee, he said they would be happy to look into this if Keating requested them to do so. That would be a much friendlier forum than the Senate Banking Committee.