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**FOR IMMEDIATE RELEASE**

Federal government documents released today by Sen. Alan Cranston (D., Calif) reveal that Federal Home Loan Bank Board Chairman Ed Gray permitted the sale of uninsured American Continental Bonds in Lincoln Savings & Loan's offices, despite serious questions raised by regulators about the solvency of Lincoln and American Continental.

The documents, provided by the Treasury Department's Office of Thrift Supervision (OTS), also show that Gray's regulators failed to make on-site inspections of the bond sales in Lincoln offices, although such inspections are the general practice of federal regulators. The OTS is the successor to the Federal Home Loan Bank Board.

Cranston said, "The government's records paint a picture of negligence by Gray and his staff in two areas:

"First, it is unforgivable that Gray was permitting the bond sales at a time when his regulators were raising questions about the financial state of Lincoln and American Continental." (See attachments A7, A10, A11-14, A17 and A18)

"Second, it is inexcusable that Gray's regulators did not follow federal regulations for inspecting the bond sales at the Lincoln offices before continuing to approve their sale. The government documents state the regulations are designed to 'protect the consumer from uninformed or misleading purchases of securities.'" (See B2)

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Cranston said, "If these on-site inspections had occurred, or if Gray had taken a closer look at the sales, thousands of Californians might have been spared financial ruin.

"These records uncover the mystery of why Ed Gray has been so relentless in pointing his finger at others for the problems at Lincoln Savings. It is he who bears the responsibility -- and he cannot hide from that truth." (See B1)

"Gray, with his lavish, industry-paid expense account and Hawaiian junkets, thought of the Federal Home Loan Bank Board as his 'good ship Lollipop.' When it turned into the Titanic, he began looking for scapegoats.

"Ed Gray, as Chairman of the Bank Board, had overall responsibility for examining the sale of uninsured bonds at Lincoln Savings -- and he had responsibility for stopping the sale if it was improper.

"The records show that Gray's regulators repeatedly questioned the financial viability of selling the American Continental debt bonds. Yet, Gray continued to permit the sale until he left office in July 1987.

"In fact, one of the last actions taken by the Bank Board while Gray was still Chairman, in June 1987, was to give an official green light to the sale of uninsured bonds at Lincoln," said Cranston.

The government's documents were compiled in response to an inquiry made by the General Accounting Office at Cranston's request. Cranston said he was "very troubled that thousands of California residents bought uninsured American Continental bonds

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at Lincoln Savings that they claim were represented to them as insured securities by sales people. Those bonds are now worthless, and many widows and elderly people have lost their life savings."

Cranston had asked the GAO last August to look into the manner in which Californians were sold uninsured bonds in the lobbies of Lincoln Savings & Loan offices and the responsibility of federal regulators in the matter.

The GAO, the investigative arm of the Congress, told Cranston's staff that it could not look into the way the bonds were sold because that was the subject of court action, but the GAO did agree to ask the newly created Office of Thrift Supervision to answer specific questions relating to the conduct of federal regulators during the time when the bonds were sold.

The GAO has provided Cranston with the OTS response, which he is releasing today.

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Attached are:

- A/ Chronology of events set forth in Office of Thrift Supervision (OTS) 12/20/89 response to the General Accounting Office (GAO).
- B/ Excerpts from OTS response relating to the responsibilities of the Federal Home Loan Bank Board with respect to the sale of American Continental Bonds.
- C/ Text of 12/20/89 response by OTS to GAO.
- D/ Attachments

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Chronology of events set forth in QTS 12/20/89 response to GAO

- 1) 7/20/84 FHLBB grants blanket authority for sale of ACC bonds; requires annual approval of debt budget (bond sales) by SF Supervisory Agent (SF) (p. 4); SF agent approves annual bond sales budgets from 1985 to 1988--(attachment 10)
- 2) 1986 ACC initiates the \$200 million bond sales in Lincoln branches in space leased by ACC. Bonds were sold in denominations as low as \$2,000 and were not sold out until sometime in 1988. (attachment 10)
- 3) 11/14/86 ACC submits 1987 debt budget (bond sales) (p. 4)
- 4) 12/17/86 CDSL notifies SF that ACC bonds are being sold in Lincoln branches (p. 6); CDSL requests Lincoln to report on sales; CDSL notifies Lincoln it is in violation of law for failure to obtain prior written approval (p. 7; attachment 10)
- 5) 12/86 CDSL conducts review of the manner in which the bonds were sold and concluded that the practices did not violate applicable regulations (p. 7)
- 6) 12/86 SF requests and receives legal opinion from ACC's outside counsel (Arnold & Porter) stating that sale of ACC bonds in Lincoln offices does not require prior written approval under Regulation 584.3(a)(7)(i) because the lease of space was less than \$100,000. (p. 7)
- 7) Late 1986 FHLBB staff "informally" notifies SEC staff that examination of Lincoln raises substantial questions re Lincoln and "irregularities". (attachment 9)
- 8) 1/6/87 ACC responds to CDSL re sales practices in Lincoln branches (attachment 10)
- 9) 1/12/87 CDSL informs ACC prior approval required before sale of ACC debt in Lincoln branches (attachment 10)
- 10) 1/30/87 Internal memo of SF cites serious questions re viability of budget projections and discusses rejecting debt budget by 2/8/87 (attachment 10)

NOTE: FHLBB is Federal Home Loan Bank Board  
 ACC is American Continental Corporation  
 CDSL is California Department of Savings and Loans  
 SF is the San Francisco branch of FHLB

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## Attachment A

- 11) 1/30/87 Letter from FHLBB to SEC expresses concern that latest examination of Lincoln indicates ACC's registration statements may misstate ACC's condition (attachment 10); letter specifically raises possibility that ACC was selling securities based on false and misleading offering documents filed in SEC in 1986 (attachment 9)
- 12) 2/6/87 SF objects to 1987 debt budget on grounds (1) ACC had not shown ability to meet adequately new and/or existing debt servicing requirements, (2) increases in debt projected not in compliance with blanket authority granted in 1984, (3) certain investments contemplated were questionable, (4) certain assumptions not reasonable, and (5) information submitted not complete and adequate (p. 4-5)
- 13) 2/24/87 Meeting between SF and ACC (p. 5); concludes that more support needed for approval and that current indications are that entire debt authority should be revoked (attached 10)
- 14) 2/87 SF notified FHLBB's General Counsel's Office, Corporate Securities Division, Office of Enforcement and Office of Examination of its concerns regarding the sales of ACC bonds from Lincoln offices. Office of Enforcement notifies SEC of possibility that ACC was selling bonds based upon false and misleading registration statement and that its periodic filings during the past two years may have been false and misleading. SEC requests and is granted access to examination reports and other documents relating to ACC and its subsidiaries. SF also expresses concerns about high risk nature of ACC's activities, inadequate underwriting, and potential trading based upon inside information. (p. 7)
- 15) 3/16/87 ACC submits revised budget (p. 5)
- 16) 3/17/87 Meeting between SF and ACC (p. 5)
- 17) 4/20/87 FHLBB sends 1986 examination of Lincoln to Lincoln; cites an aggregate of \$167.4 million in writedowns on assets as a result of accounting improprieties and improperly characterized or classified activities (attachment 9)

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## Attachment A

- 18) 6/19/87 SF approves ACC 1987 debt budget (bond sales) based upon finding that ACC (1) had demonstrated its ability to service the proposed level of debt without injuring Lincoln (2) it would be replaced high-yielding debt with lower-yielding debt, and (3) it would experience a modest decline in its overall level of debt for 1987. SF also expresses "concern" over (1) ability of ACC to continue to roll over existing debt and issue new debt, (2) lack of long-term operating strategy and (3) SF's material concerns over the viability of Lincoln, ACC's primary asset. (p. 5-6)
- 19) 8/31/87 ACC responds to concerns re long-term viability (attachment 10)
- 20) 9/87 Memo to file at FHLBB concludes that 8/31/87 response from ACC does not quell concerns and states that SF will recommend recession of blanket debt authority. (attachment 10)
- 21) 11/13/87 ACC submits 1988 debt budget (bond sales) (p. 6)
- 22) 1987 CDSL conducts on site reviews of bond sales at Lincoln and concludes in compliance. (p. 8, no date specified)
- 23) 3/7/88 Internal SF memo recommends approval of 1988 debt budget (bond sales), but expresses the same concerns expressed in the 6/19/87 approval of the 1987 sales which were aggravated by the fact that ACC had been able to forestall an examination of either Lincoln or ACC that would have ascertained the validity of the holding company's claims regarding its financial strength (p. 6). 3/7/88 analysis concludes that "based upon the outstanding concerns regarding ACC's long-term viability, ACC's financial condition will be assessed in the next examination, and a recommendation for the recession of ACC's debt authority will be made." (p. 7)
- 24) 3/7/88 SF approves 1988 debt budget (bond sales) (p. 6)
- 25) 4/14/88 ACC files with SEC to sell \$300 million in notes to be sold at Lincoln branches (attachment 9)
- 26) 5/11/88 SEC approves new ACC filing; ACC commences selling new bonds in Lincoln branches (attachment 9)
- 27) 5/27/88 SEC and FHLBB meet to review Lincoln (attachment 9)

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## Attachment A

- 28) 6/20/88 CDSL orders discontinuation of further sales of ACC bonds in Lincoln branches as of the completion of the original \$200 million issuance or August 1, 1988, whichever is sooner (p. 7); CDSL further states some investors believed the bonds are obligations of Lincoln (rather than ACC) (attachment 10)
- 29) 10/88 FHLBB receives "some very troubling" information (re stock manipulation, use of Lincoln funds by ACC, etc) on ACC from Chicago District Bank (attachment 9)
- 30) 11/16/88 ACC submits 1989 budget (bond sales) to Washington ORA (now OTS) (p. 6)
- 31) 11/88 CDSL conducts informal investigation of ACC bond selling practices; finds Lincoln branch employees were "touting" ACC bonds in violation of CFR 563.917(b). (attachment 10)
- 32) 12/30/88 ORA disapproves the 1989 debt budget (bond sales) based upon the 9/6/88 examination of ACC and the 7/11/88 examination of Lincoln (attachment 11)
- 33) 1/10/90 California Commissioner of Savings and Loans (William Crawford) states he never heard of the 12/30/88 order from FHLBB disapproving further bond sales. (SF Chronicle, 1/10/90)

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