Keating Pleads Guilty to Fraud; Legal Saga Ends

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Former Lincoln Savings & Loan boss Charles H. Keating Jr. pleaded guilty to bankruptcy fraud charges Tuesday, ending a 10-year battle with federal authorities over the most notorious thrift failure in the 1980s.

In a plea bargain, prosecutors dropped charges that Keating bilked thousands of elderly investors out of their life savings.

He also will be spared from serving further prison time, and the judge imposed no fines or restitution payments because Keating swore he is broke.

The 75-year-old Keating strode from the courthouse afterward smiling broadly. Declining comment, he left in a chauffeured Lincoln Town Car.

Keating spent nearly five years behind bars under state and federal convictions, all of which were overturned on appeal. He has been free since October 1996.

Federal prosecutors dropped related fraud charges against Keating's son, Charles Keating III, "in the interests of justice."

"He's got his life back," the younger Keating said of his father. "But I'm extremely disappointed in the system that caused him to plead guilty to something he didn't do."

But U.S. Atty. Alejandro N. Mayorkas said in a statement: "For more than 10 years, Charles Keating has fought us, denied any guilt and refused to accept responsibility for his illegal conduct.

"Today that fight is over. . . . Charles Keating has been forced to admit his fraud and deceit."

The elder Keating had been convicted on 73 federal counts of fraud, conspiracy and racketeering, including swindling investors in Irvine-based Lincoln who purchased junk bonds issued by Lincoln's parent company, American Continental Corp.

Those charges, along with allegations of a series of fraudulent land and securities deals, were dismissed as part of the agreement.

Instead, Keating pleaded guilty to four counts of bankruptcy and wire fraud, admitting that he siphoned $975,000 from his financial empire as it careened toward insolvency in 1989.

The illegal transfers were made at his direction by American Continental subsidiaries in the form of unsecured loans to family members--loans Keating acknowledged he never intended to repay.

"Is that what you did?" U.S. District Judge Mariana R. Pfaelzer asked Keating.

"Yes, your honor," he replied.

Under the plea agreement, Keating will not be required to make financial restitution to investors--primarily thousands of elderly Southern Californians--who lost about $285 million when Lincoln was seized and American Continental collapsed into bankruptcy.

Investors won a civil judgment against Keating for $1 billion, which remains uncollected. The federal government also won a judgment against Keating for the nearly $3 billion it cost to bail out Lincoln.

Assistant U.S. Atty. Sharon McCaslin said that a financial statement, filed under seal, indicated that Keating has no assets to be seized.

"He has no ability to pay," she said.

The government conducted a long but fruitless search worldwide to find any such assets. Pressed by Pfaelzer on whether assets had been hidden abroad, Keating attorney Stephen C. Neal said they had not.

Keating also had been convicted in state court on 17 counts related to the depositors who traded their insured Lincoln deposits for uninsured, unsecured American Continental junk bonds that proved worthless when Keating's empire collapsed.

He was sentenced to 10 years in prison in the state case and 12 years, seven months in federal court.

The state conviction was overturned by a federal judge who ruled that Los Angeles Superior Court Judge Lance A. Ito had allowed the case to proceed on a flawed legal theory and had given improper instructions to the jury.

That dismissal is being reviewed by the U.S. 9th Circuit Court of Appeals.

The federal conviction was overturned on grounds that jurors learned of the elder Keating's state conviction and discussed it in the jury room.

The U.S. attorney's office announced in January that it intended to retry Keating. But McCaslin told Pfaelzer that the plea agreement was justified because Keating already had served a long prison term and the memories of key witnesses may have faded. It is time "to put some finality" to the case, she said.

Keating, who had been supervised by federal probation authorities since his conviction was overturned 2 1/2 years ago, was released without any further supervision.

Keating, a real estate developer, purchased Lincoln Savings through his Phoenix-based American Continental in 1984.

He poured the thrift's federally insured deposits into a variety of speculative deals, including junk bonds, corporate takeovers, luxury hotels and a huge planned community outside Phoenix.

As regulators attempted to rein in the investments, Keating was defiant, calling on U.S. senators who became known as the "Keating 5" to intervene on his behalf and bestowing lavish salaries on himself and family members.

Neal, his attorney, had said that at a third trial the defense would attempt to show that the investments have proved to be 'very, very sound, economically valuable transactions."

Neal said prosecutors initiated the talks that led to Keating's plea bargain with a call about a week ago. He said that from the beginning, the dropping of all charges against the younger Keating was part of the government's proposal.

Keating served four years and eight months before being freed. He returned to jail for five days in March 1998 after Pfaelzer ruled that he violated the terms of his probation by applying for a passport.

"I'm disappointed that he's not going to end up spending a great deal more of his life behind bars," said Michael Manning, a Phoenix lawyer for the federal agency in charge of handling Lincoln's losses.

"This is a man above all others that really earned his time behind bars. He was one of the most accomplished crooks and financial fraud con artists, and he hurt a lot of people.

"There was a financial wake behind him, but there also was a human wake too--divorces, suicides, people losing law licenses, CPA certificates. Careers were ruined.

"He hasn't yet received what he deserves. Perhaps he will one day, but it won't be on this Earth."

Manning said Keating is "still a real gadabout town" in Phoenix.

Ronald Rus of Irvine, one of the lead attorneys who helped win the $1-billion civil judgment against Keating, was almost stoic.

"I guess that finally puts some closure to a system that takes entirely too long to obtain justice," Rus said. "At least he can no longer deny all wrongdoing. And a [civil] jury has decided he was the mastermind of a huge fraud and that was never reversed."

Most of the money lost by investors in Keating's junk bonds has been recovered through civil settlements not with Keating, but with lawyers, accountants and other professionals who advised him.

"I think the main issue for a lot of the bondholders has been [a return of] their life savings," said one investor, Donald Mikami, a Fountain Valley dentist.

"Whether Keating and all his cohorts have been prosecuted to the full extent of the law is secondary to many of us and of small consolation."

Investors, he said, have received about 66% of their principal, which he called a good job by their lawyers. But he said the investors "would have doubled their investments by now even if they had put their money in simple savings accounts with compound interest."

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Times staff writer James S. Granelli in Orange County contributed to this article.