

1           A        Since January of 1987.

2           Q        Would you please tell the Committee, with as much  
3 detail as you can recall, how and when you first learned of  
4 someone by the name of Charles Keating?

5           A        The first time I heard about him, I was not on  
6 Senator McCain's staff. I heard about him from a friend I'd  
7 worked with in Senator Gorton's staff.

8                    I later learned more about him through newspaper  
9 articles that I was given to read by another staff member on  
10 Senator McCain's staff.

11          Q        And what was the interest of Senator McCain's  
12 office in Mr. Keating?

13          A        He was I believe one of the largest home  
14 builders in the state of Arizona and a large economic force.

15          Q        During the time that you worked for Senator  
16 McCain, did you have occasion to have contacts with  
17 lobbyists and representatives of the Arizona League of  
18 Savings and Loan Associations?

19          A        Yes.

20          Q        And would you tell us who those persons were and  
21 what the nature of those contacts were?

22          A        The primary contact from the Arizona League was  
23 someone named Norman Miller who was their prime lobbyist.  
24 He, from time to time, has brought in other CEOs of savings  
25 and loans in Arizona.

1 Q Did they make any requests of you?

2 A Did they make requests of our office?

3 Q Yes. Regarding capital forbearance issues or  
4 similar things?

5 A In March of 1987, they had several complaints  
6 about the Bank Board, one of the most prominent of which was  
7 the capital forbearance issue.

8 Mr. Bennett. Would you be kind enough, Mr.  
9 Klubes, to show Ms. VanPaasschen Exhibits 287, 288, and  
10 289?

11 (Handing document to witness.)

12 By Mr. Bennett:

13 Q Can you identify those?

14 A Yes. It's correspondence from the Savings and  
15 Loan League of Arizona and the United States League of  
16 Savings Institutions to me, regarding the forbearance issue  
17 that Norma Miller brought up in March of 1987.

18 Q Can you tell me whether or not Senator McCain  
19 agreed to write a letter?

20 A He did.

21 Mr. Bennett. Would you be kind enough to show  
22 Ms. VanPaasschen Special Counsel Exhibit 291?

23 (Handing document to witness.)

24 By Mr. Bennett:

25 Q Would you tell us if you can identify that?

1           A        It's a joint letter written by Senator McCain and  
2       Senator DeConcini to Chairman Gray about the capital  
3       forbearance issue.

4           Q        Would you be kind enough to look at Special  
5       Counsel Exhibit 290?

6                    (Handing document to witness.)

7           A        Yes?

8           Q        Identify that?

9           A        It's a memo from me to Senator McCain,  
10       explaining the attached draft of a letter about the capital  
11       forbearance issue, which we were sending.

12                    Mr. Bennett. Senator Rudman, in light of your  
13       earlier ruling, I'm not going to take the time of the  
14       Committee to have her read these. They are in evidence.

15                    Senator Rudman. They're all in evidence unless  
16       subsequently there's some objection for some reason.

17                    By Mr. Bennett:

18           Q        Ms. VanPaasschen, I want to direct your  
19       attention to the date of March 19, 1987.

20                    Did you attend a meeting with Senators DeConcini  
21       and McCain?

22           A        Yes.

23           Q        And where was that meeting?

24           A        In Senator McCain's office.

25           Q        Would you be kind enough to tell the Committee,

1 with as much detail as you can recall, who else was there  
2 and what occurred?

3 A Senator DeConcini brought his staff person,  
4 Laurie Sedlmayr, and I attended with Senator McCain.

5 It was held very late in the afternoon or early  
6 evening of the 19th of March which I believe was at Senator  
7 DeConcini's request. The meeting had been scheduled  
8 earlier in the day.

9 Senator DeConcini wanted to discuss with Senator  
10 McCain allegations and problems that he had heard about  
11 Lincoln Savings & Loan and the Federal Home Loan Bank  
12 Board, a dispute that he'd be following. With the  
13 suggestion that if Ed Gray were to take arbitrary action, he  
14 could very easily put Lincoln Savings & Loan into a  
15 conservatorship with terrible consequences for American  
16 Continental Corporation which employed a couple of thousand  
17 people in Phoenix, Arizona.

18 It was Senator DeConcini's suggestion to try and  
19 get the regulators off of Mr. Keating's back by talking,  
20 first to Mr. Gray, and if that didn't work, by flying to  
21 California.

22 Q Now, did you hear Senator DeConcini say that?

23 A Yes, I did.

24 Q Do you recall what, if anything, Senator McCain  
25 said?

1           A       Senator McCain listened to what Mr. DeConcini  
2       said. He asked some questions. He made some of his own  
3       observations but in large part was non-committal to the  
4       suggestions that were being made.

5           Q       What, if anything else was said at the meeting,  
6       if you recall?

7           A       I don't recall anything else.

8           Q       How long did the meeting last?

9           A       Less than half an hour.

10          Q       And I gather it broke up, is that correct?

11          A       That's right.

12          Q       Following the meeting, did you have any  
13       discussions with Senator McCain about Senator DeConcini's  
14       suggestion?

15          A       Yes, I did.

16          Q       Would you tell the Committee, with as much  
17       detail as you can, what you said Senator McCain and what  
18       Senator McCain said to you?

19          A       I was concerned about the suggestions that  
20       Senator DeConcini made because I felt that they were  
21       aggressive, perhaps more aggressive than I was comfortable  
22       advising Senator McCain to take, especially since we had  
23       very little -- I had very little knowledge of the issue.

24          Q       Now, just so we're clear, were you Senator  
25       McCain's key banking person at that time?

1 A Yes.

2 Q Go ahead.

3 A I suggested to Senator McCain that especially  
4 going to San Francisco would be excessive, and that I  
5 advised against taking this action.

6 Q What did Senator McCain say to you?

7 A Senator McCain agreed with me.

8 Q Did you discuss this with anyone else?

9 A Yes.

10 The following morning, I discussed it with Chris  
11 Koch, who is the Administrative Assistant for Senator  
12 McCain.

13 Q Tell us what that conversation was.

14 A I told Chris about the meeting that we'd had on  
15 March 19th. And I explained to him that I had several  
16 concerns about what was going on.

17 And when I explained those concerns, he agreed  
18 with me.

19 Q What were the concerns that you articulated to  
20 him?

21 A I essentially was concerned, because of the  
22 nature of the suggestions made by Senator DeConcini, that  
23 Senator McCain was being coaxed into a plan that would  
24 ultimately cause him harm if it became public knowledge that  
25 they had in fact taken aggressive action towards the

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1 Chairman of the Federal Home Loan Bank Board.

2 Q What do you mean by "coaxed into a plan"?

3 A Well, I mentioned newspaper articles earlier.

4 It was clear to me, from reading those articles,  
5 that Mr. Keating had raised a fair amount of money for  
6 Senator McCain, more than he had for Senator DeConcini and  
7 some other politicians in Arizona although probably not as  
8 much as he raised for others.

9 It was my feeling that, if in fact, there was a  
10 dispute between Ed Gray and it became public, it could have  
11 embarrassing ramifications for the Senators involved. And I  
12 felt that Senator McCain was being coaxed along into it  
13 because he was a republican and because he had had more  
14 raised for him than the other Senators involved.

15 Q Now, did you communicate those concerns to  
16 Senator McCain?

17 A Yes, I did.

18 Q Would you be kind enough to look at Special  
19 Counsel Exhibit 191?

20 (Handing document to witness.)

21 Can you identify that?

22 A This is a letter from Jack Atchison of Arthur  
23 Young to Senator Don Riegle.

24 Q And what's the date on that letter?

25 A March 13, 1987.

1 Q Do you recall how you obtained this letter?

2 A This letter was sent to our mailroom with a  
3 business card, I believe, from one of the Keating staff.

4 It was received in our mailroom I think the 19th  
5 of March, and it was given to me just prior to the meeting  
6 with Senator DeConcini and Senator McCain.

7 Q Would you be kind enough to look at Special  
8 Counsel Exhibits 187 and 483?

9 (Handing document to witness.)

10 Mr. Dowd. Excuse me. Was that 483, Mr.  
11 Chairman?

12 Mr. Bennett. 187 and 483.

13 By Mr. Bennett:

14 Q Can you identify those? First, let's take 187.

15 A This is a similar letter that was written on  
16 March 17th, by Jack Atchison to Senator McCain.

17 Q And 483?

18 A 483, I believe, was the cover sheet, the cover  
19 letter to Senator McCain from American Continental.

20 Q At the time you received or obtained Special  
21 Counsel Exhibit 191, which was the letter addressed to  
22 Senator Riegle on March 13th, '87, were you or were you not  
23 aware that similar letters had been sent to Senator McCain?

24 A I was not aware that a similar letter had been  
25 sent to Senator McCain at that point.



1 Q Now, when you saw 191, the letter to Senator  
2 Riegle, what if any concerns did you have about that?

3 A Well, it perplexed me somewhat that we would  
4 receive a letter to Senator Riegle from Arthur Young  
5 regarding one of our constituents. It references a meeting  
6 that Senator Riegle had had on February 28, 1987, with  
7 Atchison regarding Lincoln Savings & Loan.

8 It was something that kind of gnawed at me, given  
9 the nature, then, of Senator DeConcini's suggestions.

10 Q How often would Senator McCain and Senator  
11 DeConcini, how frequently would they meet to discuss issues,  
12 as far as you knew?

13 A I'd only been on the staff a very short time, Mr.  
14 Bennett. It was the first time that I was aware of.

15 Q Now after you expressed your concern to Senator  
16 McCain about Senator DeConcini's suggestion, did you talk to  
17 anyone else other than Mr. Koch?

18 A After talking to Senator McCain and Mr. Koch, I  
19 talked to Jay Smith.

20 Q Who was Jay Smith?

21 A He's a friend of Senator McCain's. I believe he  
22 was also campaign advisor.

23 Q And why did you talk to Mr. Smith?

24 A Senator McCain requested me to relay to him my  
25 concerns about the suggestions that had been made on

1 March 19th.

2 Q Do you know how it was left? Did Senator McCain  
3 ever get back to Senator DeConcini?

4 A After the March 19th meeting?

5 Q Yes.

6 A At some point over the next day or so, it was  
7 conveyed to Senator DeConcini that Senator McCain would not  
8 go down to Chairman Gray's office.

9 Q Do you know how that was communicated?

10 A No, I don't.

11 Q Do you know who Laurie Sedlmayr is?

12 A Yes.

13 Q Who is she?

14 A Laurie Sedlmayr is my part on Senator  
15 DeConcini's staff.

16 Q And at this point in time, did you have any  
17 communications with her?

18 A Yes, I did.

19 Q Would you tell the Committee what those were?

20 A On March 19th or?

21 Q On March 19th?

22 A We did not discuss the issue at all on  
23 March 19th.

24 Q When is the first time you discussed the issue?

25 A The first time I recall discussing it, it was on

1 March 23rd.

2 Q All right. Would you tell us what that  
3 discussion was?

4 A Laurie called me just after Senator DeConcini had  
5 met with Charlie Keating in his office to relay to me a  
6 story. She said that Senator DeConcini had come to John  
7 McCain's defense when Charlie Keating had called Senator  
8 McCain a wimp for refusing to negotiate on his behalf with  
9 Chairman Gray.

10 Q Did Ms. Sedlmayr tell you why Keating made that  
11 comment?

12 A Because Senator McCain was not going to  
13 negotiate on his behalf.

14 Q Subsequent to that, did Senator McCain meet with  
15 Mr. Keating?

16 A Yes. The next day.

17 Q Were you at that meeting?

18 A I was.

19 Q Would you please tell us, with as much detail as  
20 you can recall, what occurred at that meeting?

21 A Keating arrived before Senator McCain arrived. I  
22 think it was around lunch time.

23 Q Now, who was there? Tell us everybody who was  
24 there.

25 A At first, it was just me and Keating. And I

1 think Jim Grogan.

2 Q Now who is Jim Grogan?

3 A Jim Grogan was I think ACC's main lobbyist.

4 Keating was very angry. He said some

5 disparaging things about Senator McCain.

6 Q Now, excuse me. Is that -- did he say those to  
7 you?

8 A Yes, he did.

9 Q All right, so it's just you and Mr. Keating at  
10 this point?

11 A That's right.

12 Q Well, tell us exactly what he said and what, if  
13 anything, you said?

14 A Well, he was introduced to me. I was introduced  
15 as John McCain's new staffer on banking issues. He was  
16 pleased that John McCain had somebody new because he felt  
17 that John McCain didn't know much about the industry and  
18 certainly was not terribly sympathetic to the industry.

19 Just after that conversation, Senator McCain  
20 arrived with Chris Koch and Chris, John McCain, Charlie  
21 Keating, Jim Grogan, and I went into John McCain's office.

22 Whereupon, John McCain started the meeting off quite  
23 abruptly, making it very clear to Charlie Keating that he  
24 was not a coward. That his unwillingness to negotiate was  
25 not a question of cowardice. He avoided using the word

1 "wimp." But, rather, because he felt that it was wrong,  
2 and that, you know, there was nothing he would do that he  
3 felt was improper on Charlie Keating's behalf.

4 It wouldn't help Charlie Keating and it wouldn't  
5 help John McCain.

6 Q Now, did you hear Senator McCain say that, or was  
7 that your impression of what he said?

8 A No, he said that in my presence.

9 Q All right. And what did Mr. Keating say?

10 A Mr. Keating was very angry. I think he,  
11 interjected a couple of times, but Senator McCain did most  
12 of the talking, as I recall.

13 Q And how did that meeting end?

14 A It was clear that there was a rift in the  
15 relationship. It was clear that John McCain was not going  
16 to do Charlie Keating's bidding and, as a consequence, when  
17 Keating left, he was very angry.

18 Q Had you, up to this point in time, had any  
19 discussions with Laurie Sedlmayr about the proposals to go  
20 down and see Mr. Gray or fly out to San Francisco?

21 Mr. Green. Senator Rudman, if I may just  
22 interpose here for a moment.

23 Senator Rudman. Mr. Green.

24 Mr. Green. Clearly, the dialogue between the  
25 witness and Special Counsel obviously does not conform with

1 the kind of dialogue that would be permitted in a  
2 courtroom. And I'm well aware of your admonition at the  
3 beginning of this hearing, that those rules don't apply.

4           Nevertheless, it seems to me that some mention  
5 ought to be made of the tendency of the witness to give  
6 conclusions which are really not based on, at least  
7 observations which are elicited by the questions of Special  
8 Counsel.

9           And I think that some management of this  
10 dialogue ought to take place. And I'm looking for guidance  
11 to the Chair.

12           Senator Rudman. Thank you, Mr. Green.

13           I would instruct the witness to answer the  
14 questions as succinctly as you can. And if you're not a  
15 professional witness, very few people are, but to the extent  
16 that you don't give us your conclusions unless counsel  
17 specifically asks those conclusions in some particular area,  
18 we'd appreciate it.

19           That may be difficult but see if you can do that  
20 for us.

21           The Witness. Yes, Senator.

22           Mr. Bennett. I would point out, this is not  
23 easy. This is not a professional witness and this is a  
24 rather formidable group.

25           By Mr. Bennett:



1 Q How long did that meeting last?

2 A On March 24th?

3 Q Yes.

4 A I think it lasted about half an hour.

5 Q What happened after that, do you remember?

6 A I thought the issue was over, and I didn't do  
7 anything.

8 Q Were there any discussions at all about Mr.  
9 Keating's campaign contributions at that meeting?

10 A No.

11 Q All right.

12 Now, following that meeting, did you have any  
13 discussions with Senator McCain about the Keating meeting?

14 A Shortly following it, no. Because there was  
15 nothing to discuss.

16 Q What was the next time that you discussed it?

17 A It was some time later that week.

18 I began to hear from Senator McCain that there  
19 was discussion of the meeting in Senator DeConcini's office  
20 with Ed Gray.

21 Q And do you remember what Senator McCain said to  
22 you precisely?

23 A When he told me that he was going to attend it he  
24 told me a couple of things. He told me the four Senators  
25 that would be involved. He also told me that he and Senator



1 DeConcini had an agreement as to what the discussion would  
2 be.

3 Q And do you recall what he told you the agreement  
4 was?

5 A Yes. He said it would be with respect to the  
6 appraisal issue which was a problem not just for Keating,  
7 but also for other S&Ls in the state of Arizona, and about  
8 the length of the examination.

9 Q Would you be kind enough to look at Special  
10 Counsel Exhibit 65?

11 (Handing document to witness.)

12 Can you identify that?

13 A This is a memo I wrote on March 24th in  
14 preparation for Senator McCain's meeting with Charlie  
15 Keating.

16 Q And why did you prepare that memorandum?

17 A I prepared it at Senator McCain's request  
18 because he wanted more information about the issue.

19 Q Do you know who Jack Atchison is?

20 A Jack Atchison was the accountant that worked at  
21 Arthur Young who provided us with the first letter that we  
22 got.

23 Q Did you ever have any conversations with Mr.  
24 Atchison?

25 A Yes. On March 23rd or March 24th, I talked to



1 Mr. Atchison for quite awhile about the allegations he made  
2 in the letter.

3 Q Why did you do that?

4 A I wanted to get a feel for just exactly how  
5 sincere he was about having written the letter he wrote.

6 Q Did Senator McCain know that you were going to be  
7 talking to Mr. Atchison?

8 A Yes, he did.

9 Q Would you look at 191, please, again?

10 There are some handwritten notes that appear to  
11 be attached to that.

12 Can you recognize those?

13 A These are the notes that I took when I talked to  
14 Mr. Atchison.

15 Q All right. Now, why did you take these notes?

16 A I just wanted to write down what we were  
17 discussing.

18 Q What was the purpose of your conversation with  
19 Mr. Atchison? You got his letter. What was the point of  
20 you talking to him?

21 A I had a few questions for him, but I also wanted  
22 to make sure that he was sincere about the letter and that  
23 he meant what he said in it.