

23 Q I want to direct your attention to April 1, 1987.
24 Did you have a meeting with Ms. Sedlmayr?
25 A Yes, I did.

1 Q That was the day before this meeting with Mr.
2 Gray on April 2nd, '87, is that correct?

3 A Yes.

4 Q Would you tell us what the purpose of that
5 meeting was?

6 A Laurie and I had been discussing the meeting over
7 the telephone and she offered to give me a memo that she had
8 written about it was her March 19th letter to Senator
9 DeConcini.

10 I went to her office and we sat and discussed the
11 agreement that we thought the Senators had with respect to
12 what would be brought up at the April 2nd meeting.

13 I wanted to verify, with her, that my
14 understanding from Senator McCain was her understanding from
15 Senator DeConcini.

16 Q And what was your concern that caused you to have
17 this meeting?

18 A She had brought up one or two things that I
19 didn't know a whole lot about. So I went to her office, in
20 part to get the memo that she had offered me, and in part
21 to discuss this with her.

22 Q Would you be kind enough to look at Special
23 Counsel Exhibit 69?

24 (Handing document to witness.)

25 Let me ask you if you can identify that.

1 assets. AC, American Continental, would be
2 willing to have an independent third party
3 Arizona appraiser do the work. Example.
4 Phoenician Country Club appraised by Federal Home
5 Loan Bank Board at \$120 million; AC appraises at
6 \$200 million. Because these assets are under
7 valued, AC's net worth decreases. Federal Home
8 Loan Bank Board requires a net worth of three
9 percent.

10 "2. Capital Regulation, which determines
11 capital net worth requirements, has a provision
12 on Direct Investment. The Capital Regulation
13 requires direct investments in excess of the
14 Federal Home Loan Bank Board of ten percent? made
15 after December 10, 1984, to be partially
16 included in net worth requirements.

17 "The Capital Regulation stated that
18 direct investments had to be made, legally
19 committed to be made, or that there was a
20 definite plan to make such direct investments.

21 "AC has \$600 million worth in disputed
22 direct investments with Federal Home Loan Bank
23 Board. AC states they qualify for grandfather;
24 Federal Home Loan Bank Board says they do not.

25 "Under the Capital Reg, ten percent of

1 the not permitted direct investments (10 percent
2 of \$600 million equals \$60 million) to be added
3 to the net worth requirement. For AC, that means
4 increasing their net worth requirement from three
5 percent of that \$74 million by an additional \$60
6 million, total of \$134 million.

7 "The problem works out like this: on
8 one hand, the Federal Home Loan Bank Board is
9 lowering AC's net worth by low appraised values
10 for property. On the other hand, they are
11 raising AC's net worth requirements through the
12 direct investment section of the Capital
13 Regulation.

14 "Note." [And I can't read the next few words,
15 but --] "for which Lee Henkel has gotten into so
16 much trouble is a separate" [I think the word is
17 "issue," but I don't know.] "nonetheless a
18 related issue.

19 "Henkel sought to clarify a definition in the
20 Direct Investment Regulation as distinct from the
21 Direct Investment Section of the Capital
22 Regulation. Under the Direct Investment
23 Regulation, S&Ls must seek a waiver of Federal
24 Home Loan Bank Board's ten percent direct
25 investment regulation if they exceed the ten

1 percent limit. Because of the dispute of the
2 meaning of the grandfather date, AC is in
3 violation.

4 "Henkel sought to clarify the Direct
5 Investment Regulation so as to benefit AC.
6 While this would not have changed the Capital
7 Regulation, certainly it could be expected that
8 after changing the Direct Investment Regulation,
9 the Board would move to put the Direct Investment
10 Section of the Capital Regulations in harmony
11 with it."

12 The next Section is entitled:

13 "What American Continental Is Willing To Do.

14 "The major thing that AC is willing to do is
15 remove itself from its status as a federally
16 insured institution over a ten-year period.
17 While AC argues they are thereby giving up the
18 \$50 million charter they paid for, I am not sure
19 the Federal Home Loan Bank Board will see it that
20 way. AC has made a great deal of money through
21 Lincoln, and I'm frankly doubtful that the
22 Federal Home Loan Bank Board (Gray) will see is
23 as a great triumph. AC feels this is a major
24 concession."

25 The next section is entitled:

1 "Other Items."

2 "1. As noted, Lincoln does not make home
3 loans, the ostensible primary purpose of
4 federally-insured institutions (S&Ls.) Lincoln
5 is setting up a home loan program in Southern
6 California, beginning April 1987. 55 percent of
7 new deposits, about \$75 million, will be used for
8 the home loan program. All loans will be resold
9 on the secondary market.

10 "2. Lincoln has already improved the
11 condition of their books and recordkeeping to be
12 in accord with accepted Federal Home Loan Bank
13 Board practices.

14 "3. Lincoln invests heavily in junk bonds.
15 They would agree to limit that to 15 percent of
16 assets. Presently, they are about 11 percent.
17 The Federal Home Loan Bank Board allows
18 federally-chartered only 10 percent and feels
19 that more than that is risky. At this time,
20 Lincoln does not invest in hostile takeover junk
21 but Grogan indicates they would not be willing to
22 make that permanent.

23 "4. Lincoln would agree to limit or curtail
24 further land investments."

25 Q All right. Now, when was it that Ms. Sedlmayr

1 gave you this?

2 A April 1, 1987.

3 Q And did you have any discussions with her about
4 this memorandum?

5 A We discussed it in general.

6 Q And what was that discussion?

7 A Essentially, my question was: are you sure
8 Senator DeConcini is not going to discuss this. And her
9 answer was, yes.

10 Q Would you be kind enough to turn to Special
11 Counsel Exhibit 196.

12 Mr. Bennett. I'm only going to have the witness
13 read one or two. There's a couple that I think, for the
14 follow-up questions, have to be clear on the record.

15 By Mr. Bennett:

16 Q Would you look at 196, and tell me if you can
17 identify that?

18 (Handing document to witness.)

19 A This is an April 1st memo from Laurie Sedlmayr to
20 Senator DeConcini.

21 Q And were you provided that?

22 A No.

23 Q Have you ever seen this before?

24 A I think I saw it in Laurie's office. I did see
25 it last February in your office.

1 Q_ Would you be kind enough to read it?

2 A This is also entitled "confidential."

3 It also says, "keep for meeting" at the top.

4 "April 1, 1987, to Senator DeConcini, from

5 Laurie A. Sedlmayr, regarding, background for
6 meeting with Chairman Gray."

7 There's a section entitled, "Lawsuits."

8 "American Continental has filed two cases
9 against Gray and the Federal Home Loan Bank Board
10 in recent weeks. The first is a lawsuit
11 attacking the Federal Home Loan Bank Board's
12 authority to issue the Direct Investment
13 Regulation. It was filed March 17th in U.S.
14 District Court for the District of Columbia,
15 before Judge Gesell. Lincoln Savings versus the
16 Federal Home Loan Bank Board and Lincoln Savings
17 versus Ed Gray.

18 "On March 20th, they filed a petition with the
19 Federal Home Loan Bank Board, asking for the
20 recusal of Ed Gray in any matters involving
21 Lincoln Savings. This petition asks that, if
22 Gray refuses to recuse himself, that the other
23 Board members disqualify him. Failing that,
24 Lincoln is asking for discovery and conduct of an
25 evidentiary hearing on an expedited basis for the

1 purpose of exploring the extent of Gray's bias
2 and prejudgment toward Lincoln."
3 The next section is entitled, "What American
4 Continental Would Like."

5 "Per your meeting with Mr. Keating, they would
6 like a truce in the on-going recriminations. The
7 direct investment question is currently in the
8 courts, and will be resolved there. Until that
9 time, Keating would hope that the Federal Home
10 Loan Bank Board would refrain from any
11 precipitous actions based on the direct
12 investment issue.

13 "Second is the issue of incorrectly appraised
14 assets. A third party appraisal would seem to be
15 the solution to this problem. Almost any
16 Arizonan would tell you that Lincoln's
17 investments have been drastically under-
18 appraised.

19 "Because of these two problems, under
20 appraisal and the on-going direct investment
21 controversy, Lincoln could wind up with a low net
22 worth. Under appraisals cause a lowering of
23 Lincoln's net worth. The Direct Investment
24 Provision of the Capital Regulation results in an
25 increase in Lincoln's net worth requirement, a

1 two-edged sword."

2 The next section is entitled: "What American
3 Continental Will Do."

4 "Lincoln will dedicate 55 percent of new
5 deposits this year to a new home loan program to
6 begin April 1987. Lincoln has upgraded books and
7 recordkeeping to comply with all Federal Home
8 Loan Bank Board practices. Lincoln will limit
9 junk bond investments to 15 percent of assets.
10 Lincoln would agree to limit or curtail further
11 land investments. Lincoln would divest itself of
12 all insured deposits over a ten-year period."

13 Q Now, at your meeting of April 1st, do you
14 remember whether or not Ms. Sedlmayr showed you that
15 memorandum?

16 A I believe she did.

17 Q Would you be kind enough to look at Special
18 Counsel Exhibit 200?

19 (Handing document to witness.)

20 Can you identify that, please?

21 A This is a document entitled: "Talking Points for
22 Meeting with Ed Gray."

23 Q Do you know who prepared this?

24 A I believe it was prepared by ACC or Lincoln
25 staff.

1 Q And when and under what circumstances did you
2 obtain this?

3 A Laurie gave me a copy of this on April 1, 1987.

4 Q And did you discuss this document with her?

5 A Again, it was in the context of whether or not it
6 would be brought up at the April 2nd meeting.

7 Q Would you look at the upper, right next to
8 "talking points," there's a little handwritten entry?

9 A It says, "won't use."

10 Q And whose writing is that?

11 A That's mine.

12 Q And would you tell the Committee the
13 circumstances of why that "won't use" is there?

14 A When Laurie handed this and I looked at it, I
15 made sure, with her, that that was not going to be brought
16 up during the meetings. And when she affirmed that that was
17 her understanding also, I wrote "won't use" at the top of
18 it.

19 Q And what was your concern about those talking
20 points?

21 A Again, in my view, this was a form of
22 negotiation that was improper.

23 Q And you had previously discussed, with Senator
24 McCain, these kinds of issues, is that correct?

25 A In general, yes.

1 Q Would you be kind enough to look at Exhibit 70?
2 (Handing document to witness.)

3 Can you identify Special Counsel Exhibit 70?

4 A This is a memo from me to Senator McCain, which I
5 wrote on April 2nd, 1987.

6 Q Would you be kind enough to read that to the
7 Committee?

8 A "To John F. [I meant John McCain] from
9 Gwendolyn, date: 2 April 1987, re: meetings this afternoon
10 with Senators Cranston, Glenn and DeConcini."

11 "I've attached this memo you requested for your
12 meeting this afternoon."

13 Mr. Bennett. Excuse me. Let me interrupt you.
14 There's a "sic" there. Don't you correct.

15 A I'm sorry.

16 "I have attached the memo you requested for
17 your meeting this afternoon. It discusses the
18 valuation problem and has an appendix that goes
19 further into the issue as a whole.

20 "You have agreed to discuss only the issue of
21 the appraisals and only that in the vane of:

22 "Please, let's get a third-party appraisal or
23 something in the spirit of achieving a
24 satisfactory and speedy resolution to this
25 dispute.

1 "You and Senator DeConcini have also agreed
2 not to bring up the issue of Capital Regulations
3 discussed in the appendix FYI, because that will
4 be resolved in the court cases I have related
5 below. Senator DeConcini is also going to plead
6 that, until the issue is resolved, the two
7 parties quit sniping at each other. Beyond this,
8 the two parties will have to settle their
9 differences."

10 Q Now, why did you write this?

11 A This is a cover memo to Senator McCain for the
12 April 2nd meeting which lays out an agreement which I
13 believed existed between him and Senator DeConcini, and
14 which I had confirmed with Laurie Sedlmayr.

15 Q Would you look at what is referred to as the
16 Appendix?

17 Senator Rudman. Excuse me, counsel.

18 You know, it's very important testimony and the
19 witness just said something that I didn't really
20 understand, and I wonder if you'd explore it.

21 She just said that she thought there was an
22 understanding between Senator McCain and Senator DeConcini.

23 I don't recall any testimony about that so far.
24 I've heard a lot of testimony about discussions that the
25 witness had with Ms. Sedlmayr. But I haven't heard any

1 testimony yet about a discussion between Senator McCain and
2 Senator DeConcini in which such an agreement may have been
3 reached.

4 Now, have I missed something?

5 Mr. Bennett. No, Senator.

6 Senator Rudman. All right. Would you clear that
7 up, because, you know, that's important.

8 Mr. Bennett. Yes.

9 By Mr. Bennett:

10 Q Were you present at any time when Senator
11 DeConcini and Senator McCain had any such discussions?

12 A No.

13 Q These were discussions between two staff people,
14 is that correct?

15 A They were also discussions between me and
16 Senator McCain. Senator McCain initially raised this
17 issue. I called Laurie to confirm it.

18 Q So after you were discussing these things with
19 Ms. Sedlmayr, did you report back to Senator McCain?

20 A In the form of my memo, I did.

21 Q Would you look at what's referred to as the
22 Appendix to Exhibit 70. And I want you to go to the fourth
23 paragraph and "Lincoln has \$600 million."

24 And would you read that to the Committee?

25 A "Lincoln has \$600 million in disputed direct

1 investments, and this Regulation would require
2 the institution to add reserves equal to ten
3 percent of this amount, which is \$60 million.
4 This is one of the issues which you were
5 requested to bring up at the meeting, but we have
6 all agreed you should not. Dennis DeConcini
7 will not, either."

8 Q Now, did Senator McCain say anything to you about
9 this agreement?

10 A Yes, he did.

11 Q What did he say to you?

12 A When he told me that he was going to the meeting
13 on April 2nd, he told me that there was a meeting between
14 him and Senator DeConcini which basically limited the scope
15 of the discussions to the appraisal issue and to the length
16 of the examination.

17 Mr. Bennett. Senator, would this be a good time
18 to take a short break, just for a few minutes?

19 Senator Rudman. Be happy to for a very brief
20 period of time.

21 Mr. Bennett. Because then we're going into the
22 April 2nd meeting.

23 Senator Rudman. Fine. We'll take about a five-
24 minute break, and we're only going to keep it to five
25 minutes.

1 Mr. Green. Mr. Chairman, can we get some
2 guidance on how long you intend to sit, the Committee?

3 Senator Rudman. The Committee's probably going
4 to go until 5:30 today. That's our general rule. 5:00
5 o'clock, if it looked like we couldn't get into a new
6 witness. But I think we'll go to 5:30 today with this
7 witness.

8 Mr. Green. Thank you, sir.

9 (Recess.)

10 Senator Rudman. All right, the Committee will be
11 in order.

12 Mr. Bennett, you may proceed with the witness.

13 Mr. Hamilton. Before he proceeds, Mr. Vice
14 Chairman, may I raise an issue?

15 Senator Rudman. Proceed.

16 Mr. Hamilton. I have just been informed that Ms.
17 VanPaasschen has to be on an airplane tomorrow morning going
18 to Hong Kong at 9:00 o'clock.

19 Now, I will tell you, Mr. Vice Chairman, that I
20 have about two hours of cross examination so far.

21 Senator Rudman. Well, that's interesting.

22 Mr. Hamilton. And I suspect that that might be
23 extended, the more she talks.

24 I must say, I don't think it is fair to have her
25 direct testimony, and then to have a break of some days or a

1 week, before we get cross.

2 Senator Rudman. Mr. Hamilton, I agree with you.
3 Counsel, were you aware of that?

4 Mr. Bennett. No, I wasn't aware of that. I
5 mean, Mr. Cacheris just told me. I totally agree with Mr.
6 Hamilton.

7 Senator Rudman. There's no question.

8 Mr. Bennett. I did know that she at one time had
9 a trip that she was going to take and it might interfere
10 with her being a witness today, but it was my understanding
11 that being the witness here today, that she would complete
12 her examination.

13 But I think Mr. Cacheris will confirm that he
14 just told me.

15 Mr. Cacheris. I did just tell Mr. Bennett, Mr.
16 Chairman. Ms. VanPaasschen's a highly personal matter with
17 her. Her husband is out of the country. She has deferred
18 this trip until tomorrow morning. And what I've suggested
19 to counsel is that, if she doesn't -- she's willing to stay
20 as late as possible this evening. I know that's an
21 imposition on the Committee. I'm not asking that.

22 The other alternative is that her cross
23 examination be deferred until she returns.

24 I understand that some members of the defense
25 team have agreed to that. I don't know whether Mr.

1 Hamilton would be willing to agree to that, or not.

2 Mr. Hamilton. I do not think it is fair to have
3 Ms. VanPaasschen give her direct testimony, and then we sit
4 here for a week, or I don't know how long she's going to be
5 away, without having cross examination.

6 Senator Rudman. Well, Mr. Hamilton, it's quite
7 apparent to me that your point is well taken, first.

8 Second, that it is a good faith mistake. This
9 witness is not a lawyer. And she would not understand
10 that.

11 Mr. Hamilton. I'm not questioning anybody's good
12 faith, Mr. Vice Chairman.

13 Senator Rudman. I know. But there are other
14 people who are watching these proceedings. This is a very
15 fine Staffer of the United States Senate who is known to
16 many of us, and obviously she did not come here to testify
17 and leave town in the morning. She was not aware of that.

18 So what I am going to suggest, Mr. Bennett,
19 although if you want to object, you may, and I'll ask my
20 Committee members; if they wish to object, they may. I
21 don't think we ought to proceed with this witness beyond
22 this part of her testimony.

23 Do you agree?

24 Mr. Bennett. I couldn't more in agreement with
25 Mr. Hamilton.

1 Senator Rudman. All right, fine.

2 When will the witness be back?

3 Mr. Cacheris. She will be back in the country
4 November 30th. I'm going to ask her to confirm that.

5 That is correct.

6 Senator Rudman. Then unless there's objection
7 from the Committee, Mr. Chairman, I would propose we dismiss
8 the witness.

9 Chairman Heflin. What did Mr. Hamilton say about
10 it?

11 Senator Rudman. Well, he said that he objects to
12 her continuing with her testimony unless he is given an
13 opportunity to cross examine.

14 Is that correct? Isn't that what you've said?

15 Mr. Hamilton. Yes.

16 Senator Rudman. Well, I thought you said that.
17 The record will show you said that.

18 So, since there's objection from Senator
19 DeConcini's counsel and since this testimony is more
20 relevant to Senator DeConcini than anyone else, other than
21 Senator McCain, I think fairness dictates that the witness
22 be dismissed at this point, wished well on her trip, and
23 return back and will be called as a witness at that time,
24 and we'll continue at that point.

25 So the witness is dismissed.

1 Mr. Cacheris. We thank you.

2 Mr. Bennett. And I would not have called her as
3 a witness, if I had known.

4 Senator Rudman. I'm sure you would not have, Mr.
5 Bennett. I'm sure you would not have.

6 So would you call your next witness?

7 Are you prepared to call your next witness?

8 Mr. Bennett. Yes, I'm prepared. But I'm real
9 tired and I'm wondering if it might go quicker if we
10 started tomorrow morning?

11 But if you want me to, I'll call the next
12 witness.

13 Senator Rudman. Well, hold on just one moment.

14 Mr. Bennett. This has been a long long day.

15 Senator Rudman. Let me just confer with the
16 Chairman. I am presiding over this today at the good
17 graces of the Chairman. We're trying to divide these, but I
18 like to consult with the Chairman, as he does with me.

19 Mr. Cacheris. Mr. Chairman, let me interrupt you
20 a moment. I think I may have a solution.

21 Ms. VanPaasschen just tells me, and I did not
22 know that or I would have raised this earlier of course, or
23 wouldn't have raised it at all, to put it in the contrary
24 fashion, that she can delay her trip until Wednesday.

25 Is that correct?

1 She'd prefer to delay until Wednesday her trip to
2 meet her husband and she will continue with her testimony
3 which I understand, by all estimates, should be finished by
4 tomorrow.

5 Senator Rudman. Until Wednesday. In other
6 words, she could testify --

7 Mr. Cacheris. You don't have a session on
8 Wednesday, though, do you?

9 Senator Rudman. No.

10 Mr. Cacheris. Okay.

11 Senator Rudman. But what you're saying is that
12 we could proceed with her as a witness through close of
13 business tomorrow if necessary.

14 Mr. Cacheris. Tomorrow. That's right.

15 Senator Rudman. Now, let me just make a few
16 inquiries.

17 Mr. Bennett, how much more direct examination do
18 you have of this witness?

19 Mr. Bennett. Oh, I'd say 20 minutes, half hour
20 at the most.

21 Senator Rudman. Fine.

22 Is Senator Riegler's counsel, Mr. Green, going to
23 have cross examination?

24 Mr. Green. Yes, sir.

25 Senator Rudman. Any idea how long?

1 Mr. Green. Not unduly long, but there are some
2 points that I --

3 Senator Rudman. I don't know what that means,
4 Mr. Green.

5 Mr. Green. I don't know what it means, either.

6 Senator Rudman. An hour?

7 Mr. Green. No, not an hour. I don't think an
8 hour.

9 Senator Rudman. All right, Mr. Dowd, are you
10 going to cross examine this witness?

11 Mr. Dowd. We just have a couple of points to
12 make, Senator. They'll be made by Mr. Lynan and my
13 estimate is ten minutes, five, ten minutes, Senator.

14 Senator Rudman. How about Mr. Ruff,
15 representing Senator Glenn?

16 Mr. Ruff. If at all, we won't be more than five
17 minutes.

18 Senator Rudman. How about Senator Cranston's
19 counsel?

20 Mr. Taylor. No more than five minutes.

21 Senator Rudman. And you think, Mr. Hamilton, you
22 might have a couple of hours?

23 Mr. Hamilton. Perhaps.

24 Senator Rudman. All right.

25 Under those circumstances, Mr. Chairman, it's

1 apparent this witness could be finished testimony tomorrow,
2 probably before the close of day.

3 That being the case, and we appreciate the
4 witness' willingness to put off I'm sure what's a very
5 important personal trip. We will then proceed.

6 By Mr. Bennett:

7 Q All right. Now when and how did you learn that
8 Senator McCain would attend the meeting?

9 A Senator McCain told me.

10 Q When did he tell you?

11 A Late in the week of March 23rd.

12 Q One thing I don't understand, Ms. VanPaasschen,
13 is given all of the concerns that you had and Senator McCain
14 had about the meeting, why there was going to be a meeting,
15 why he would attend the meeting.

16 Did you have any discussions with him about that?

17 A There was a big difference between the kind of
18 meeting he agreed to go to and the initial suggestion by
19 Senator DeConcini which was made on March 19th.

20 The original suggestion was a heavy-handed
21 approach that implied negotiation. The meeting that Senator
22 McCain agreed to go to was limited to two issues, which I
23 felt, given the circumstances, given evidence that we'd
24 heard from other S&Ls in the State of Arizona, were
25 reasonable to raise with Chairman Gray.

1 Q Oh, was that your impression that it was heavy-
2 handed? I mean, are you giving us your impression?

3 A Well, I was in the room when he made his
4 suggestion.

5 Q Discuss it with Senator McCain?

6 A I did discuss it with Senator McCain.

7 Q What, if anything, did Senator McCain say about
8 it?

9 A Regarding?

10 Q Did the Senator ever indicate that he thought it
11 was heavy-handed or not?

12 A Yes, he did. That's why he decided that he did
13 not want to go with Senator DeConcini to Ed Gray's office.

14 Q Did he use those words?

15 A I don't recall the words that we used.

16 Q Do you remember what words he used?

17 A Not specifically.

18 Q When Senator McCain told you that he was going to
19 the meetings, did you have any discussions with him?

20 A We had a brief discussion about what the meeting
21 would be about and also about the Senators in attendance.

22 Q Did you ever tell Senator McCain that, in your
23 view, he should attend the meeting?

24 A I did not agree that he should go to the
25 meeting, yes.

1 Q I'm sorry, I do not understand.
2 A I did not think he should go to the meeting.
3 Q Did you ever tell him that?
4 A Yes.
5 Q When did you tell him?
6 A When he told me he was going.
7 Q All right, now, did Senator McCain ever tell you
8 why he decided to go to the meeting, notwithstanding your
9 telling him not to go?
10 A His reason for going to the meeting was --
11 Q No, I didn't ask you what his reason was. I
12 asked you what he said to you.
13 A Yes, he did.
14 Q What did he say to you?
15 A He said that he was going because, in spite of
16 his rift with Charlie Keating, there were still 2,000 people
17 in the employ of American Continental in Arizona.
18 Q Did you indicate to him that you wanted to go to
19 the meeting with him?
20 A No, I did not.
21 Q Can you tell us why you didn't go to the meeting
22 with him, since you were his banking aide?
23 A I was told that there would be no staff at the
24 meeting.
25 Q Who told you that?

1 A Senator McCain told me that.

2 Q When did he tell you that?

3 A It was either on Friday of the week of March
4 23rd, or the first of April.

5 Q Was that a subject of discussion?

6 A He had heard this from Senator DeConcini and
7 wanted me to confirm it with Laurie Sedlmayr.

8 Q Did he tell you --

9 Mr. Hamilton. I would just like to object to
10 what is gross hearsay testimony.

11 Senator Rudman. Yes, that's hearsay and since
12 counsel, there are witnesses here in this room that can
13 testify to that directly, we'll strike that.

14 By Mr. Bennett:

15 Q Did Senator McCain tell you that?

16 A Yes.

17 Q Now, you told us you weren't troubled about the
18 absence of aides, isn't that right?

19 A I was not troubled by the absence of aides.

20 Q And why is that?

21 Mr. Hamilton. Mr. Vice Chairman, let me just
22 make one other point, too.

23 I realize this isn't a courtroom but I do think
24 the facts will come out clearer if we don't have that type
25 of leading question.

1 Senator Rudman. Well, Mr. Hamilton, we'll try to
2 limit that on all parties.

3 I would say that sometimes, considering this is,
4 I would hope, it is not a jury of people who are unfamiliar
5 with these kinds of things, and I think we can distinguish.
6 And I would ask counsel to try not to lead as much, but I
7 think Mr. Hamilton understands that some leading might be in
8 our best interests of moving through this, as long as counsel
9 doesn't suggest the answers.

10 Mr. Hamilton. Well, Mr. Vice Chairman, I have no
11 doubt that you're going to be able to parse out the wheat
12 and the chaff, but this is being watched by about 15
13 million people and I think it's only fair that the questions
14 be reasonably proper.

15 Mr. Bennett. Well, may I just -- let me --
16 Senator Rudman. Yes, go ahead.

17 Mr. Bennett. Let's get some ground rules
18 straight here.

19 On the one hand, I'm supposed to bring out the
20 good and the bad. And this young lady, when I interviewed
21 her, and when I deposed here, she told me she didn't have
22 any problems with no aides being present. And that's been
23 an issue in the case. And I wanted to be sure to bring that
24 out.

25 Now, when I bring that out, he complains about

1 it.

2 Mr. Hamilton. Well, I appreciate that, but --
3 Senator Rudman. Will counsel just hold on a
4 minute here.

5 Look. The objection is stated. We all
6 understand it. Mr. Bennett, I know, has sufficient talent
7 to be able to rephrase those questions.

8 I'll ask him to.

9 Mr. Bennett. Right.

10 Senator Rudman. Thank you.

11 Mr. Bennett. I just want to get the record
12 clear, and I'm not arguing with the Chair. I want it clear
13 on this record, particularly given some of the statements
14 made in the openings.

15 If there is information which I have, based on my
16 interviews with this young woman, that I think is helpful to
17 Senator DeConcini, does Mr. Hamilton want me to elicit that
18 information or does Mr. Hamilton want to elicit it himself?

19 I'd like an answer to that question.

20 Mr. Hamilton. I am more than happy for Special
21 Counsel to elicit anything that is favorable, but having
22 said that, I do think he ought to ask his questions in
23 proper form.

24 Senator Rudman. All right.

25 Mr. Bennett, I think you ought to ask whatever

1 you think you ought to ask and attempt to ask it in a form
2 that is generally permissible.

3 And I really would prefer everyone to address the
4 Chair. It just keeps things in better shape.

5 Proceed counsel.

6 By Mr. Bennett:

7 Q Were you troubled or not by the appearance of
8 four Senators being at the meeting?

9 A I don't think that troubled me.

10 Q Were you troubled by the presence or absence of
11 aides?

12 A I was not troubled by the absence of aides.

13 Q And why weren't you troubled about the absence of
14 aides?

15 A It was pretty clear what they were going to
16 discuss. They understood the issues. They did not need
17 aides at that meeting.

18 Q Did you go to the meeting with Senator McCain?
19 Did you go up with him?

20 A I went to Senator DeConcini's office.

21 Q And what did you do?

22 A I waited with Laurie Sedlmayr.

23 Q And what did you and Laurie Sedlmayr discuss?

24 A A myriad of things. We were pretty good
25 friends.

1 Q Would you be kind enough to look at Exhibit 197?
2 (Handing document to witness.)

3 A Okay.

4 Q Tell the Committee what Exhibit 197 is.

5 A This is a letter dated April 9, 1987, from
6 Senator DeConcini to Donald Regan, inviting Donald Regan to
7 the March 9th meeting with the regulators.

8 Q Would you be kind enough to read that letter into
9 the record?

10 A "April 9, 1987
11 The Honorable Donald Riegler
12 U.S. Senator,
13 Washington, D.C. 20510

14 "Dear Don,

15 "As we have discussed in the past, several of
16 our colleagues and I are concerned about the
17 Federal Home Loan Bank Board's treatment of
18 Lincoln Federal Savings & Loan. Lincoln is a
19 California savings and loan, owned by an Arizona
20 parent company. Lincoln Savings is important to
21 the economy of my state as a provider of jobs and
22 a developer of an expanded economic base.

23 "The actions of the Federal Home Loan Bank
24 Board of the past year have impaired Lincoln's
25 ability to function efficiently, and those

1 actions appear to be unfair and unreasonable.

2 "A bipartisan delegation of four Senators is
3 meeting with FSLIC representatives from San
4 Francisco today in my office to review the
5 problems that have faced Lincoln. I am hopeful
6 that a mutually acceptable resolution to the
7 problems can be achieved.

8 "We would very much like you to attend
9 today's meeting in your capacity as a member of
10 the Senate Banking Committee. If savings and
11 loans are in fact being treated unfairly, we
12 believe the Banking Committee should be aware of
13 it.

14 "On behalf of Senator McCain and myself, I
15 hope you can attend today's 6:00 o'clock p.m.
16 meeting in my office.

17 "Sincerely, Dennis"

18 Q Now, did you ever see that letter in the April
19 1987 time fame?

20 A No.

21 Q Would you normally have seen a letter like that,
22 given your responsibilities with Senator McCain?

23 A Yes.

24 Q Do you know whether or not anyone else in your
25 office ever discussed this letter with you in the April

1 1987 time frame?

2 A No one in my office discussed this nor saw it in
3 April of 1987.

4 Q When is the first time that you saw this letter?

5 A In your office in February of this year.

6 Q Is there a signature line for Senator McCain's
7 signature?

8 A No.

9 Q What did Senator McCain tell you about what
10 occurred at the meeting of April 2nd, if anything, after
11 that meeting with Mr. Gray?

12 A He simply told me that Chairman Gray had said
13 that he did not know anything about Lincoln's case and that
14 Gray had amicably suggested that they meet with the San
15 Francisco regulators who were dealing with the case.

16 Q Did you ever have any discussions with Laurie
17 Sedlmayr about the April 9, 1987 letter at the time it was
18 written, that a letter would be written or something like
19 that?

20 A No.

21 Q Did you ever discuss with Senator McCain whether
22 he had ever extended such an invitation to Senator Riegle?

23 A I have, in recent months.

24 Q When and how did you learn about the meeting of
25 April 9, 1987?

1 That was a meeting a week later with the
2 regulators.

3 A Yes, I know.

4 I believe that I was told that by John McCain's
5 scheduler.

6 Q What, if anything, did you do in preparation for
7 that meeting?

8 A Nothing.

9 Q Would you be kind enough to look at Exhibit 193,
10 please?

11 (Handing document to witness.)

12 Let me ask you if you can identify that?

13 A This is a confidential memorandum from Ed Gray to
14 Senator Riegle, dated April 14, 1987.

15 Q Would you read that, please?

16 A "Confidential Memorandum to Senator Donald W.
17 Riegle from Edwin J. Gray, Chairman, date,
18 April 14, 1987.

19 "Attached for your information is a copy of a
20 memorandum sent to me concerning last week's
21 meeting. I will be in touch with you on my
22 return to Washington. I know you will honor the
23 confidentiality this material requires."

24 Q And what is attached to that? Just describe the
25 heading of what's attached.