Ed Gray, Charles Keating Trade Charges

S&L Regulator Feuds With Lincoln Chief

By KATHLEEN DAY, *the Washington Post*

ORANGE COUNTY

WASHINGTON—The nation's chief savings and loan regulator and a California S&L executive are embroiled in a bitter feud over the future of the troubled S&L industry and, more immediately, who should be the next presidential appointments to the Federal Home Loan Bank Board.

Aside from personal goals and careers, at stake in the dispute is the multibillion-dollar S&L industry—an industry that has asked Congress for $22 billion to salvage hundreds of ailing S&Ls and protect the savings of thousands of depositors.

The bank board, which is the federal S&L watchdog, is conducting an unusually long audit of Lincoln Savings & Loan of Irvine, which is run by an outspoken critic of Bank Board Chairman Edwin J. Gray. Officials at Lincoln allege that the bank board is harassing them to silence Charles H. Keating Jr., chairman of the holding company that owns Lincoln.

Lincoln officials also accuse the bank board of leaking information about the audit to discredit Keating, a staunch supporter of S&L industry deregulation.

Gray, who favors stricter regulations, says no S&L is being harassed. Instead, industry and congressional sources say Gray believes that Keating has used his own bag of dirty tricks: trying to entice Gray out of office by offering him a job and leaking to newspapers potentially damaging information about Gray's expense accounts.

The mud-slinging between Keating and Gray highlights a growing split in the S&L industry between those who want more deregulation and those who want less.

It erupts into the public arena as the men lock horns over the next White House appointments to fill two vacancies on the three-member bank board and dramatizes just how intense the struggle has become as factions of the S&L industry fight to gain influence over government regulation.

"The cohesiveness of the S&L industry is an utter wreck," said one congressional aide familiar with the battle. "This has digressed into a question of 'who hit John first.'" And the accusations are flying fast.

The audit of Lincoln has lasted seven months, about 5½ months longer than industry executives say is typical in a routine examination of an institution of Lincoln's size.

Keating said in a statement issued through his lawyer, Margery Waxman of Sidley & Austin, "Lincoln attorneys believe that the routine examination has dragged on so long that it may be harassment.

"There is no evidence from the examiners that they have [found] any problems" during the audit, the statement said. Lincoln is worried that "leaks" about the audit "are being used to hurt Lincoln," the statement said.

Keating has been a frequent critic of

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S&L: Bitter Feud Heats Up

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bank board policy since Gray became chairman of the federal agency three years ago. He has made his objections known in congressional testimony and in ad campaigns paid for by his company. The bank board says its policies are intended to curb risky lending and investment practices in the S&L industry, which is facing record failures that could end up costing taxpayers billions of dollars.

Gray would not comment on the Lincoln case specifically, but Leonard Garment, his personal attorney, said Gray is "unaware of any efforts to discredit or harass anyone" and knows of no "misuse of confidential information by a bank board member or employee or representative."

Congressional and industry sources say that Gray privately blames Keating for unfair tactics and in particular that he believes Keating planted recent newspaper reports that raised conflict-of-interest questions about Gray's government expense accounts.

The reports prompted an investigation by the federal Office of Government Ethics into Gray's practice of allowing the S&Ls he regulates to pay for some of his expenses when he travels on government business.

To deal with the allegations, Gray hired Garment, a Washington lawyer who was White House counsel to President Nixon.

"Ed Gray has been working very . . . hard to defend bank board policies that are unpopular . . . with various regulated banking interests that would rather not be accountable to anyone," Garment said.

"So what's happened is the standard Washington scenario—an atmosphere of pseudo-scandal generated by leaks and anonymous mudslinging about official life style, scale of travel and entertainment expenditures, and who was paying for what," Garment said. "The objective is not to improve ethics in government but to push some guy out of office because his policies generate a lot of static."

Several months ago, Gray acknowledged that an S&L industry executive had tried to get him out of the bank board by offering him a job through a third person, but Gray declined to say who the executive was. Industry sources say it was Keating.

Keating, responding to the charge, issued a statement through a lawyer saying only that he has "never met and never talked" to Gray.

The finger-pointing has increased as pressure builds for the White House to fill vacancies created in recent months when two bank board members announced their resignations. Gray, whose term expires in July, cannot run the board without at least one other board member.

The White House favorite to fill the Democratic vacancy on the board is George J. Benston, a finance professor at the University of Rochester who has used funds from Keating to conduct research on the S&L industry.

Congressional and industry leaders say the leading contender for the Republican vacancy is Lee H. Henkel Jr. He is an Atlanta attorney and chairman of a real estate company that in the last 15 months has received several loans of undisclosed amounts from Lincoln, officials of Lincoln said.

Benston and Henkel favor deregulation of the S&L industry and are supported by Keating.

Gray and the U.S. League of Savings Institutions, the largest lobbying group for the S&L industry, oppose deregulation that blurs the distinction between S&Ls and commercial banks, and for that reason they have told the White House that they oppose the nomination of the two men.

California Municipal Bonds

Merrill Lynch Index

The following indexes are based upon yields, in percent, that major California issuers of municipal bonds would pay on new long-term tax-exempt securities. The securities are presumed to be issued at par; revenue bonds have a 30-year maturity and general obligation bonds a 20-year maturity.

Overall California Index: 7.07

General Obligation Bonds

	Sept. 18	Change *
AA State of California	6.70	- 0.10

* Change from last week

Revenue Bonds

	Sept. 18	Change *
AAA Insured	7.00	- 0.10
A Hospital	7.25	- 0.05
AA Housing	7.15	- 0.10
AA Utility	7.00	- 0.10
A Lease Obligation**	7.30	- 0.10

**Includes bonds issued via certificates of participation, joint powers and nonprofit corporations.