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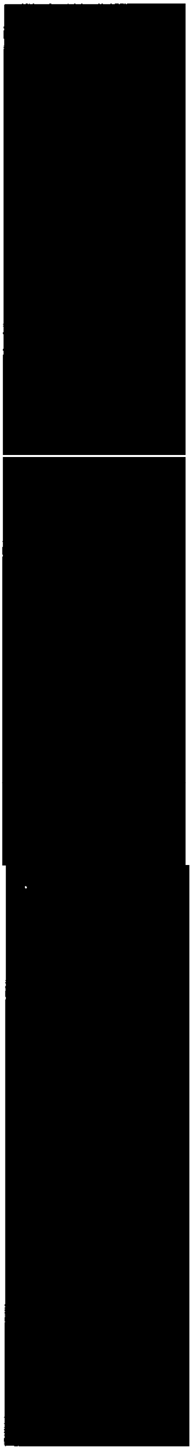
Los Angeles Times (1923-Current File); Mar 25, 1990;
ProQuest Historical Newspapers: Los Angeles Times
pg. SM20

Mr. Ed's Revenge

Once the Washington Press Corps Mocked Ed Gray. But Then He Helped Topple the Speaker of the House and Put Alan Cranston on the Run.

By Sara Fritz



Tom Wolff

Edwin J. Gray is credited with exposing "the Senate's Watergate," the Lincoln Savings & Loan of Irvine scandal.

Dear Sen. Cranston. . . . I received your Jan. 24 response to my letter. . . .

It is after midnight and Edwin J. Gray, president of a Miami savings and loan association, is hunched over an IBM Selectric III typewriter in his well-appointed office, pounding out a letter. He is typing as if his life depended on it.

Frankly, Sen. Cranston, you laid it on pretty thick, don't you think? Like accusing me of causing the whole S&L crisis, all by myself, with no help from anyone. Wow!

An intense man, Gray, 54, who was chairman of the Federal Home Loan Bank Board during the Reagan Administration, pulls his eyes tightly shut as he searches for the right words. He rubs his broad forehead to refresh himself and refers often to the dozens of newspaper clippings scattered across his desk. Gray has been working on this letter since early evening, oblivious to the departure of his staff and the late-night rounds of a security guard. His is the only light still burning in the offices of Chase Federal Savings Bank.

Where, Senator, were you when I allegedly was causing the crisis? You were and are the Number Two ranking person on the Banking Committee. . . . Were you in hibernation that whole time?

Although the letter is addressed to Sen. Alan Cranston (D-Calif.), Gray, who once served as press secretary to Ronald Reagan, actually has a larger audience in mind. When finished, it will be a 10-page, single-spaced letter replete with newspaper quotations and underlined words. As he often does, Gray will fax copies of the letter to all of the major news organizations around the nation as well as to many members of Congress.

This letter will become yet another chapter in what is fast becoming an intensely

bitter and well-publicized feud between Cranston and Gray—a struggle between accused and accuser in a scandal that many people are calling "the Senate's Watergate."

In public testimony before the House Banking Committee last November and in a private deposition to the Senate Ethics Committee on Feb. 22, Gray has charged that Cranston tried in early 1987 to use his considerable influence to prevent government regulators from closing down Lincoln Savings & Loan of Irvine. He claims Cranston helped Lincoln because Charles H. Keating Jr., owner of Lincoln, contributed heavily to the senator's campaign.

In response, Cranston is blaming Gray for failing to take decisive action during his tenure at the bank board to prevent the collapse of the savings and loan industry. He contends that Gray could have stopped the mismanagement of Lincoln, whose collapse last April will cost the American taxpayers $2 billion.

Now, Sen. Cranston, sir, you've said that what Mr. Keating and his associates did for you—that is to say, the contributions to your political causes and campaign which totaled nearly a million dollars—had no bearing at all on your intervention with the regulators.

Few—if any—other former government officials would work as hard as Gray has to maintain a quarrel that began while they were in public office. But Gray has devoted many hours to monitoring Cranston's statements, responding with lengthy letters and being interviewed by news reporters about the Keating scandal.

And Cranston is by no means the only politician in Washington who still has Gray's attention. The former Reagan Administration official has become a primary news source for several of the biggest news stories of our time—including the entire collapse of the nation's savings and loan industry, the ouster of House Speaker Jim Wright and the investigation of the so-called Keating Five, which includes Cranston and Sens. Dennis DeConcini (D-Ariz.), Donald W. Riegle Jr. (D-Mich.), John Glenn (D-Ohio) and John McCain (R-Ariz.).

In fact, Gray has become such an important figure in these scandals that some people—particularly Cranston and the other four senators—are beginning to question his motives. Why, they ask, would a man who no longer works in government spend so much time giving interviews and issuing press releases? What has Ed Gray got against us? Is this really pursuit of the truth—or a personal vendetta?

Cranston, for one, describes Gray as "a publicity-hungry political hack" whose efforts are designed to obscure his own guilt for the savings and loan controversy and make amends to his fellow Republicans for "being a political albatross around President Reagan's neck."

By his own account, Gray is doing nothing more than setting the record straight. He wants history to record that he was not responsible for hundreds of billions of taxpayers' dollars that were lost in the savings and loan controversy. He wants everyone to know that he tried to warn the Administration and Congress of the impending disaster, and nobody was listening.

"I think the taxpayers of our country deserve the truth about what happened," he says. "What kind of citizen would I be if I contributed to hiding what happened, given the bill the American taxpayers are going to have to pay?"

But Gray is actually doing much more than simply informing the American people. He also appears to be getting his revenge against the Washington Establishment, which once viewed him as the epitome of the naive, right-wing Californians who came to the White House in 1981 with Ronald Reagan.

And even though he strongly denies any malicious intent, Gray is cleverly engineering the systematic humiliation of some of the nation's most powerful political figures, most of them Democrats. Gray helped remove Wright from office, and now Cranston and others face the likelihood of losing their bids for reelection as a result of Gray's persistence. In a Los Angeles Times Poll of California residents last December, 79% felt Cranston should not seek reelection, and 41% thought he should resign before his term expires. In October, before Gray's House Banking Committee testimony, 56% of those polled had a favorable impression of Cranston. Meanwhile, half a dozen fellow Democrats are gearing up to confront Cranston in the 1992 Senate primary—a sign of his perceived vulnerability.

THERE HAS ALWAYS been something about Ed Gray that invites people—even friends—to poke fun at him. It may be his chronic absent-mindedness, his apparent insecurity or his intense commitment to Ronald Reagan's vision of the world. Or maybe it is just that Gray lacks any sense of humor himself.

Whatever the cause, it became a particularly acute problem for Gray when he served as press secretary for Reagan's presidential campaign during the 1980 primary season. Even though he had no experience in national politics, the job fell to him in the final phase of the presidential primaries because he had done the same job for Reagan in Sacramento.

Gray, a Fresno State graduate, had been working as a public relations man for a San Diego savings and loan after Reagan left Sacramento in 1973. He was viewed by the cadre of seasoned political reporters covering Reagan as an inexperienced newcomer to presidential politics. By their account, these reporters

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Shirley Lampel, from Tustin, who lost $30,000 in the Lincoln Savings fiasco, challenges Sen. Alan Cranston.

Largely as a result of Gray's persistence, the Keating Five may lose their bids for reelection.

Lacy Atkins/Los Angeles Times

Gray, here with former bank board chief of staff Shannon Fairbanks, testified about the Lincoln Savings debacle before the House Banking Committee last November.

made fun of Gray by stuffing his pockets with beer cans and taping shut the door of the campaign-plane lavatory when he was inside.

"We all considered him a major-league buffoon and a total incompetent," recalls one prominent national political reporter. "He had no clue what a campaign press secretary should do. We all howled when he got the job."

Even Gray himself sometimes felt that he was over his head in the job.

"I had never worked in Washington; I didn't know Washington reporters," he acknowledges. "I was really quite unprepared for what I was thrown into, and I didn't get a lot of support from the guys in the campaign."

Yet Gray provided his tormentors with many opportunities for humor. Sometimes he would work so hard that he would simply fall asleep while talking to people, often in mid-sentence. Or he would leave his briefcase behind on the airport Tarmac at campaign stops. And one reporter recalls that Gray once disrupted an important press conference by accidentally sitting in a dish of baked Alaska.

Indeed, the stories of Gray's alleged bumbling were told and retold so many times that the truth got lost in the telling. For example, there is the apocryphal story in which Gray, failing to heed a warning, took an elevator to the basement of a building. In one version of this tale, he was stuck in the basement of Reagan's 1980 campaign headquarters for an entire weekend. In another, he wound up knee-deep in water in the basement of the Capitol in Sacramento. And there are some who claim that after Gray was freed from the elevator, he fell into an emotional heap at Reagan's feet.

"Whenever you wanted to blast Ed Gray, you didn't even have to tell the whole elevator story," recalls a former Reagan aide. "All you had to do was say, 'Help me, help me' in a high, squeaky voice, and everyone would laugh."

In retrospect, reporters who covered the Reagan campaign feel that their jokes at Gray's expense went too far. One of the ringleaders acknowledges that Gray is "a nice man" whose only real limitation was that he was not a campaign insider.

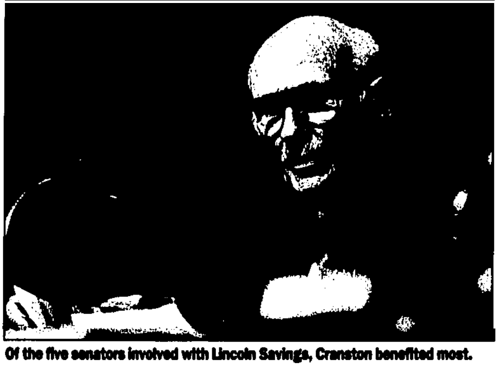
"I never caught him lying to me," he says.

Not surprisingly, Gray tenses up when asked about the ridicule he endured in those days. "I don't remember it that way," he insists. He denies he was ever stuck in an elevator or pinned inside an airplane lavatory, but he does recall with a touch of bitterness that he was undercut by other campaign officials who leaked stories to the press without telling him.

Many of his former campaign colleagues believe these difficulties ultimately cost Gray the job of press secretary after Reagan won the Republican nomination. Some say Gray was extremely hurt by being passed over for that job. In fact, one reporter says he accidentally walked in on Gray in an airplane lavatory shortly after Lyn Nofziger was chosen to replace him as press secretary. He says Gray was sitting on the sink, his head in his hands, crying.

Ten years later, Gray recalls that he was "feeling low" that day but did not cry.

After Reagan won the presidency, Gray initially was appointed to head the White House Office of Policy Development. It was a perfect position for someone so familiar with the President's views. "His office was supposed to be the lens under which all of the Reagan light could be interpreted," recalls a



Of the five senators involved with Lincoln Savings, Cranston benefited most.

Top: Associated Press; Bottom: Lacy Atkins/Los Angeles Times former White House aide. "Gray was really the guy who knew Reagan's position on all the issues."

But John Svahn, who later became domestic policy chief for Reagan, says that Gray always felt "uncomfortable" about his vaguely defined responsibilities.

"Ed, for a variety of reasons, wasn't really sure what his job—policy development—was," Svahn says. "That was not his strong suit. And Ed was viewed as an amateur because he came out of California."

And he was still the butt of jokes that focused on his extreme work habits. A chronic workaholic with a fierce drive to succeed, he liked to work late into the night. He sometimes even slept in his office, keeping a bed pillow stuffed behind the sofa.

Gray's responsibilities were scaled down in February, 1982, and he was denied a request to become ambassador to Spain. He finally decided to leave the White House in August, 1982. He says he left because his wife, Monique, and daughters were eager to return to their home overlooking the ocean in La Jolla. His family disliked Washington because Gray spent too much time at work there.

Cranston says that Gray thought of the Federal Home Loan Bank Board as his 'Good Ship Lollipop.'

The President demonstrated his affection for Gray by hosting a going-away party at the White House. But even Reagan enjoyed telling stories at Gray's expense and at the party recalled that while he was governor of California, state officials had found several missing government cars at the Sacramento airport. It seems that Gray drove the cars to one airport, but returned home through another airport and forgot about them.

BACK IN SAN DIEGO, Gray returned to public relations work for a former employer, Gordon Luce, owner of Great American Savings & Loan and a member of Reagan's "Kitchen Cabinet." But before the year ended, industry colleagues persuaded him to lobby the White House for chairmanship of the bank board, which charters and regulates savings and loans.

And the Administration was happy to oblige. What harm could he do? "Everyone said, 'Let's send him somewhere where we'll never hear from him again,'" says a former White House aide. "When they sent him to the bank board, they sent him to Mongolia."

It did not stay Mongolia for long. When Gray arrived there in May, 1983, bank-board officials were just beginning to recognize the adverse effects of the Reagan-era deregulation of the savings and loan industry. Within a year or two, the bank board was to become one of the most visible and controversial agencies in Washington.

Nor could anyone have predicted that Gray, the Reagan dogmatist, would depart so dramatically from the Administration policy of deregulation. At the time of his appointment to the board, he admits, he was seen as "a good old boy" who had no real training or expertise in finance who would follow the dictates of the White House and the thrift industry.

"The industry wanted me because they didn't know me," he says. "They underestimated me, and I didn't know myself, to be honest with you."

But by August, 1983, Gray says, he began to recognize the signs of disaster ahead.

Just a year before Gray took over at the bank board, Congress had enacted the Garn-St. Germain Act, allowing savings and loans greater latitude in lending and permitting them to offer money-market deposit accounts free of rate controls. Congress also lifted the maximum insured amount of any single deposit from $40,000 to $100,000. In California, thrifts were permitted to invest in virtually anything.

With these new powers, some savings and loans were growing rapidly by paying high interest rates to lure big deposits from brokerage houses and then investing these government-insured funds in risky ventures such as real estate and junk bonds. If these thrifts became insolvent, Gray realized, their losses would bankrupt the Federal Savings and Loan Insurance Corp., which guarantees deposits.

"It was then I knew that I had a terrible problem," he recalls.

In what proved to be a futile effort to prevent a rash of insolvencies, Gray persuaded his board to issue several regulations opposed by many savings and loan executives. In numerous speeches and congressional testimony, he also repeatedly warned that the industry was headed for disaster without stricter regulation.

His efforts to limit brokered deposits put him directly at odds with Treasury Secretary Donald T. Regan, who became White House chief of staff in 1985. Before joining the Administration, Regan had been chairman of Merrill Lynch, which was an industry leader in brokered deposits. As a result, according to Gray, Regan tried to thwart his every effort.

Gray's tougher approach to the thrift industry also made him unpopular in Congress, especially among members who depended on campaign contributions from savings and loan executives. When he proposed a new regulation limiting the amount of money a savings and loan could invest directly in real estate, junk bonds and other risky projects, more than 200 members of Congress sent him a letter opposing it.

As the pressure grew, it occurred to Gray that he might be blamed for a disaster in the thrift industry, and he sought to preserve his reputation by keeping a detailed record of every public statement he made while chairman of the bank board—what he now calls "my own little library."

"I determined I'd do my best not to be a scapegoat," he says. "So everything I did, I tried to do it for history."

OF THE POWERFUL Keating Five, two—former astronaut John Glenn and Cranston—had run for President, Riegle was chairman of the Banking Committee, DeConcini had been considered for a top post in the Bush Administration, and McCain was often cited as a future GOP presidential candidate.

Four of these five senators (Riegle was absent) met with Gray on Capitol Hill on April 2, 1987—a meeting that would figure prominently in the current scandal. "I was summoned to the meeting in Sen. DeConcini's office about 6 p.m.," Gray recalls. "The unusual thing was that they said, 'No staff—come alone.' We were all sitting in chairs sort of facing each other. There was a tenseness in the air, a very awkward situation."

According to Gray, the senators asked him to withdraw the controversial proposed regulation because it was being challenged by Keating in the courts. Both Cranston and DeConcini have accused Gray of lying.

Gray thought their request was improper. But it was not until sometime later that he learned that the five senators had received large donations from Keating, who has openly acknowledged he was trying to buy their assistance in his battle against bank-board officials.

The Keating Five were not the only members of Congress who tried to influence Gray on behalf of the high-flying thrifts such as Lincoln. When the bank board got tough on several Texas thrifts in 1986 and 1987, Speaker Wright intervened with Gray on behalf of four Texas savings and loan executives who were under investigation. Wright also held up legislation sought by the bank board while he waited for Gray to help one of these men.

A regulator of greater stature might have succeeded in taking these unpopular stands without enduring a tremendous outpouring of personal ridicule for his efforts to prevent an industry collapse. He still had not yet lived down his reputation as a lightweight from California. "Mr. Ed," they often called him during his years at the bank board—a reference to the talking horse in the 1960s sitcom.

His critics also leaked embarrassing newspaper stories about the huge travel expenses that Gray charged to the 12 regional banks, which are supervised by the bank board and funded by the savings and loan industry. The stories detailed $649-a-night suites at the Waldorf-Astoria Hotel, $1,000 tickets to the Wimbledon tennis tournament and the $14,000 bill for a chartered jet plane to take him to his father's deathbed, among other extravagances.

Gray was surprised by these stories, which, he learned later, were leaked by a Keating aide. In fact, his predecessors had a similar record of high living. He felt he was singled out unfairly.

"I didn't realize I was vulnerable, but I was. . . ." he says. "I didn't realize that as I was getting more and more unpopular with people that I regulated, that they would try to find some way to embarrass me. . . . If I had it to do over again, I would have stayed at a Motel 6."

To silence his critics, Gray repaid $28,000 of his travel expenses, borrowing $14,000 from his mother in Pacific Grove; she still has not been repaid. The irony was that Gray actually was living an "exceedingly Spartan" existence in Washington: a $500-a-month apartment furnished with an old sofa and card table from his California garage. He sent his paychecks directly home to his wife in La Jolla.

Each new newspaper story about Gray sent him into a frenzy. "I used to think we'd get a lot more done if we could keep Gray from reading the newspaper," a former aide says.

And when he learned from a newspaper reporter that an official of Merrill Lynch had threatened to have someone follow him as a form of intimidation, he spent an entire weekend writing letters about it to members of the House and Senate banking committees. He even typed all the envelopes and carried the letters to the post office himself.

The criticism clearly took a personal toll on Gray. Federal Deposit Insurance Corp. Chairman William Seidman recalls that Gray was "practically in tears" when he first met him in 1985. "He was a pretty badly beaten guy when I got here," Seidman says.

Gray might have resigned had it not been for the actions of White House Chief of Staff Regan, who sought to force him out by leaking phony news stories saying the bank-board chairman was ready to leave. When Svahn and others told Gray directly that Regan wanted his resignation, it only increased Gray's determination to stay.

In the end, Gray's ties to the President made it impossible for Regan to fire him; when Regan himself was forced to resign in the wake of the Iran-Contra scandal in February, 1987, Gray and his staff celebrated with champagne, and he quoted the

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Ed Gray

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Rev. Martin Luther King Jr.: "Free at last."

But by the time Gray's term did end in June, 1987, he had become a pariah in the thrift industry. Even the old-fashioned, conservative thrifts in his home state of California, which supported him through much of his term, had abandoned him. When he went looking for a good job that would help him repay the $80,000 in personal expenses he had amassed, he found that no one in California would hire him. Instead, he ended up as president of the only thrift that would offer him a job: Chase Federal Savings Bank in Miami, with assets of $1.6 billion, which Gray describes as "medium-small."

Still, Gray remembers his tenure at the bank board as the most exhilarating time of his life—an experience that taught him how to stand up for his own beliefs.

"I learned about me," he says proudly. "I learned who I am, what I am, how I think and how I can withstand incredible pressure and stand up for what I think is right. . . . I learned that I could do a lot more than I ever thought I could, particularly where—if I may say so—courage is involved."

Less than a year after Gray left office, his dire predictions came true: Hundreds of federally insured savings and loan institutions collapsed in 1988 and millions of depositors began to fret about the safety of their savings. By 1989, Congress was forced to authorize $150 billion to reimburse depositors of the failed institutions, and experts predicted that the taxpayers would be forced to pay out billions of dollars more once the full extent of the debacle became known.

Gray had been proved right. And he knew it was no coincidence that many of the most costly insolvencies were thrifts with the most powerful friends on Capitol Hill. He concluded that in many cases his successors at the bank board had failed to crack down on mismanagement by these institutions as a direct result of pressure from members of Congress.

Then he quickly discovered that the news media and the public—and even some members of Congress—were more receptive to his message now that the savings and loan industry was collapsing and Americans were demanding to know why. Reporters who had never listened when he was bank-board chairman were calling him for information.

Gray is getting his revenge against Washington, which once viewed him as a naive, right-wing Californian.

Gray's "little library" suddenly became a valuable resource. He had every speech and every word of congressional testimony he ever delivered as bank-board chairman carefully bound into 12 volumes. All of his letters and press clippings from that period were systematically filed away for easy reference.

In 1988, when Wright came under investigation by the House Ethics Committee, Gray not only testified against the speaker but also provided the Wall Street Journal with the details of Wright's efforts to interfere with the bank board's investigation of the four bankrupt Texas thrifts. The Ethics Committee eventually dropped the charges stemming from Gray's testimony, but news stories about it helped to doom the speaker's career.

Then on April 14, 1989, in the biggest thrift failure in the nation's history, the government seized Lincoln. Reporters once again went to Gray seeking information about the causes of the $2-billion Lincoln collapse.

Gray's Miami office became, and remains, a sort of clearinghouse of information about the Keating scandal and the senators' efforts to intervene with regulators on behalf of the Irvine thrift.

"The average number of calls I get is about 10 a day from the press," says Gray, who takes pride in his relationship with the press. " . . . There have been days when I've gotten 25 and 30." Gray acknowledges that his many calls from journalists "have benefited me greatly." Gray has also told his story about the Keating affair in newspaper opinion pieces, in numerous magazine interviews and on such television shows as CBS' "60 Minutes" and ABC's "This Week With David Brinkley."

Largely as a result of Gray's actions, both the Justice Department and the Senate Ethics Committee are investigating whether the senators violated any law by intervening for Keating. The issue in these investigations is whether their lobbying on Keating's behalf represented an honest effort to help a constituent or a payoff for huge political contributions.

Of the five senators, Cranston benefited most from Keating's largess. Keating was responsible for $35,000 in campaign contributions to Cranston, an $85,000 gift to the California Democratic Party solicited by Cranston, and $850,000 for voter-registration projects established by the senator.

When Wright resigned on June 30, 1989, Gray was proud of his role in forcing the speaker out of the House, but he also felt sympathy for Wright. Gray clearly feels no such ambivalence about his work on the Keating Five case. He sees his efforts to expose these men as a fair response to their criticism of him.

"These senators called me a liar," he says. " . . . I don't like to be called a liar when I'm not. You can call me a lot of things, but don't call me a liar. I am not a liar."

From Cranston's perspective, Gray is simply trying to divert attention away from his own role in the savings and loan scandal. "Gray, with his lavish, industry-paid expense account and Hawaiian junkets, thought of the Federal Home Loan Bank Board as his Good Ship Lollipop," Cranston said at a recent press conference. "When it turned into the Titanic, he began looking for scapegoats."

But Seidman and former Senate Banking Committee Chairman William Proxmire (D-Wis.), among others who were directly involved in the savings and loan controversy, are quick to defend Gray. "In hindsight," says Proxmire, "he was right on almost every count."

Seidman adds: "I think he likes being a hero. Here is a guy that was being massacred, and now he relishes being on the offensive. He wants to set the record straight. It's very important to him."

Friends worry that Gray is spending too much time dwelling in the past, and they have advised him to forget the Keating scandal and get on with his life. But others who know him think his obsession will not end until all five senators are forced out of office.

"There are five elections coming up," says a former White House colleague, "and I'm sure that Ed Gray would take a certain satisfaction in seeing one or more of those guys defeated."

Until then, he will continue to pound out letters on his typewriter:

Your shrill statements strike me as those of a desperate, panic-stricken officeholder. . . . The truth is, I am not your problem, Sen. Cranston. You are.