

THE ABCS OF JOHN MCCAIN, CHARLES KEATING & THE SAVINGS & LOAN (S&L) CRISIS

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During S&L Crisis, 747 Savings & Loans Banks Failed, Costing US Taxpayers \$124 Billion; Deregulation Allowed Riskier Investments By S&Ls, Leading To Widespread Collapses And Fraud. In the 1980's and early 1990's the US economy was badly shaken by the failure of 747 savings and loan (S&L) institutions that had to be taken over and bailed out by the federal government. In total, the failures cost taxpayers \$124 billion. One of the main causes for the epidemic of failures was the unregulated expansion of S&L's, which had traditionally only dealt with home loans, into more exotic and riskier investments. When many of those investments failed, the institutions collapsed. [Chicago Tribune, 7/3/98, Los Angeles Times, 9/17/08]

S&L's Risky Investments With Federally-Insured Money Led To Call For More Regulation. In the early 1980's, Charles Keating's American Continental Corporation purchased a California S&L named Lincoln. At that time, S&Ls like Lincoln were able to go beyond their traditional purpose of offering home loans and engage in riskier forms of investment. Since the deposits of S&Ls were insured by the federal government, regulators began to take notice of the investments being made by Keating and at other S&Ls. The Federal Home Loan Bank Board (FHLBB), which had regulatory authority over the S&Ls, began to worry about the risks of this trend, and proposed a "direct investment" regulation to limit the money S&Ls could direct to these riskier investments. [Senate Ethics Committee Keating Five Investigation, 1990]

At Keating's Request, McCain Wrote 5 Letters, Supported Bill To Forestall Direct Investment Rule. Keating was unhappy with the direct investment rule and began actively lobbying against it. Senate Ethics Committee Special Counsel Robert Bennett explained during the 1990 Keating Five hearings that John McCain wrote at least five letters to regulators, Treasury and White House officials to argue against these proposed restrictions on risky investments by S&Ls. Bennett said that "In 1984 and '85, then Congressman McCain wrote several letters to Chairman [Edwin] Gray [of the Federal Home Loan Bank Board] and White House officials urging them to postpone promulgation of the direct investment rule... There is evidence that Senator McCain did so at the urging of Mr. Keating or other representatives of Lincoln." McCain's work for Keating also included signing onto a bill to delay the direct investment rule in 1984 [Senate Ethics Committee Keating Five Investigation, 1990; HCONRES 363, 98th Congress]

With New Regulations In Place, Officials Began Investigation That Found That Keating's Lincoln S&L Had Operated As Massive Fraud. After the direct investment rule was enacted the Federal Home Loan Bank Board began a more vigorous investigation into Lincoln's practices, beginning to uncover a vast web of fraud and accounting irregularities designed to embezzle money to Keating and his family and friends. Top regulator William Black later said that Lincoln "operated like a Ponzi scheme, or financial pyramid dependent on an ever-increasing churning of assets." Black said, "Its parent, Keating's American Continental Corp., was no more than a shell that siphoned dividends from Lincoln

and distributed them through inflated salaries to Keating, his family members and associates.”
[Senate Ethics Committee Keating Five Investigation, 1990; Associated Press, 12/5/90]

Keating Asked McCain And Other Senators To Whom He Had Contributed To Intervene With Regulators. In the most well-known episode of the scandal, Charles Keating asked five U.S. Senators including McCain to intervene with regulators from the Federal Home Loan Bank Board on his behalf. The Senators attended two meetings with the regulators in 1987. Reports of the meetings and the fact that Keating had contributed heavily to those Senators led to an investigation by the Senate Ethics Committee in 1990 into what became known as Keating Five scandal. [Senate Ethics Committee Keating Five Investigation, 1990; Chicago Tribune, 6/14/90; Los Angeles Times, 5/30/89]

Keating Admitted He Was Trying To Buy Influence. Keating was asked if his contributions bought him influence with the Senators, to which Keating replied, “I want to say in the most forceful way I can, I certainly hope so.” [Los Angeles Times, 5/30/89]

Ethics Committee Special Counsel Said McCain Had Closest Relationship to Keating. Robert Bennett, the Special Counsel for the Senate Ethics Committee said during the 1990 hearings: “of the five senators here before you, Senator McCain had the closest personal friendship with Charles Keating. Their friendship predated Senator McCain's political career. Senator McCain also was the only one who received personal as well political benefits from Charles Keating.” [Senate Ethics Committee Hearing into the Keating Five]

- **McCain Received \$166,000 In Campaign Contributions from Charles Keating and his Associates.** “Together with friends and associates, Keating contributed \$56,000 to McCain's first House race, another \$56,000 to the second and \$54,000 to his 1986 Senate campaign,” contributions that were key to early success as a politician. [New York Times, 5/25/97]
- **McCain Used Keating's Private Planes on Nine Occasions.** “From August 1984 to August 1986, Sen. John McCain and his family flew across the country and to the Bahamas on at least nine occasions at Charles H Keating Jr.'s expense,” often to stay at the Keatings' exclusive Cat Cay getaway. [Arizona Republic, 10/8/89]
- **McCain Had Direct Financial Ties To Keating.** Keating brought in McCain's wife and father-in-law as the largest investors in an Arizona shopping center investment. Fountain Square Shopping Center was a no-risk investment that virtually guaranteed a 25% return and a “significant tax write-off” through a tax shelter technique available to the wealthy that was soon outlawed. When reporters first questioned the deal, McCain said to reporters “It's up to you to find that out, kids.” [Arizona Republic, 10/8/89]
- **McCain Originally Denied Reports of Connection.** “When the story broke, McCain did nothing to help himself. ‘You're a liar,’ McCain said” when asked about the investments. He challenged reporters saying, ‘It's up to you to find that out, kids.’” [Arizona Republic, 3/1/2007]

McCain Rebuked By Senate Ethics Committee For Exercising “Poor Judgment.” In 1990, the bipartisan (three members of each party) Senate Ethics Committee rebuked McCain “for exercising ‘poor judgment’ for intervening with the federal regulators on behalf of Keating.” [Arizona Republic, 3/1/2007]

Keating's S&L Was Declared Insolvent; \$3.4 Billion Bailout Most Expensive in Meltdown. Federal regulators declared Lincoln Savings and Loan insolvent. It ended up costing taxpayers \$3.4 billion to

clean up the mess and cover federally-insured deposits at Lincoln, making it the most expensive failure in the entire S&L meltdown. [Washington Post, 11/29/92; New York Times, 2/21/08]

Keating Also Bilked 23,000 Investors – Many Elderly – With Junk Bonds. As his deeds unraveled under the scrutiny of regulators and civil and criminal court cases, it became clear that he had sold worthless junk bonds to 23,000 investors, many of them elderly retirees who had thought their investments were insured and lost their lost savings to Keating's crimes. [Associated Press, 2/23/08]

Keating Was Found Guilty of 73 Counts of Fraud, Lost Two Criminal And One Civil Case. "a federal jury convicted him of 73 counts of wire and bankruptcy fraud in the collapse of American Continental and Lincoln," a keystone of the Savings & Loan scandal as Keating "looted" the bank. Keating was also found guilty in civil court and lost a massive class action suit by investors he bilked. [Arizona Republic, 3/1/2007; Associated Press, 4/7/99]