

UNIVERSITY OF
ARKANSAS

School of Journalism
and Strategic Media

Investigative Reporting in the Trade Press

Case Study:

Media Coverage of the U.S. Savings
and Loan Crisis, 1986-1990

My Case Study





Keating Five Scandal: In Less Than One Minute

1. Keating Runs Lincoln Savings Into the Ground
2. Regulators Try to Shut Him Down
3. Keating Gives \$1.3 Million to Five U.S. Senators
4. Sens. McCain, DeConcini, Glenn, Cranston and Riegel pressure federal regulators to back off
5. Lincoln Fails in 1989: **\$3.4 Billion Taxpayer Cost**
6. 25,000 Bond Investors, Many Elderly, Lose **\$250 Million**
7. Keating Sentenced to 10 Years in Prison

Trade Newspaper Breaks Story

National Thrift News

FOR SAVINGS/MORTGAGE/FINANCIAL SERVICES EXECUTIVES

Volume 12, #1

© 1987 National Thrift News

\$110 per year.

September 28, 1987

Five Senators Met With District Bank On Disputed Appraisals at Lincoln

Reported by STEPHEN KLEEGER
& STAN STRACHAN
Written by Mr. Kleege

WASHINGTON.—Five U.S. Senators last April intervened in the regulatory examination of Lincoln Savings and Loan Association, pressing for more liberal appraisals on the thrift's real estate investments, *National Thrift News* has learned.

In an unprecedented display of senatorial effort on behalf of a thrift institution, Sens. Alan Cranston, D., Calif., Dennis DeConcini, D., Ariz., Jim R. McCain, R., Ariz., and John Glenn, D., Ohio, pressed examiners to be "fair" to the thrift. They noted that Charles H. Keating, Jr., chairman of Lincoln's parent, is engaged in a long, highly publicized battle with the Federal Home Loan Bank Board over investment regulations.

Also attending a meeting in Mr. DeConcini's Capitol Hill office, was Sen. Donald Riegle, D., Mich., a member of the Banking, Housing and Urban Affairs Committee, whom Mr.



James Citrona...the San Francisco FHLB president defended examination process in unprecedented meeting with five Senators.

DeConcini had invited as a kind of expert witness.

The conference included four representatives of the San Francisco Federal



Sen. Dennis DeConcini, D., Ariz....as a "constituent service" he sought to speed examination of Lincoln.

Home Loan Bank, which is responsible for supervision of Lincoln, based in Irvine, Calif.

An industry source said the dispute

between Mr. Keating, who runs American Continental Corp., Phoenix, and the regulator centers on \$167 million in additional loss reserves the FHLB wants Lincoln to set aside for loans and investments on which the appraisals are in dispute.

Robert J. Kizly, general counsel for Lincoln, refused to confirm the meeting between the regulators and Senators

(See editorial, p. 4)

took place. He cited the "confidentiality" of the regulatory process.

The two-hour meeting on the influential Mr. Keating's problems was interrupted twice so the Senators could vote on a bill to provide help for the homeless.

Sen. Cranston, who was managing the legislation on the Senate floor, did not attend the meeting in Sen. DeConcini's office, but stopped by briefly to excuse himself and say he wanted the regulators to know that he shared the other Senators' concerns.

"I think the basic objective was an

(Continued on page 42)

Agency MBS Sale at FCA?

WASHINGTON.—A four-part plan to break up Financial Corp. of America rests heavily on a proposed \$15 billion "agency" sale of the company's mortgage-backed securities portfolio, according to a Federal

sold through an agency (presumably either the Federal Home Loan Mortgage Corp. or the Federal National Mortgage Association) the agency could get a better price for the MBS holdings.

California S&Ls

45 MCPs Cost

Sept. 28, 1987

Trade Newspaper Breaks Story



Major Media Largely Ignores Story For Two Years

Sept. 28, 1987

...the new campaign
Concini, D-Ariz., has picked up \$40,000
at al, and at the same time that he
is, he also says he has recommended to
n that he appoint Keating friend Lee
e Federal Home Loan Bank Board, an
ating desperately wants because of his
e savings and loan business.
R-Ariz., accepted \$21,000 from Keating,
who will take office as Arizona's 1st
man in January, got \$19,000 from Keating
associates and their wives.
eral law limits individual campaign

you guessed it. The annexation increases
land by millions.

Phoenix Mayor Terry Goddard, himself the recipient of
small amount of Keating money, is one of the few
politicians who is willing to sound the alarm.

Says Goddard, "I don't think he (Keating) or anyone else
should be in the game of putting so much money into
political campaigns because the inevitable loss of public
confidence is something we all have to suffer."

Exactly. That's what we're talking about — public
confidence in elected officials.

Max Jennings is executive editor of the Mesa Tribune.

MAU

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SAUER

*Kelley
Sue The Bastards!
\$1 billion
er*

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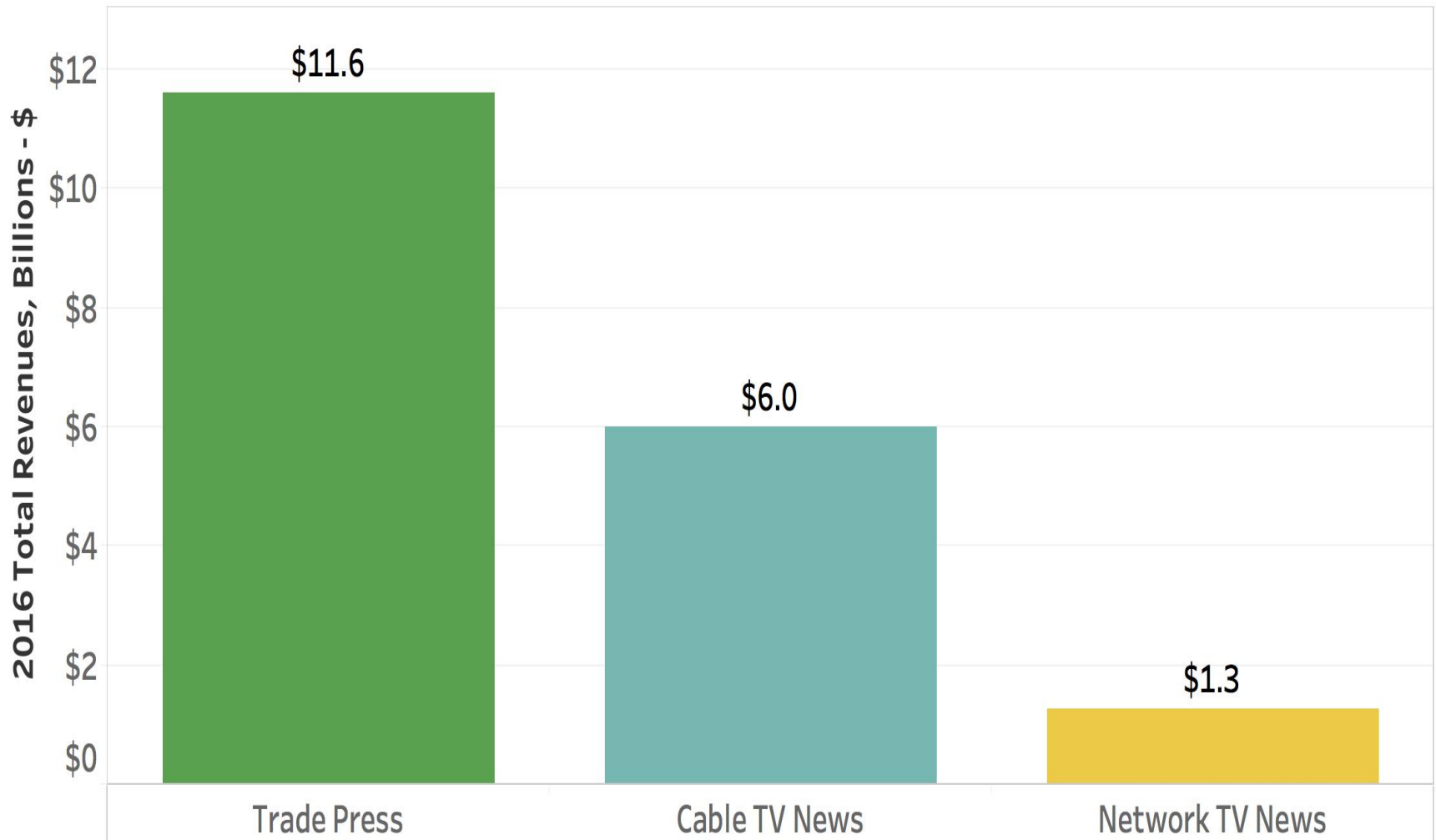
- Founded 1976
- 12,000 Circulation
- Editorial Staff of 13
- News For Mortgage, Bankers
- Co-Owned by Stan Strachan
- Ex-American Banker Editor
- Died 1997.

Industry Friendships



Trade Press: Bigger Than Cable, TV Network News

2016 Total Revenues, Billions \$



For years, the trade press **was dismissed as a PR arm for industry.**

This project examined investigative and accountability journalism in the trade press, or business-to-business publications. This is **new ground for Journalism Studies.**

The Enforcers



TRADE JOURNALISTS
AS “THE CONSCIENCE”
OF AN INDUSTRY



BREAD AND BUTTER:
WHO VIOLATES
INDUSTRY NORMS



CELEBRATE WHO
ADVANCES THE
INDUSTRY



PICKING WINNERS
AND LOSERS

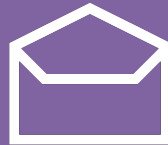
Content Analysis



Keating: 334
articles, 1986-1990



Paul: 516 articles,
1984-1993



Wall Street Journal, New York
Times, American Banker, National
Thrift News; St. Petersburg Times
for CenTrust

Primary Sources

- Research Since September 2014
- 20 Interviews on National Thrift News
- 13 Interviews of Trade Journalists
- American Continental Corp. Archives, ASU
- FBI FOIA Request
- Personal Records of Strachan, Muolo
- Legal, Corporate Records of NTN
- Digital Newspaper Archives: NTN, WSJ, etc
- Coded 850 newspaper articles



Theory

Political Economy Theory:
Doesn't Fully Account for Trade
Press Investigative Reporting

Indexing Hypothesis: Media
Tracks Official Sources, Industry
and Government

Professionalism: Journalistic
Norms, When Followed, Have
Enduring Power and Value

Keating



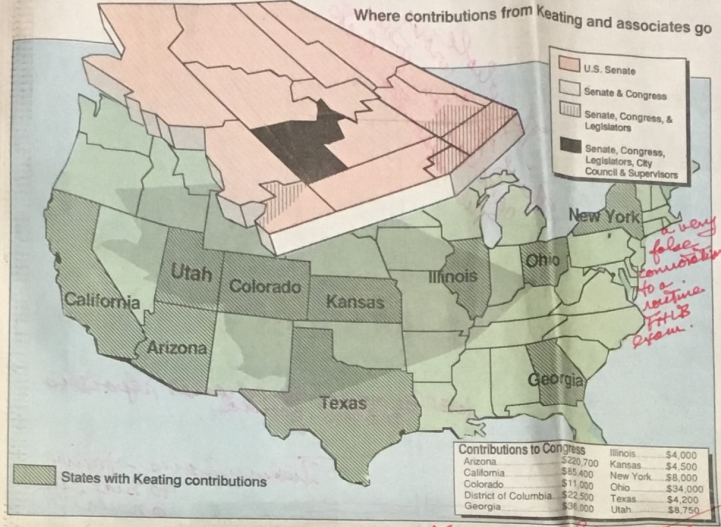
Perspective

SECTION C

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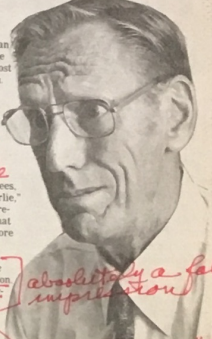
The story of a brilliant businessman, a giant firm and their effects on American politics

The Keating connection



Charles H. Keating Jr. has it all. An exclusive home in suburban Paradise Valley, a palatial spread in the Bahamas. At least two private jets to whisk him around the world to cut business deals on a moment's notice. A sleek, gray Cadillac limousine. A helicopter.

He is a family man, a philanthropist and the old-style financier atop American Continental Corp. Clearly, he is among the Southwest's most influential and wealthy men. Yet beneath the surface, the lion's share of his \$4.5 billion empire is being scrutinized by the federal government. It questions the way one of his companies is investing deposits. Among Keating's employees, he is known simply as "Charlie," a man they adore and who rewards them with salaries that have secretaries making more than executives elsewhere in the industry.



Charles Keating Jr. *absolutely a false impression*

In several senses, Charlie Keating is a man of obsession. Whatever crusade he undertakes is followed to the ultimate overstatement. Says a close associate, "He is the frontier sheriff leading the charge, and the dust is flying. It's unlikely he'd ever get back to jail with the bad guy alive."

Keating has been demagogic, battling child pornography for three decades. He founded and still heads the only national group that actively fights pornography in the courtroom. Although he would discuss none of his activities with the Tribune, Keating is generous with other causes. Among his best known contributions is \$1 million to the St. Vincent de Paul Society, a Phoenix organization that feeds the homeless. To grant the power of influence of Charles Keating and his American Continental Corp., it first is necessary to conceive of a multibillion-dollar company with few natural enemies, only cautious friends *what a threat*.

In Arizona, Keating and his associates have contributed hundreds of thousands of dollars to at least 49 officeholders. The Keating connection reaches into nine other states and into the District of Columbia. To the person, politicians say American Continental asks nothing in return for contributions from Keating and more than 70 of his associates and their spouses. Recipients of Keating political contributions argue their constituents will judge if big money influences them.

The jury is still out on that, for the Keating story is one that extends from a small city council in Arizona, through state government, to Congress and into the White House. Whether Keating's influence will continue may rest on the shoulders of perhaps the most troublesome man in his life, Edwin J. Gray. Gray is the embattled chairman of the three-member Federal Home Loan Bank Board. The agency regulates the nation's savings and loans, including Keating's Lincoln Savings and Loan Association, a \$3

Bank board appointee's proposal would have helped his friend's firm

By Andrew Mollison
Cox News Service

WASHINGTON — Atlanta investor Lee H. Henkel Jr.'s first public act in his new post as a member of the Federal Home Loan Bank Board would have helped a savings and loan whose parent company is controlled by Phoenix financier Charles H. Keating Jr. Keating is Henkel's friend and a political ally whose thrift institution had hired Henkel as an attorney and loaned more than \$55 million to Henkel and his real estate ventures before President Reagan appointed Henkel to the bank board on Nov. 7.

At a meeting of the agency's board on the Thursday before Christmas, Henkel made a motion that would have weakened federal regulation of state-chartered thrift institutions that attract deposits by offering federal deposit insurance. "All regulations must be finely tuned to real problems that actually exist," Henkel said when he submitted an 11-clause written motion that was rejected by the other two members at the bank board's Dec. 18 meeting. The eighth clause would have cancelled permanently a challenge by the bank board's staff to \$615 million in investments made by the savings and loan owned by Keating's firm. The staff argued that the investments weren't allowed under a rule that limits direct investments in real estate and stock by state-chartered thrifts. Henkel's motion would have eliminated the risk that the thrift would have to unload some of its investments or pay



Lee H. Henkel Jr. Lawrence White Edwin Gray

the costs of increasing its net worth by 10 percent of the investments, or \$61.5 million. Henkel said he was trying to "clarify the present confusion in the industry" about "inadvertent" violations of bank board regulations that went into effect 22 months ago. The thrift, Lincoln Savings and Loan Association of Irvine, Calif., loaned Henkel more than \$250,000 on a personal promissory note. It loaned Henkel's businesses in Georgia more than \$55 million for real estate investments in the Atlanta area. After Henkel told a federal ethics reviewer that he had repaid the personal loan and would put his Lincoln-backed investments into a blind trust, the federal reviewer ruled Nov. 5 that Henkel wouldn't face conflicts of interest as a

regulator of savings and loans. Henkel was also a peripheral member of an informal political alliance of Keating's business associates and their families in Arizona, Georgia, Colorado and California. They give federal candidates *what* \$440,000, of which nearly \$350,000 was controlled after American Continental Corp. of Phoenix purchased Lincoln Savings in February 1984. Keating is chairman of American Continental's board. Henkel listed American Continental, Lincoln and some related real estate ventures as recent clients on his personal finance disclosure form.

Please see Henkel, C4

Please see Keating, C4

The demagogues are demagogues

a very false impression to a certain extent

Charles Keating Jr. don't believe a close associate of anyone

not stopped the investigation already, Gray has enough information to be concerned. Their one-on-one battle is no secret, and other leaders in the savings and loan industry are worried about spillover into their arenas.

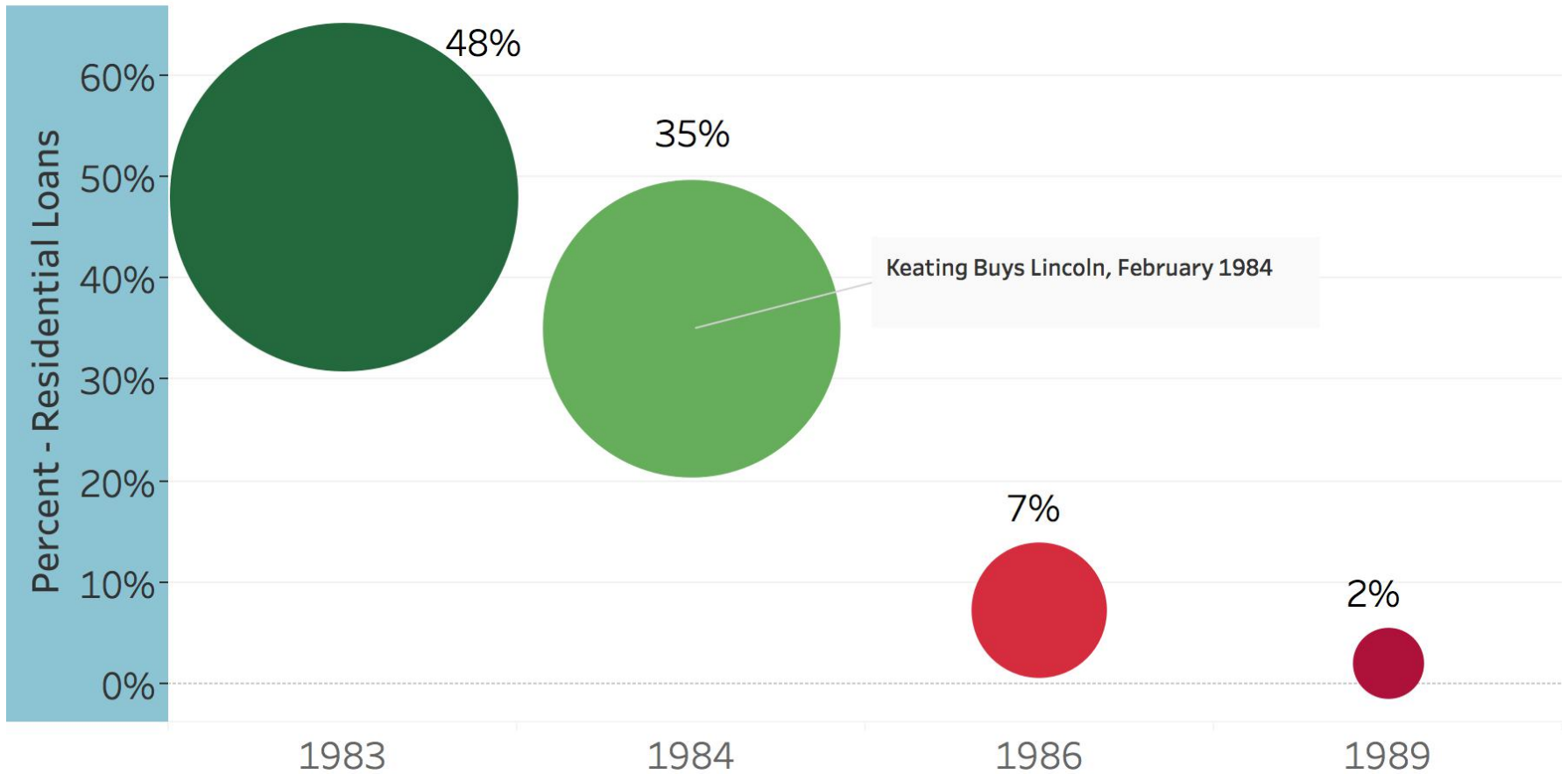
One of Gray's investigators informed him this fall that a preliminary investigation of Lincoln "has increased rather than allayed our initial concern."

Heavy and odd speculative investments in junk bonds, equity securities and partnerships. Possible violations of the direct investment regulation. Many transactions among entities and individuals affiliated with Lincoln or American Continental. Speculative trading. Rapid liability growth. Substantial operating losses, and dependence on non-operating (and possibly non-recurring) revenues.

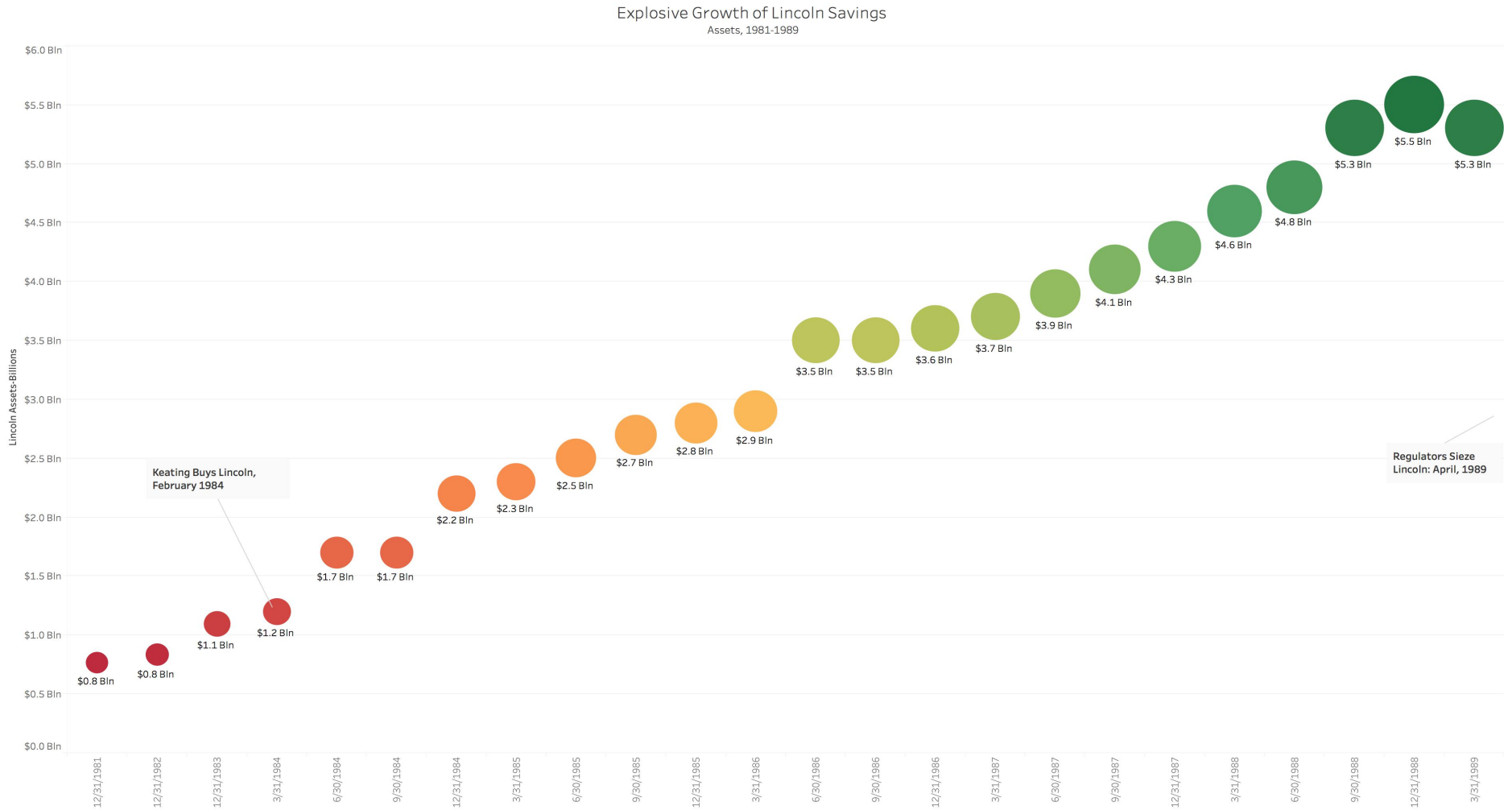
Gray, like Keating, is a workaholic able to focus with single-minded intensity, and the investigator's report has focused his attention on Keating. His ability to get the

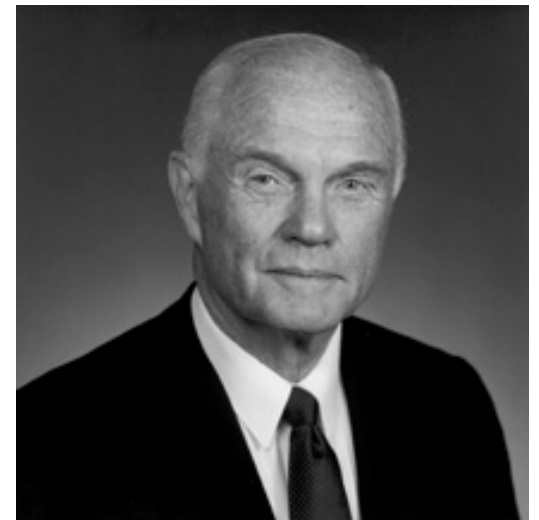
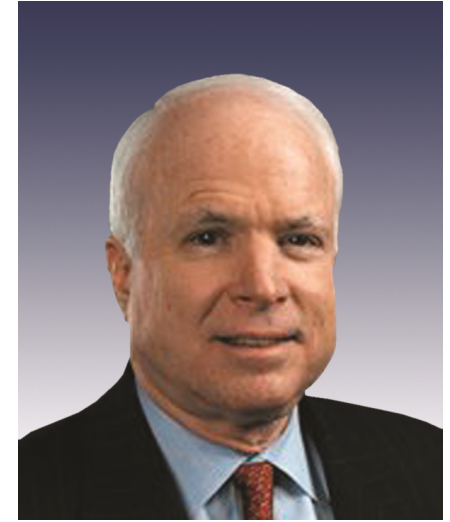
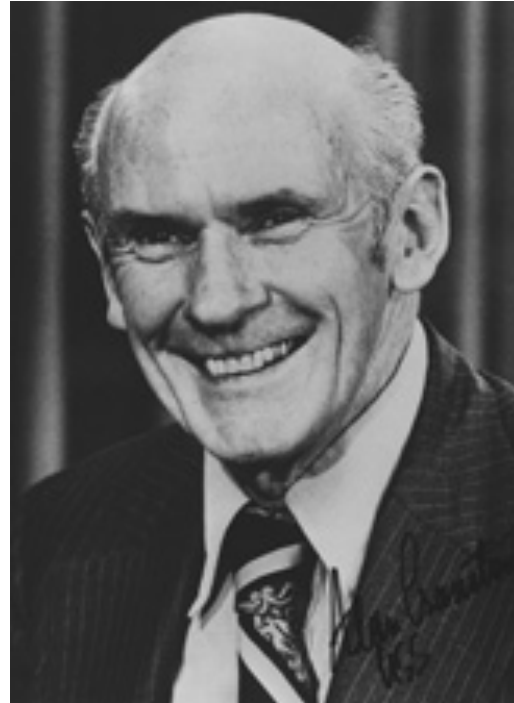
Lincoln Savings Stops Making Housing Loans

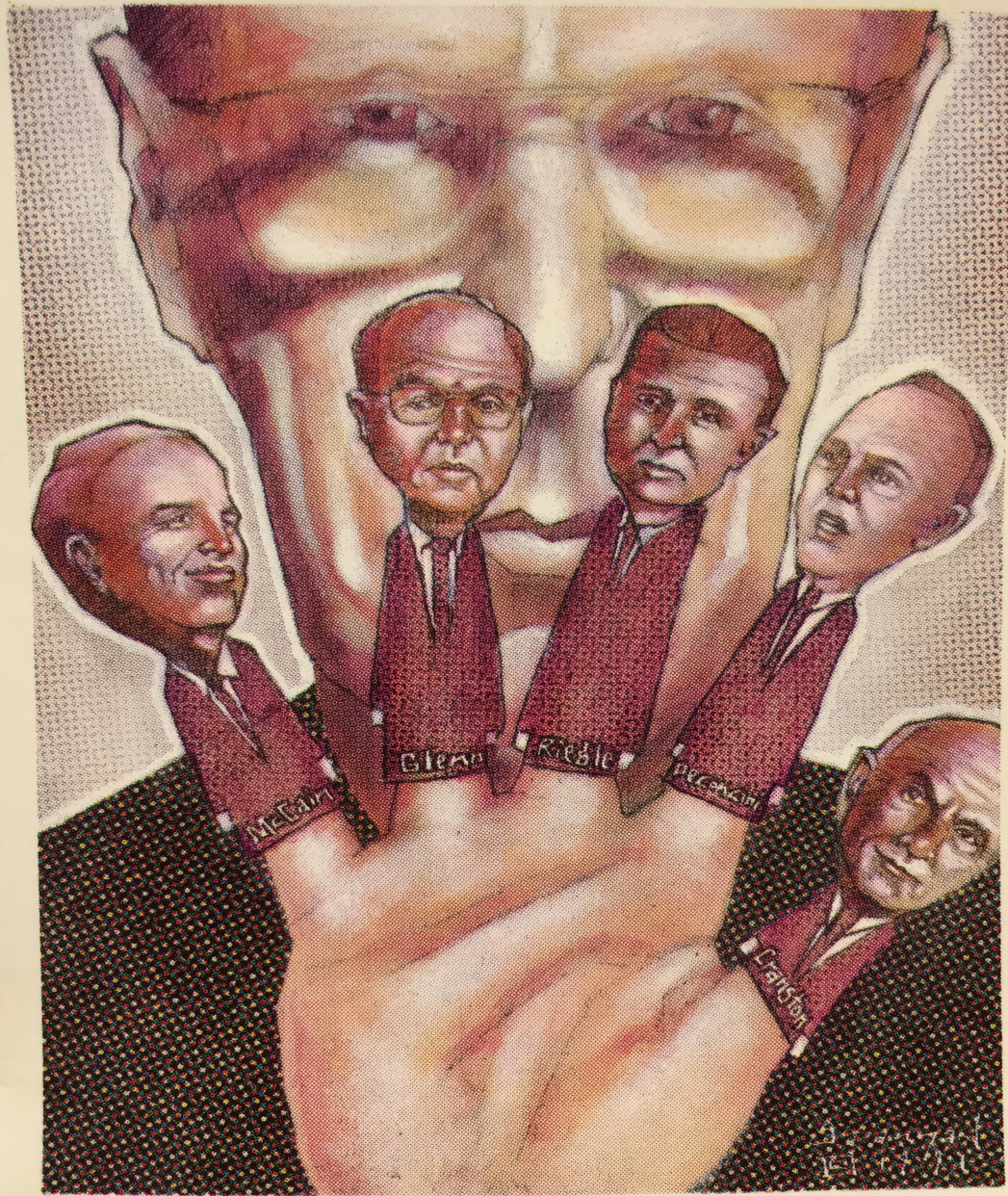
Source: Office of Thrift Supervision, Lincoln Savings



Lincoln Savings Asset Growth Explodes







FINGER PUPPETS

Keating's War on the Media

- 1980: Phoenix Gazette, Libel threat
- 1986: Arizona Republic. Libel threat
- 1986: West Valley View, Libel threat
- 1987: FBI, Media Leaks Probe
- 1987: FHLB Media Leaks lawsuit
- 1987: Mesa Tribune, \$11.8 Mln Libel suit
- 1987: Arizona Trend, \$35 Mln Libel suit
- 1987: Drafted \$75 Mln RICO suit, Binstein
- 1988: Phoenix Gazette, court fight over regulator interview
- 1989: Drafted \$20 Mln Libel Suit, KNPX
- 1989: FHLB leaders, Libel suit

got \$19,000 from Keating
their wives.

confidence in elected officials.

individual campaign

Max Jennings is executive editor of the Mesa Tribune.

Kelly
Sue The Bastards
\$1 billion
ex

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ILLEGAL DISCLOSURE FILE

Lincoln Savings & Loan Assc.

v.

Federal Home Loan Bank Board



U.S. Department of Justice

Criminal Division

Office of the Assistant Attorney General

Washington, D.C. 20530

FEB 13 1987

Professor Rex E. Lee
J. Reuben Clark Law School
Room 416
Brigham Young University
Provo, Utah 84602

Dear Professor ^{Rex} Lee:

In response to your letter of January 20, 1987, please be advised that we have requested the Director of the Federal Bureau of Investigation to assign agents to conduct a preliminary investigation of the allegations described in your correspondence. The investigation will be coordinated with trial attorneys of the Public Integrity Section of this Division.

We appreciate your offer of the assistance of your Washington office.

Sincerely,

William F. Weld
Assistant Attorney General
Criminal Division

SETTLEMENT AGREEMENT

This Agreement is made and entered into on the 19th day of October 1988, between Lincoln Savings and Loan Association ("Lincoln") and Trend Magazines, Inc. ("Trend").

WHEREAS, Lincoln has instituted an action against Trend in the United States District Court for the District of Arizona, Docket No. Civ. 87-1689 PHX-RCB (the "action"); and

WHEREAS, the parties wish to avoid the burden of further litigation;

Keating – Trump Parallels

- Real estate developers
- Family-owned business. Nepotism
- Appetite for excessive risk and leverage
- Love-Hate (and more hate) relationship with the press.
- Developer Rhetoric



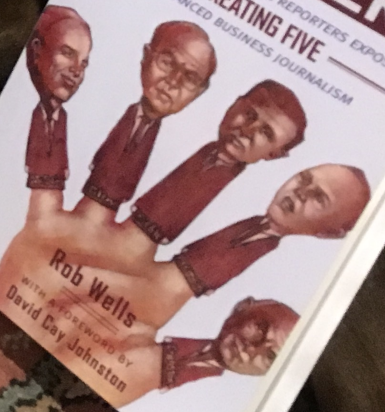
Lessons for Today's Digital Newsrooms

Autonomy, Innovation, In-Depth
Reporting

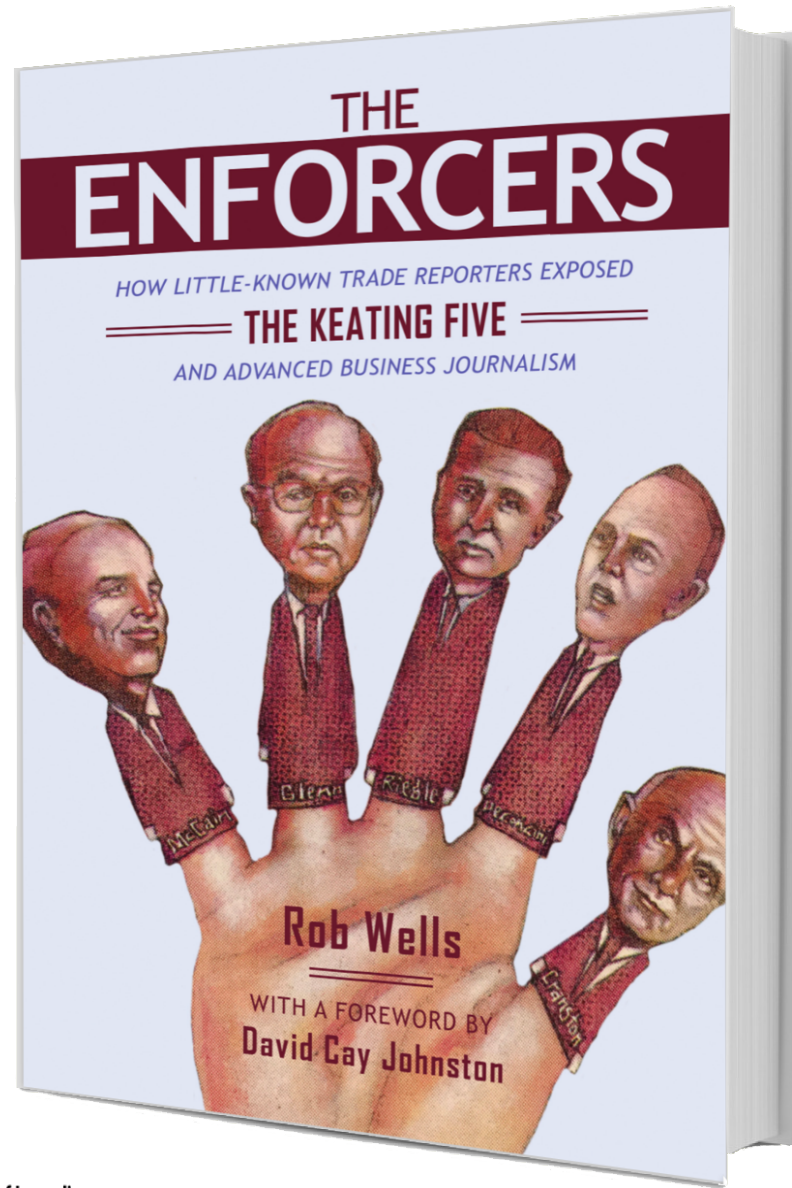


THE ENFORCERS

HOW LITTLE-KNOWN TRADE REPORTERS EXPOSED
THE KEATING FIVE
AND ADVANCED BUSINESS JOURNALISM



Rob Wells
with a foreword by
David Cay Johnston

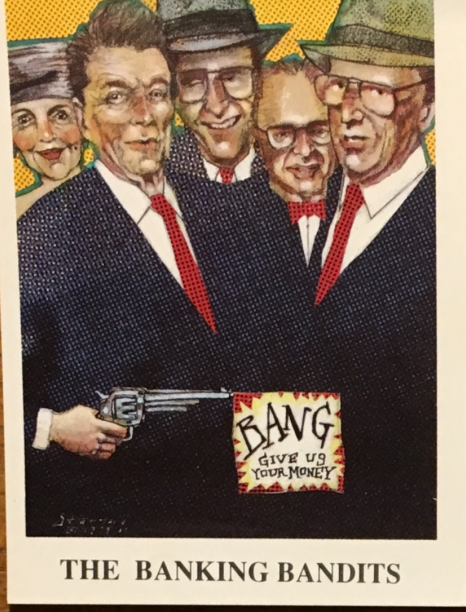


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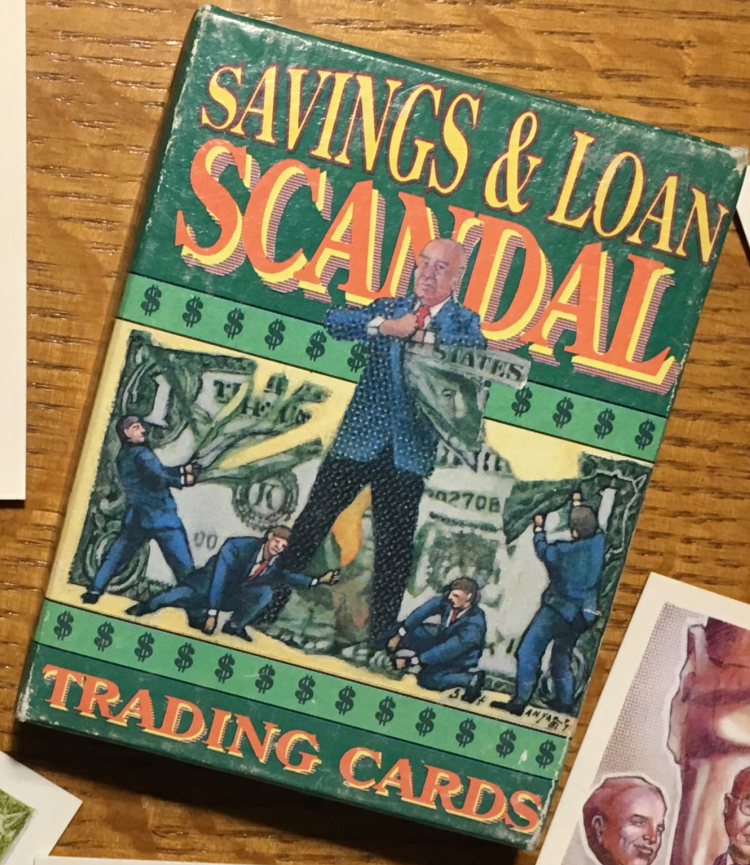
School of Journalism
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...KING ORDER



THE BANKING BANDITS



DUSTY



LEAD MY LIPS



THE FED

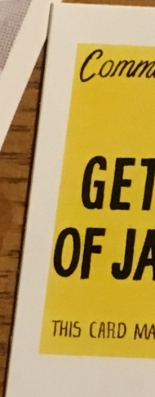


Jumbo
Junk
Jubilee

Big
Bond
Buys



FINGER PUPPETS



Comm...
GET
OF JA...
THIS CARD MA...

Faulkner & Gray's

1996
MORTGAGE
INDUSTRY
FORUM

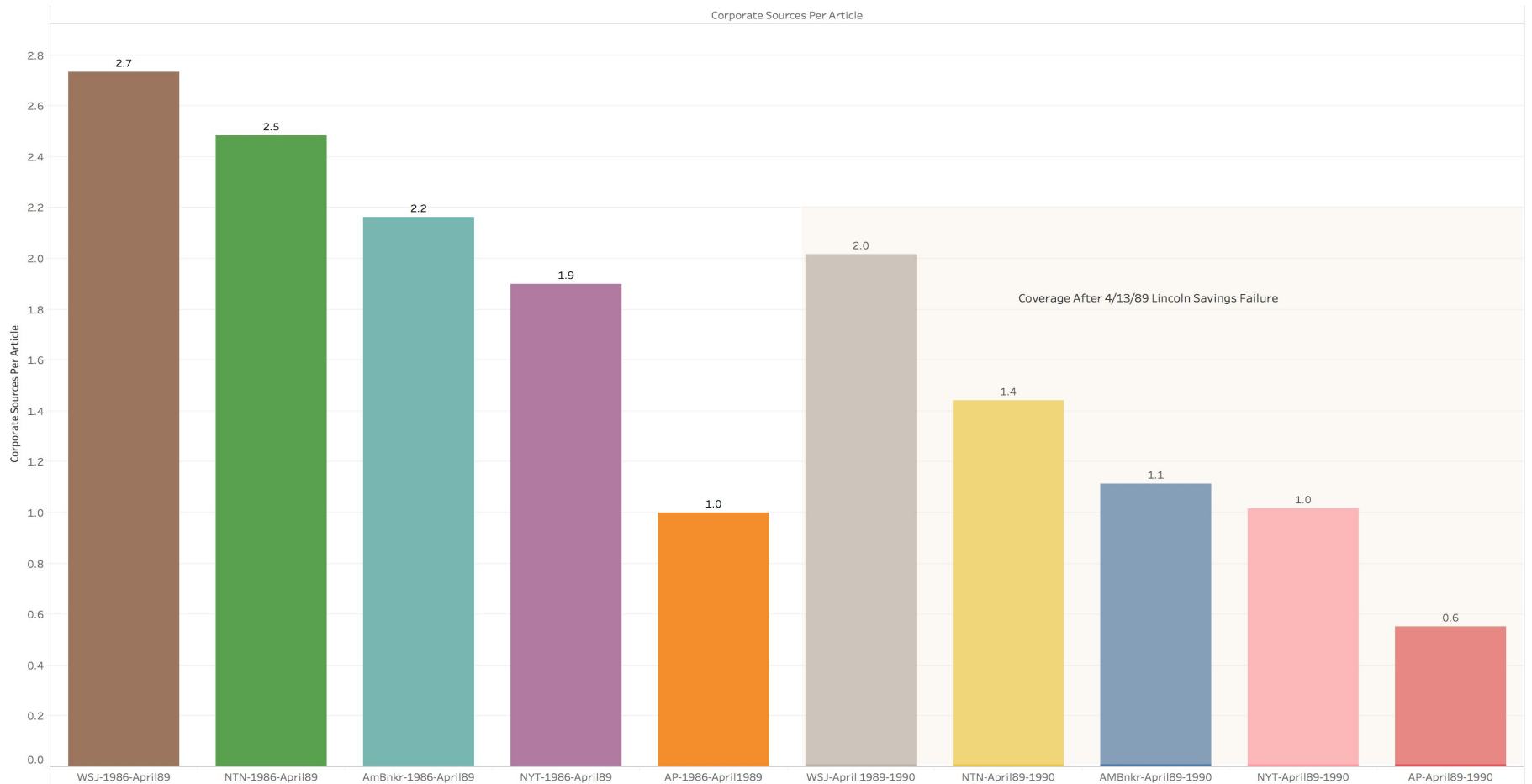


Industry Expert

Post Seizure, Corporate Sourcing Falls

Corporate Sourcing Falls After Lincoln Savings Failure

Corporate Sourcing Per Article
Before and After Failure of Lincoln Savings
Keating Five coverage from January 1, 1986, to January 1, 1990



Keating's Negative Press Surges After Lincoln Failure

Count of Negative Articles, Five News Organizations, 1986-1989. n=460

