Collapse of Lincoln Savings Leaves Scars for Rich, Poor and the Faithful

By Nathaniel C. Nash, Special To the New York Times

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Much has been made of the $2 billion that it will cost taxpayers to bail out Charles H. Keating Jr.'s Lincoln Savings and Loan Association. But for the people who were persuaded to invest their life savings in now-worthless securities, the cost is emotional as well as financial.

Many of them live in the retirement communities of California, where Lincoln was based, and when they look at the bright orange bond certificates of the American Continental Corporation, Lincoln's parent company, they feel duped, incensed and embarrassed.

''I am supposed to be retired,'' said Morris W. Rubenacker, a 68-year-old former contractor who put $75,000 into high-yield American Continental bonds. ''But now upon looking back, I'd call myself retarded for buying those things.'' Hungry for Cash

From 1987 to 1989, as American Continental was growing increasingly cash hungry to cover losses in development projects and land purchases, Lincoln customers say they were called at home by branch managers, told that their insured certificates of deposit were coming due and asked whether they would like to invest in higher yielding bonds that paid a monthly interest rate. And in the branch offices, tellers urged the bonds upon them.

Many of the 23,000 people who bought more than $200 million in American Continental bonds at the 29 Lincoln branches in California say they were told by smiling and bright-faced young bank officials that the instruments were either insured by the Government or the next thing to it, and that they were assured right up until the Government took over Lincoln last April that their investments were absolutely safe.

American Continental was in the Fortune 500, they were told, and Lincoln would support its parent company in any crisis.

But some of the victims are now saying that the Government should make good on their losses as well, citing the fact that Mr. Keating was permitted to sell the bonds on bank premises. Others are seeking damages from Mr. Keating himself, in class action suits. Lincoln's Ailing Parent

Both the Federal and California governments are conducting criminal investigations into the legality of the sales, asking such questions as whether unlicensed bank employees were selling the bonds, whether illegal bonuses were paid to the best salesmen and whether Lincoln concealed the true financial condition of its parent company.

What follows are four case studies, chosen to illustrate the cross section of investors - from the rich to those of modest means - who once trusted Mr. Keating and other Lincoln officials. The Truck Driver 'Bigger and Better' Turns to Nothing

Kenneth Ludwig had been banking with the Lincoln Savings branch in Santa Ana, Calif., for 24 years. Mr. Ludwig, a truck driver for the Prudential Overall Supply Company, a uniform cleaning outfit, had to retire at the age of 59 because of a back injury.

But he had managed to save almost $45,000, and had invested it in federally insured certificates of deposit at Lincoln. When he went in to renew them last year, the tellers asked if he wanted an investment that paid ''bigger and better interest.'' 'How Safe Can It Get?'

Mr. Ludwig was introduced to a young man named Peterson, he said, ''a real nice guy - I think he was an honest guy - who told me he had gotten his father into this deal for $3,000.''

''He said, 'How safe can it get?' '' Mr. Ludwig recalled. '' 'A.C.C. is the parent organization of Lincoln. There is no risk whatsoever. Lincoln is there to protect A.C.C. and you know Lincoln is under the F.S.L.I.C.' '' The reference was to the Federal Savings and Loan Insurance Corporation, which insures deposits up to $100,000.

Convinced, Mr. Ludwig proceeded to invest $30,000 in the A.C.C. bonds, and received monthly interest checks of $286. But in April 1989, when Lincoln was taken over by the Government, he found out that the bonds had become worthless and that he had lost two-thirds of his life savings.

''I can't believe I have done it,'' Mr. Ludwig said. ''It's humiliating. I have been working for 25 years and could not have imagined that I could have done such a stupid thing.''

He added that with the $30,000 loss, his plans to move with his 72-year-old wife, Loraine, into a retirement community have had to be scrapped and their monthly income has now been reduced by one-third to around $900.

Mr. Ludwig saves his harshest words for Senator Alan Cranston, the California Democrat who along with four other Senators met with regulators on behalf of Mr. Keating. The five, who are under investigation in the Senate, received a total of $1.4 million in contributions from Mr. Keating and his associates, with Mr. Cranston receiving almost $1 million of that amount.

After voting for Senator Cranston, Mr. Ludwig promises not to vote for him again. ''We counted on him,'' he said. ''I really thought the guy was a good guy and always stood up for the little man. I think he should be impeached.'' The Stockbroker Riding a Wave Up; Then the Plunge

Not all those who suffered losses from the collapse of Lincoln Savings were members of the working- or middle-classes. Some very large investors bet their fortunes on Mr. Keating and now regret it.

James D. Mussio, a 47-year-old broker for Queen City Securities in Cincinnati, says he lost half a million dollars on his investments in American Continental securities and that customers of his firm have lost almost $5 million.

For Mr. Mussio and Queen City, the loss is particularly bitter because his firm aggressively sold both American Continental common stock and other now-worthless securities, and now has clients suing.

''Not only have I lost money and my clients have lost money, but can you imagine what it is like the next time I call a client with another idea,'' Mr. Mussio said. ''They're not too quick to listen.'' Believing in Auditors

Mr. Mussio complains bitterly about the public accounting firms that gave their seal of approval to the financial statements of American Continental in 1985, 1986 and 1987. In saying that the profits that American Continental reported accurately reflected the true financial condition of Lincoln and its parent company, Mr. Mussio argues, the accounting firms betrayed their obligation to shareholders and the public. There was little he could have done, he insists, to detect the troubles at Lincoln apart from having insider knowledge.

''The C.P.A.'s are supposed to be the Bible, the Gospel as to the condition of a company,'' he said. ''They are the ones who say the numbers are accurate. How else are you supposed to be able to judge a company? If you can't believe in the auditors, what can you believe in? Then nothing is good.''

He added that during the years in which he was selling Lincoln stock and bonds, he attended shareholder meetings, met frequently with management officials in Phoenix, and was in personal touch with Mr. Keating, who repeatedly told him how well the company was doing.

''A lot of people in Cincinnati trusted Keating and rode his wave up and down,'' Mr. Mussio said. The Construction Worker 'A Little Mistake' And a Life's Savings

Rene Hugo Heimann, a 49-year-old construction worker who lives in Ceritos, Calif., lost $48,000 from buying American Continental bonds in his local office of Lincoln Savings. But unlike Mr. Ludwig's case, the money was Mr. Heimann's entire savings.

Mr. Heimann, a Bolivian-born naturalized American whose family fled Nazi Germany, had sold his home and took the proceeds in October 1987 to the Lincoln branch in Ceritos to invest in insured certificates of deposit. A Lincoln teller advised him to look into American

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Continental bonds.

"I was told that the bank backed up the bonds 100 percent," Mr. Heimann said. "They showed me a list of 30 companies that Continental owned and told me that if anything happens I would get my money back." He twice went to Lincoln officials when he heard there might be trouble with American Continental bonds, he said, but was told the reports were "a misprint in the paper, and that as proof of the company's health they had just bought another hotel in Phoenix."

While he could retire from his job within three years, after putting in 25 years of work, that is now impossible.

"The Senators say they made a little mistake," Mr. Heimann said, referring to the five lawmakers who are being investigated by the Senate Ethics Committee. "I make a little mistake at work and I am gone," The Nuns Embarrassment And Prayers

The swath of investment enthusiasm generated by Mr. Keating also reached inside the walls of the Sisters of Charity, a Roman Catholic order of nuns based in Cincinnati.

According to one official of the order, who asked not to be identified, an investment of $440,000 from the order's retirement money, which has to support 900 sisters throughout the country, was made in the mid-1980's by the order, at the recommendation of a group of local business advisers.

"We're not very happy with the situation," the official said. "We're praying everything works out."

One local businessman, familiar with the investment, said that the $440,000 did not represent a major portion of the order's resources, and was within investment guidelines.

He added that officials of the order were mainly embarrassed by its involvement with Mr. Keating, and have wanted to keep it quiet.

"The point is not that some little sister got taken by Charlie Keating," said one investment expert, who asked not to be identified.

Actions

Charles H. Keating
American businessman

Also known as: Charles Humphrey Keating

Written by Elizabeth R. Purdy

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Born: December 4, 1923 Cincinnati Ohio

Died: March 31, 2014 (aged 90) Phoenix Arizona

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Charles H. Keating, in full Charles Humphrey Keating, (born December 4, 1923—died March 31, 2014), American businessman best known for his role in the savings and loan crisis of the 1980s and ’90s, which resulted in the closure of about half of all savings and loan associations in the United States and the bankruptcy of the Federal Savings and Loan Insurance Corporation (FSLIC). Until the subprime mortgage crisis of 2007–08, the savings and loan crisis was considered to be the worst financial disaster in the United States since the Great Depression. Keating, whose criminal activity as the head of Lincoln Savings and Loan led to its spectacular collapse in 1989, became the face of the crisis. While studying business at the University of Cincinnati, Keating enlisted in the U.S. Naval Air Corps and trained as a fighter pilot during World War II, though he never served in combat. After his discharge in 1945 he returned to the University of Cincinnati, where he won a national collegiate swimming championship. He attended law school and established a successful legal practice, founding his own firm in Cincinnati in 1952. In the 1950s Keating gained a national reputation for organizing citizens’ groups to campaign against pornography and what he considered indecent literature.

In 1972 he left his law firm to become executive vice president of the American Financial Corporation, an insurance company. However, in 1979, both Keating and Carl H. Lindner, Jr., the head of the company, were charged by the Securities and Exchange Commission (SEC) with defrauding stockholders for having approved $14 million in loans to themselves and other officers of the company. Keating maintained his innocence but was fined.

In 1980 Keating moved to Phoenix, Arizona, and established a real-estate development company, which he called American Continental Corporation. In 1984 he acquired Lincoln Savings and Loan, based in Irvine, California. Within four years, Keating ostensibly increased the assets of the bank from about $1 billion to more than $5 billion. In reality, much of Lincoln's assets were fictional, having been created through deceptive accounting practices. In one such practice, Keating and his partners at Lincoln traded empty lots with other companies and listed the trades as profit-producing sales.

Compounding the damage caused by his accounting fraud, Keating invested two-thirds of Lincoln's federally insured deposits in junk bonds and other high-risk ventures. In the mid-1980s, when Lincoln began receiving unwanted attention from federal regulators, Keating appealed to a group of five U.S. senators to whom he had given large sums of money in campaign contributions. In 1987 the so-called Keating Five—Alan Cranston, Dennis DeConcini, John Glenn, John McCain, and Donald Riegle—duly intervened on Keating's behalf with the director of the federal agency that oversaw the operation of the country's savings and loans. Keating was apparently so sure that he would benefit from his influence with the senators that he boasted to reporters about his "bribes." The Keating Five were subsequently investigated by the Senate in a scandal that ultimately derailed the political careers of two of the senators involved.

In 1989, federal regulators finally took control of Lincoln, which by then was insolvent. Its collapse, which required the Federal Savings and Loan Insurance Corporation (FSLIC) to cover more than $3 billion in losses, was the largest of more than 1,000 failures in the savings and loan industry. The savings and loan crisis ultimately bankrupted the FSLIC and cost American taxpayers an estimated $124 billion.

Charged with multiple counts of fraud, racketeering, and conspiracy, Keating faced a series of trials in both state and federal courts. In 1991 he was convicted and sentenced to 10 years in prison, and two years later he was convicted on separate charges and sentenced to a prison term of 12 years, to run concurrently with his previous sentence. He was also forced to pay $156 million in fines, and the government auctioned off his home.

In 1996 a judge set aside Keating's state convictions, finding that the jury had been prejudiced by prior knowledge of Keating's affairs and that the trial judge had given the jury incorrect instructions. Later that year Keating's federal convictions were also overturned on technical grounds. In 1999 Keating pleaded guilty to wire and bankruptcy fraud but was not returned to prison.