

# CONVERGENCE

*The Christic Institute*

Fall 1990

One Dollar

Washington, D.C.

## S&Ls funded covert operations

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By RICK EMRICH

Fearful of the wrath of angry voters, politicians are rushing to minimize the fallout from the savings and loan scandal and to fix blame for the mess on anyone but themselves.

Republicans and Democrats alike were courted by S&L interests and pushed hard to deregulate the industry, ushering in what may become the biggest financial crisis in United States history. George Bush, who chaired the Reagan-Bush Administration's Task Force on Financial Regulation, was the executive branch's chief proponent of deregulation.

Many of these same politicians are now demanding a full investigation of the fraud, mismanagement and insider dealing which brought down the thrift industry.

However, politicians and the news media have almost entirely ignored evidence that covert operators, many of them part of Richard Secord's *contra* support enterprise, used thrifts and other Federally insured financial institutions to fund congressionally prohibited paramilitary operations, leaving taxpayers to pay the bill when the institutions failed.

The evidence suggests that S&L deregulation made it easy for the Secord enterprise to exploit the industry to fund its illegal *contra* resupply operation through sources outside Congressional control.

### Uncovered evidence

In late 1988 Christic Institute investigators uncovered evidence that drug traffickers used dozens of thrifts in several southwestern states to launder cocaine profits destined for the illegal *contra* war in Central America. In February 1990, the link between S&L embezzlers and the *contra* war was publicly exposed by *Houston Post* investigative reporter Pete Brewton. Since then, the *Post* has published a series of reports by Brewton detailing evidence that "at least 27 failed financial institutions—25 S&Ls and two banks—had links to C.I.A. operatives or to organized crime figures with links to the C.I.A."

Each of these financial institutions made "substantial loans" to individuals with links to the C.I.A., organized crime or both, the *Post*

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## RICO

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general" in cases where the Government is unable or unwilling to prosecute criminal charges.

*Avirgan v. Hull* is an example of a RICO lawsuit designed to fill such a "prosecutorial gap." It alleges that the racketeering enterprise used by Oliver North to arm the *contras* decided to assassinate Eden Pastora, a dissident *contra* commander, when he refused to merge his small guerrilla force with a cocaine-smuggling *contra* group controlled by the Central Intelligence Agency. A group of *contra* leaders and their private backers in the United States allegedly hired a professional assassin to plant the bomb that exploded during Pastora's press conference on May 30, 1984, in La Penca. The bomb failed to kill Pastora, but killed or wounded several reporters.

The Bush Administration is unlikely to bring the defendants to trial on criminal charges that they bombed a civilian target. Other charges raised in the Institute's lawsuit, including the systematic use of planes hired by the North enterprise to smuggle tons of cocaine into the United States, have never been investigated by the Justice Department. In fact, the Administration has blocked criminal investigations of *contras* and other clients in Latin America accused of drug trafficking.

"The RICO law, however, gives the plaintiffs in this case, Tony Avirgan and Martha Honey, the ability to sue racketeering enterprises and collect massive punitive fines if the allegations can be proved in court," says Christic Institute General Counsel Daniel Sheehan. "In effect, they are acting as 'private attorneys general' in a case that for political reasons the Bush Administration will never investigate."

H.R. 5111 would restrict the rights of citizens to sue similar enterprises under the RICO statute. In a rare legislative move, the bill would apply retroactively to cases now pending before the courts. "In the hands of a judge hostile either to RICO or to our lawsuit, the bill could be used to delay a jury trial for years," says Lanny Sinkin, litigation director of the Christic Institute. "Plaintiffs would then be involved in protracted and costly litigation. They might never see their day in court."

Under the current RICO law, a civil suit can be brought against all members of an "enterprise" responsible for causing damage to property or business. But RICO also allows plaintiffs who have been injured by an enterprise to sue not only defendants who allegedly caused the injury, but members of the same enterprise who committed other criminal acts.

For this reason, RICO is a useful tool for civil litigants in cases against S&L fraud. Plaintiffs have used the law to bring lawsuits not only against the individual officers responsible for bank failures, but also against the accountants who audited the books, appraisers who listed false values on property and companies responsible for securing S&L loans based on false information.

In their present form, the proposed amendments would restrict RICO lawsuits to "major participants" in the injury alleged by plaintiffs. That would restrict S&L cases under RICO to a small number of defendants, leaving others who may have committed crimes in connection with S&L fraud beyond the reach of the civil law.

According to legal scholars, retroactive application of a law is an unusual and highly offensive practice. In a recent opinion, Supreme Court Justice Antonin Scalia traced objections to retroactivity back to ancient Roman law. "The principle that the legal effect of conduct should ordinarily be assessed under the law that existed when the conduct took place has timeless and universal human appeal. . . . It has long been a solid foundation of American law."

### Potential conflict of interest in House committee

Members of the House Judiciary Committee who cosponsored H.R. 5111 had different reasons for supporting RICO "reform." One member, conservative Republican Bill McCollum of Florida, faces acute political embarrassment if *Avirgan v. Hull* goes to trial.

Recently released records kept by former National Security Council aide Oliver North show that McCollum and Republican Rep. Henry Hyde of Illinois, also on the Judiciary Committee, met with North and former National Security Adviser Robert McFarlane in March 1985 to discuss illegal plans to equip the *contras* through third countries. The "third-country" option was an attempt to circumvent the Congressional ban on military aid to the *contras* by pressuring foreign governments to ship weapons to the Nicaraguan rebels.

Christic Institute investigators have learned that McCollum's senior aide, Vaughn Forrest, was directly involved in the illegal *contra* resupply operation, at times conducting meetings for the operation in Congressman McCollum's office.

The Institute's investigation has placed Forrest in Costa Rica on the night of the La Penca bombing. He was meeting at a safe house in San Jose, the Costa Rican capital, with John Hull and Rob Owen, two defendants in *Avirgan v. Hull*. Hull has been indicted for murder in Costa Rica for his role in the La Penca bombing. He fled to the United States last year after his release on bail from a Costa Rican jail. Owen was North's liaison with the *contras*.

The retroactivity provision in H.R. 5111, which would apply the amendments to *Avirgan v. Hull* and other pending RICO cases, was narrowly approved by six votes to four in the Judiciary crime subcommittee. Voting in favor was Congressman McCollum.

At press time, the fate of H.R. 5111 and S. 438 was still uncertain. The quick action by Christic Institute supporters to oppose the bill derailed the H.R. 5111 in the House Judiciary Committee. A vote, originally scheduled in July, has been postponed. No vote has been scheduled in the Senate for S. 438.

"Our supporters must keep alert for an attempt to bring up these bills before the end of the current session of Congress," says Sinkin. "It is now possible we will be able to defeat entirely this attempt to abolish RICO under the guise of RICO 'reform'. If we succeed, our supporters can take credit for using their power as citizens to oppose successfully the powerful combination of lobbies that tried to push this legislation through without a public debate." □

**[For further information on how you can help oppose H.R. 5111, read the flyer attached to some copies of this issue, or call the Institute's Organizing Department at (202) 797-8106.]**

## SAVINGS AND LOAN

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reported. The owners of many of the thrifts had personal ties to the agency. In some cases C.I.A. operatives or mob figures with ties to the C.I.A. approved loans to their associates or obtained loans that were never repaid.

According to the *Post*, the Federal bailout of the 27 failed institutions could cost taxpayers up to \$75 billion. Fraud played a substantial role in the failure of each institution.

Both the Christic Institute's investigation and Brewton's investigative series suggest a direct connection between covert operations and the S&L crisis that can be traced back to the "off-the-shelf" enterprise targeted by the Christic Institute's Federal racketeering lawsuit, *Avirgan v. Hull*. This suit, now pending before the 11th Circuit Court of Appeals in Atlanta, charges that 29 defendants were participants in a criminal enterprise which ran a covert war against Nicaragua on behalf of the Reagan-Bush administration.

Filed six months before the Iran-*contra* scandal was made public, the lawsuit charges that Richard Secord's enterprise organized a paramilitary supply operation to arm the *contras* and smuggle drugs into the United States. Secord, a retired Air Force general, controlled the secret Swiss bank accounts where the profits from illegal missile sales to Iran were deposited.

Many of the Institute's charges have since been confirmed in Congressional testimony, Federal drug trials and government investigations. In 1988 the Senate Foreign Relations narcotics subcommittee released evidence showing that *contra* bases in Central America were used as staging areas for cocaine smuggling operations. Earlier this year the Costa Rican legislative assembly voted to bar several Iran-*contra* figures from entering their country—including General Secord and Oliver North—for their role in setting up the illegal arms-smuggling operation that was used to transport narcotics through Costa Rica.

The Institute's investigation showed that the enterprise has for years been engaged in a pattern of racketeering activity, including the use of contract agents and dummy corporations to finance illegal covert operations. Acting in defiance of Congressional prohibitions, the enterprise sought secret funding sources to ensure continued assistance to the Nicaraguan rebels. Proceeds from the sale of missiles to Iran were diverted to the *contras*, third countries were pressured to support the rebels, and drug traffickers who contributed to the *contras* were allowed to fly their supply planes back into the United States

loaded with narcotics. Savings and loan fraud is now revealed as yet another source for covert funding.

### Names surface regularly

Names of individuals and companies linked to the enterprise surface regularly at several failed lending institutions. Among the most familiar of these are Frank Castro, Farhad Azima, Adnan Khashoggi, Global International Airways, Southern Air Transport, and the Egyptian-American Transport and Services Corp.

The Institute's investigation shows that many of the same individuals who ran the guns-for-drugs operation for the Secord enterprise were involved in illegal transactions with S&Ls and commercial banks.

One of these figures is Frank Castro, a Cuban exile recruited by the C.I.A. to overthrow the Castro Government. The *Post* reported that he was part of a drug smuggling ring that purchased Miami's Sunshine State Bank.

Castro was arrested in 1983 by the Drug Enforcement Agency for smuggling 425,000 tons of marijuana into the United States. The drug charges against Castro were dropped in June 1984, after he began training *contras* at a camp near Naples, Fla.

Castro was an associate of Francisco "Paco" Chanes, another *contra* supporter and a defendant in *Avirgan v. Hull*. Chanes owned "Ocean Hunter," a Miami seafood

company whose boats were used to smuggle cocaine into the United States.

Both Castro and Chanes were recruited by Oliver North's network to assist the *contras*.

### Contributed to bank collapse

Another businessman who figures prominently in the Christic and *Post* investigations is Farhad Azima, a native Iranian who was both a director and major shareholder of the Indian Springs State Bank in Kansas City, Kan. Azima, who was closely involved with covert operations, took out loans that contributed to the collapse of the bank.

Companies owned by Azima borrowed more than \$1 million from Indian Springs. One of these firms, Global International Airways, reportedly was controlled by the C.I.A.

Global was an international air freight company specializing in the transport of military supplies. The firm's principal client was the Egyptian American Transport and Services Corporation (EATSCO).

EATSCO was run by the former C.I.A. operations chief Theodore Shackley and his deputy, Thomas Clines. Along with their third EATSCO partner, General Secord, they are among the principal defendants in *Avirgan v. Hull*.

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Faye Schenkman

## SAVINGS AND LOAN

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Global filed for bankruptcy in 1983. The Indian Springs State Bank collapsed in 1984, pulled down partly as a result of the money lost when Global failed. Global's bankruptcy case revealed that the firm owed money to another C.I.A.-related firm, Southern Air Transport, which the agency used to ship weapons to the *contras*.

Federal law enforcement sources told the *Houston Post* that an F.B.I. investigation of Azima's role in Indian Springs' failure was halted when the C.I.A. told the bureau that Azima was "off limits."

"I was told by the F.B.I. that Azima had a get-out-of-jail-free card," a source in the investigation told the *Post*.

### Washington bank tied to *contras*, organized crime

The *Post* found that a bank opened in Washington, D.C., by two businessmen with close ties to the intelligence community and organized crime provided funds and made loans to the *contras* and to their associates. Seed money for the new bank's operations was provided by Herman K. Beebe Sr., a Louisiana mob figure involved in the failures of at least a dozen S&Ls.

The two men behind Palmer National Bank were Stefan Halper and Harvey D. McLean Jr. The two men were officials in the 1980 Bush campaign for Vice President. Halper was the son-in-law of Ray S. Cline, the C.I.A.'s former deputy director of intelligence.

The *Post* reported that Palmer National "lent money to individuals and organizations that were involved in covert aid to the Nicaraguan *contras*" and transferred money to a Swiss bank account used by Oliver North for *contra* military assistance. Halper also helped organize North's legal defense fund, according to the *Post*.

While working on the 1980 Reagan-Bush campaign, Halper was implicated in the "Debategate" scandal in which confidential information from the Carter campaign was stolen and given to Reagan aides to help their candidate prepare for his televised debates with Carter.

Brewton came across the name of another Iran-*contra* funder, Saudi Arabian businessman Adnan Khashoggi, while investigating the failure of two thrifts in Texas.

The two thrifts, Lamar Savings of Austin and Mainland Savings of Houston, made loans to Khashoggi in a complicated land deal that left the institutions with a \$48 million loss that ultimately will be covered by taxpayers. Khashoggi's company came away from the deal with a profit of \$12 million and a \$5 million line of credit. Just a few weeks later, Khashoggi put up \$5 million to help finance the Reagan-Bush arms-for-hostages deal with Iran.

### 'Known money launderer' in Federal records

Robert Corson, a Houston developer under Federal criminal investigation in the failure of two thrifts, has also been identified in Federal law-enforcement records as a "known money launderer." He is a target of both the Christic Institute and *Houston Post* investigations.

A former C.I.A. operative told the *Post* that Corson frequently was used by the agency as a "mule," carrying large sums of money from country to country.

In 1986, Corson purchased Vision Banc Savings in Kingsville, Texas. Four months later, Vision collapsed after lending \$20 million dollars to a consortium of

## End of a dream

The savings and loan bailout has already cost taxpayers over \$50 billion. Government estimates of the final cost for the "rescue" of insolvent thrifts run as high as \$500 billion—an average of about \$5,000 for every taxpayer in the United States. Bush Administration officials have admitted that they do not really know how high the cost will go. However, it is certain the bill will burden the nation for several generations.

To put in perspective the economic impact of the S&L bailout, the estimated Federal deficit for 1991 is \$232 billion—slightly more than half the highest official estimate of \$500 billion for the rescue.

Since the mid-1930s, the savings and loan industry has represented a stepping stone for millions of Americans who dreamed of owning their own home. Since the New Deal S&Ls have been a secure and Federally-insured haven for their savings and a sympathetic source of financing for home loans.

But as the economy was shocked by Vietnam wartime deficit spending, rising energy prices and the declining worth of the dollar, S&Ls began to run into trouble. In a high-inflation environment, money markets promising high yields on uninsured accounts competed aggressively with the thrift industry, which could pay only the smaller interest rates required by Federal regulation. Depositors began to desert the savings and loan.

The Reagan-Bush Administration believed that "deregulation" of the economy would get the Federal Government "off the backs" of private business, ushering in a new age of prosperity. At the same time, Congress was pressured by the powerful S&L lobby to remove the burden of Federal regulation. As a result, both the Administration and the banking committees agreed on legislation designed to help the S&Ls compete. The institutions were now allowed to make high-risk investments and the Government no longer closely regulated the character of businessmen eager to buy into an industry that suddenly seemed to offer the possibility of lucrative profits.

The attraction of S&L ownership was sweetened further by the security of Federal insurance, which now guaranteed individual accounts up to \$100,000—an investment far beyond the means of the average saver. In effect, the Federal Government had begun to offer cut-rate accident insurance to sky-divers—and used U.S. taxpayers to underwrite the policy.

Speculators rushed into the industry. New thrift institutions sprang up overnight. When their risky loans failed—including the loans made by at least 27 thrift institutions and banks to front companies used by the Second enterprise to smuggle guns to the *contras*—they brought the industry down with them. □

investors—including several C.I.A. operatives and organized crime figures—for the purchase of 21,000 acres of Florida coast property. This one loan represented more than 20 percent of Vision Banc's total assets. About \$7 million in the deal went to a company with known ties to drug smugglers and drug money launderers, the *Post* said.

The loan was negotiated with the help of Lawrence Freeman, a lawyer and convicted drug money launderer. Freeman was counsel for Castle Bank and Trust, a Bahamian bank that laundered money for both the C.I.A. and the Mafia, the *Post* reported.

Freeman was also a business associate of the late Florida organized crime boss Santo Trafficante Jr. and had connections with one of the C.I.A.'s founders, Paul Helliwell. Helliwell laundered millions of dollars of Southeast Asian opium profits through Florida businesses during the late 1940s and early 1950s, according to independent sources.

### Silverado and Neil Bush

Another of the failed thrifts where Brewton found links with the C.I.A. and organized crime—Denver's Silverado Banking, Savings and Loan—has achieved notoriety because of its prominent link to the White House.

Neil Bush, third son of President Bush, was appointed to Silverado's board of directors in 1985, when his father was vice president. At the time, the younger Bush was 30 years old and had no expertise in the savings and loan industry. He sat on the board until his resignation in August 1988, one week after his father won the Republican presidential nomination. Silverado failed shortly thereafter.

Neil Bush's appointment to the board has all the appearances of an attempt by the S&L's principals to win influence in Washington. His failure to report conflicts of interest and his acceptance of questionable favors from Silverado business associates may lead to Federal sanctions against him.

According to the *Houston Post*, four of Silverado's biggest borrowers had business ties to Robert Corson or to convicted mobster Herman K. Beebe Sr.—the same man who provided the seed money for Palmer National Bank in Washington. Three of the four also had "independent business relationships" with Neil Bush.

### Another source of funding

A detailed investigation of the savings and loan debacle is likely to show that the Secord enterprise took advantage of loosened thrift regulations and used political muscle to turn S&Ls into another source of funding for their "off-the-shelf" operations.

But the few public officials who have tried to investigate the role of C.I.A. operatives in S&L fraud have met with resistance from the agency. In February, C.I.A. Director William Webster refused to appear before the House Banking subcommittee on financial institutions to discuss the C.I.A.'s role in the collapse of several thrifts. And in at least two cases the C.I.A. appears to have blocked Federal criminal investigations of alleged involvement by its agents in S&L and banking fraud.

The subcommittee's chair, Illinois Democrat Frank Annunzio, is himself under fire for backing thrift deregulation in the early 1980s. To check into the validity of the *Post*'s investigative series, his staff interviewed several of

Brewton's sources, including a former F.B.I. agent and a former Federal prosecutor who told the committee they were pressured to abandon investigations of C.I.A. operatives involved in S&L cases.

Early this year Annunzio asked C.I.A. Director William Webster to appear before a closed session of the subcommittee to address the allegations made by the *Post*. The C.I.A. responded with a letter characterizing the allegations published in the *Post* as "scurrilous and unsubstantiated." Webster refused to appear.

Annunzio later referred the allegations to the House Permanent Select Committee on Intelligence, which agreed to conduct an investigation. In a letter to the intelligence committee, Annunzio said he did not believe "a well-respected former Justice Department prosecutor and a former F.B.I. agent would make up something so serious as the C.I.A. charges."

The Intelligence Committee began a months-long preliminary inquiry into the allegations to determine if they deserved full hearings. The results of that inquiry, which began in March, have been delayed several times and are not expected to surface before Labor Day, Committee Staff Director Dan Childs has told the Institute.

**[Meanwhile, other legislators appear to be trying to block investigations of the savings and loan collapse. A proposed amendment to the Racketeer Influenced and Corrupt Organizations Act (RICO) would make it far more difficult for private citizens to use the courts to recover civil penalties in cases of S&L fraud. See the story on page 5 of this issue.]**

### Part of a pattern

The role of covert operators in the savings and loan collapse is best seen as part of a pattern of covert mechanisms to raise and disburse funds for paramilitary operations. Each of these mechanisms is different in detail. But the overall pattern that emerges—in the sale of arms to terrorists, the bartering of United States foreign policy, the importation of illegal narcotics and now the defrauding of Government-insured financial institutions—shows covert operators have little regard for the welfare of the general public. □

## ACTION BOX

### S&L crisis

We suggest our supporters write to the chair of the House Intelligence Committee to urge the committee to (1) schedule *public hearings* on the *Houston Post*'s reports on misuse of thrift institutions to launder money for covert operations, and (2) release of *public report* on the charges. The address: The Hon. Anthony Beilenson, Chairman, House Intelligence Committee, U.S. House of Representatives, Washington, D.C. 20515. □

