THE DAISY CHAIN

HOW BORROWED BILLIONS SANK A TEXAS S&L

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POCKET BOOKS
New York London Toronto Sydney Tokyo Singapore

POCKET BOOKS, a division of Simon & Schuster
1230 Avenue of the Americas, New York, NY 10020

ISBN: 0-671-73303-6

First Pocket Books hardcover printing March 1991

10 9 8 7 6 5 4 3 2 1

Printed in the U.S.A.

DESIGN: Stanley S. Drate/Folio Graphics Co., Inc.

ACKNOWLEDGMENTS AND SOURCES

Writing and reporting *The Daisy Chain* was a struggle and challenge that I could never have done without the support of so many friends, sources, colleagues, and a few scoundrels I met along the way. It would be impossible to thank everyone; some sources explicitly requested their names not be used. A thank-you in a plain brown envelope will have to do. There are a number of people who deserve more, though.

Doug Frantz of the *Los Angeles Times* gave invaluable advice and support. Allen Pusey, a *Dallas Morning News* reporter who truly broke the S&L story, helped, too. Nikki Murray, the world's nicest and best court reporter, took much time from her busy schedule to work on transcripts. Many thanks also to Commanche Campisi, my friend who taught me of Dallas and its wacky ways. Michael Kilian of the *Chicago Tribune* gave good advice and referred me to Dominick Abel, a literary agent in every sense of the word.

Not many journalists are fortunate enough to work with colleagues like mine at the *Chicago Tribune*. When I started this book, Jim Squires was the editor of the *Tribune*. By the time I finished, Jack Fuller had taken over. Both provided me with invaluable time and support, but Jack Fuller added understanding at a time when it was truly needed. I'd also like to thank F. Richard Ciccone, a managing editor who is a real class act, and Washington editor Nick Horrock. To many of my colleagues in the *Tribune* Washington bureau, I extend my heartfelt apologies for boring you with so many S&L stories.

I can't adequately express the gratitude I owe to Marja Mills, my good friend and colleague at the *Chicago Tribune* who did the original research for a series that I wrote on the S&L crisis. She read the manuscript and served as a soft voice of encouragement. This book would not have been completed without the help and enthusiastic support of Jane Rosenman, my editor at Pocket Books, who taught me how to write it. Special thanks, too, to Iowa Congressman Jim Leach, a man of integrity and intelligence who encouraged me to write about the mess in the S&L industry.

Most of the incidents and events in *The Daisy Chain* are based upon sworn court testimony or on-the-record interviews with participants. When there were discrepancies in elements of the story, I chose the version that seemed consistent with available records and sources. A few anonymous quotes have been used when they would not change the meaning or thrust of a passage. The quotes from the board meetings are based upon tape recordings of the actual sessions. I owe a great deal of thanks to many court clerks and government employees in seven states and numerous cities for helping me dig out the records. In some cases, individuals refused to be interviewed or I was unable to track them down. Don Dixon would not sit down for a long interview about the events in this book. That was too bad. I tried to reflect his perspective based upon depositions and testimony. Nevertheless, I still owe him: he gave me what every newspaperman lives for—a good story.

Lastly I'd like to thank my mother, Dorothy Hanley, for believing in me when few others did. And my deepest and most sincere thanks must go to my beautiful wife, Nancy, and Brian and Bridget O'Shea, two world-class kids. No amount of success will ever repay the lonely hours I spent without them while writing this book.

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1 Roots

The phone rang at R. B. Tanner's vacation home on Lake LBJ not far from Austin, Texas. It was early 1981. There was a bounce in the step of the man who took the call. At sixty-five, Tanner hardly looked his age. A youthful glow robbed years and wrinkles from his face. His wavy, silver hair shined like a 1964 quarter; his frame was sturdy as an oil rig. Yet the aura of youth couldn't hide the years of hardship in his brown eyes. Tanner's knowing stare dated him as surely as his old felt hat or the ribbed-cotton underwear that showed through his white dress shirt. He spoke with a slow, deliberate twang.

Tanner had picked cotton, shined shoes, pumped gas, and shod horses during a long journey from the son of a destitute sharecropper to the major shareholder and guiding force behind Vernon Savings and Loan, a thrift institution located about three hundred miles to the north of Austin in Vernon, Texas. Over the past two decades, he had built Vernon Savings into the cleanest little S&L in Texas—loan by loan, deposit by deposit, customer by customer. A deeply religious man with a keen eye for business, Tanner was as trusty as the local church bell. Folks around Vernon who placed their life savings in R. B. Tanner's vaults could rest assured that he wouldn't lend the money foolishly and that R.B. would always get repaid. "He carried a Bible in one hand and a butcher knife in the other," said Vernon resident Jack

Eure. At one time or another, it seemed as if every one of the town's 12,500 farmers, laborers, oil field roughnecks, truck drivers, and businessmen had passed through the doors of Vernon's only savings and loan seeking a place to stash or borrow some money. But Tanner had never met Donald Ray Dixon, the Vernon native whose voice he heard once he picked up the telephone.

At first, Tanner didn't know what to make of the call. He listened patiently as Dixon explained his roots in Vernon, how he had grown up there, left the little town for college, and had founded a highly successful building business in Dallas. Tanner had never set eyes on Dixon. Yet he was favorably disposed to the younger man. He remembered Dixon's mother, Frances, a kind, warm, handsome woman who had run a beauty parlor in Vernon. She had lived in Castlebury Park, one of Vernon's best neighborhoods. Like everyone else in Vernon, Tanner had heard of Dixon's father, too. An enterprising newspaperman and radio announcer, the elder Dixon had become a local legend with a noontime radio show that was literally the talk of the town. But W. D. Dixon had died at a relatively young age—years before Tanner had even moved to Wilbarger County.

Tanner soon learned that W.D.'s son hadn't called to reminisce about home. A few minutes into the conversation, Dixon said he was in the market for a savings and loan and had heard that Tanner might be interested in selling out. The subject caught R.B. off guard. It wasn't as if selling Vernon Savings was out of the question. Tanner had given it some serious thought lately. Over the past two decades, the savings and loan business had been good to him. Years of hard work had produced the rewards that a man of his era had come to expect in America—a nice home in Vernon, the vacation place near Austin, an Oldsmobile in good repair, and enough Vernon stock to make him a wealthy man. He had a devoted wife and a lovely family. But making good money in the S&L business was getting rough, particularly with the government's erratic economic policies. Interest rates were 12 percent one month, 18 percent another. Inflation raged like a summer storm. Things were no longer predictable. People had stopped putting their money in a savings and loan forever; they'd pull it out six months later to get a better deal in these money market funds, which were really unregulated savings and loans with no deposit guarantees. To Tanner's way of thinking, all of this was no good. It seemed excessive, greedy—the work of Satan. In just three months' time, Vernon Savings would post the first loss in the thrift's twenty-one-year history. Selling Vernon Savings definitely was not out of the question.

Yet Tanner didn't know what to say to Dixon. He had talked with his wife about retiring. He had confided in a friend who sold mortgage insurance that he might consider an offer—if the price was right. But the discussions had been vague. Nothing definite had come along to command his attention until this Don Dixon had surfaced with a proposal. It was funny. Dixon said all of the right things; it was as if he could read the older man's mind. After listening to Dixon for about a half hour, Tanner decided to take up the subject with his family first. His son, Ray, didn't display much interest in taking control one day. Maybe a possible sale would jar his thinking. Meanwhile, he'd hear Dixon out. "I didn't tell him I would sell it," Tanner recalled, "but I told him I would listen to his proposal."

Back in Dallas, Dixon hung up the phone. The conversation had gone well. The information passed along by the mortgage-insurance man was right; Tanner was interested in selling out. He hadn't said yes. But more important, he hadn't said no. Don Dixon had a lot of experience with people who didn't say no. He'd have a proposal at Tanner's front door within days.

At forty-three, Dixon looked every bit his age. A faint hint of the Indian blood on his father's side of the family colored his plump, tanned face. In appearance and style, Dixon was a Cuisinart cowboy, one of those Texans who mixed the old—western vests and cowboy boots—with the new—tailored western shirts and gold medallions that hung from the neck. He had curly, long hair and a thick mustache. Dixon stood just under six feet. He was not an imposing man by any means. His barrel chest and firm build made him look like an athlete. But he had never fared well in sports; he couldn't shake off a loss. His smile could be pleasant and friendly, but he had a cunning look in his eyes. He had a flair for art, home design, and music and affected a professorial air with the pipe he cupped in his hand. Yet Dixon was fiercely competitive in business and cut deals as fast as a snake strikes.

Like a lot of smart people, Dixon was a good listener. Friends marveled at his deftness and brains. "He had a mind and a memory that were unreal,'' said Gary Roth, who worked in a California loan office set up by Dixon. ''We had an office up at Solana Beach in a building where there were four small offices in a row. We'd have borrowers in each office, and Don would walk from one to another like he was a doctor calling on patients. The amazing thing was, he never referred to a piece of paper. He had all the deals in his head. He would walk into one of the rooms and say approve this one, move next door and say make the profit participation bigger in that one. These were three-million-dollar deals and up. I'd be fumbling around trying to find a piece of paper in a file, but he didn't need anything.''

Dixon had spent years around people like Tanner—slow, stodgy, conservative bankers whose idea of a big risk was a game of checkers. A decade ago their kind of thinking had nearly pushed him under. It had happened when he was in his thirties, on his second wife, driving a Mercury, and making it. A building business he'd started in his office at home had become a major player on Dallas's fast-paced real estate market. A bad recession hit in 1974, though, and bankers like Tanner had refused to ride out the hard times with him. Had they given him just a few extra months, things would have been fine; everyone would have made a lot of money. But no; they wouldn't take a risk. It was easy for people who played it safe to say he hadn't paid enough attention to piddling details. But where would America be without risk takers—entrepreneurs. It would be where Dixon ended up just months before the 1974 recession ended. Those crusty old bankers had forced him out of the construction company that he had led from nowhere to the No. 2 builder in Dallas. It was a bitter experience. But it wasn't a total loss. He had learned a valuable lesson: It was better a lender than a borrower be.

A few days after he had hung up his phone, a plane on the morning run from Dallas pulled up to the airport terminal in Austin. R. B. Tanner and his wife quickly spotted Dixon and Richard Little, one of Dixon's key aides. "He didn't come wearing a devil's hat,'' said Tanner. "He was low-key, very nice.'' The four Texans climbed into Tanner's car and soon were in the front room of Tanner's lake home, where Dixon delivered a sales pitch to buy Vernon Savings with characteristic charm and beguiling sincerity. "He knew all of the right things to say,'' recalled Mrs. Tanner. ''He said he knew how hard R.B. had worked and that he had never forgotten his roots in Vernon. He told us he could do wonders with Vernon Savings and do something for the people of Vernon at the same time. He was the smoothest-talking, coolest man. He said he wanted to run it the same way that R.B. had.''

Tanner said there was no hint of chicanery in Dixon's presentation. He came off as level as a church pew. ''You would just think that this is the guy who wears the white hat. He said he was looking for a savings and loan so he could be the lender instead of the borrower.'' Dixon told Tanner he wanted to keep all of the local Vernon folks on the board of directors, including R.B. himself.

Once Dixon left town, R.B. and his wife agonized over what to do. Don Dixon's proposal to buy Vernon Savings made a lot of sense. Thanks to Tanner's reputation and years of hard work, Vernon Savings took in far more in deposits than Tanner could ever prudently invest in a small town like Vernon. He needed other outlets for new loan business. He had two offices out of state and already had tentative approval from the state commissioner to open an office in Dallas. But Tanner's constitution wasn't what it used to be; he was getting old; he feared that he couldn't handle the strain of expanding the operation at Vernon. Maybe it was time to sell out to a younger man—one who knew the booming Dallas real estate market well enough to benefit Vernon Savings. Then again, Vernon Savings was his whole life. He had labored long and hard to make it what it was. It was more than a business—he had infused his reputation and very identity into the thrift. Tanner finally reached for the right answer by doing what he had always done in times of hardship and uncertainty. He bowed his head, took his wife's hand, and prayed. God would tell him what to do.

A few days after the meeting in Austin, Woody Lemons picked up the phone at the Vernon Savings home office. A local boy from nearby Crowell, Lemons had left a job at Shell Oil in Houston a decade earlier to return home and learn the S&L business at Tanner's knee. A practical man with an eye and ear for detail, Lemons knew from the echo in the line that Tanner's call was long distance. He also figured out that R.B. was seriously thinking about selling out; Tanner told Lemons to bring some important books and records from Vernon to an office on the LBJ

Freeway in Dallas. Tanner's prayers had been answered. The address was the headquarters of the Dondi Group, Dixon's real estate operation.

As he piled the ledgers and balance sheets in his car, Lemons could see what was coming, and he wasn't too surprised. Owning a savings and loan had been a dream deal for decades, particularly in Texas. From its very inception, Texas had been a capital-importing state with a voracious appetite for borrowed money. Part of the reason was the state's oil and cattle industries, both of which require a lot of upfront cash. Texans had a penchant for thinking big, too. Give a Texan a real estate license, and he'll soon be wearing a Rolex, chatting on his car phone, and thinking about changing his name to Trammell Crow, the legendary Texas real estate developer.

The state legislature was well aware of Texas traits when it passed the laws authorizing state-chartered savings and loans. To encourage a vibrant local industry, the lawmakers in Austin also passed liberal regulations that gave Texas S&Ls latitude to invest depositors' money in loans for a wide range of money-making ventures. By the mid-1970s, S&Ls like Vernon resembled money machines. The federal government, which guaranteed the safety of S&L deposits, didn't want financial institutions engaging in the kind of destructive competition for deposits that had characterized the Great Depression. So it adopted laws that limited the interest rates any federally insured S&L could pay depositors. Thanks to the liberal rules implemented in Austin, though, Texas S&Ls had a leg up on their counterparts in many other states.

It was an ideal situation. The government's guarantee of safety gave S&Ls a steady flow of incoming deposits from Americans seeking a secure haven for their savings. Meanwhile, federal interest-rate lids limited the major cost faced by most savings and loans—the interest rate paid to lure deposits into their vaults. But S&Ls chartered in Austin had it even better: They got deposit insurance by paying a minuscule premium to a government-backed insurance fund, but they could invest more of their federally insured deposits in ventures such as oil and gas loans, which carried a far higher potential for profit.

The legal anomaly created a Texas savings and loan industry that was more entrepreneurial but also more parochial in nature and spirit. Every once in a while, some faceless federal bureaucrat in Washington would frown upon the more liberal powers in Texas and try to crack down. But Texas S&L men would simply turn to their supporters in the state legislature. Pretty soon a bill would sail through the Texas statehouse preempting the Dudley Do-Rights in Washington.

One guy in Washington had even tried to threaten Texas financial institutions by restricting their right to deposit insurance in 1971. But Texas financiers showed him they knew how to handle someone who messes with their money. A sitting governor, the chairman of the state Democratic committee, and a slew of aides, all of whom had suddenly struck it rich on a lucrative stock investment, pushed a bill through the legislature providing a way around the federal efforts. An anonymous Texas lawmaker explained to the *Dallas Morning News* one reason why the bill had such strong support. It was hard to maintain a family, a big mortgage, three cars, a pleasure boat, and a small lake cabin on a legislator's salary: "It's hard to be pious because in all honesty I could use the money," he said in an article headlined "Honesty Isn't Easy."

By the time Lemons pulled into Dixon's parking lot in Dallas, though, even Tanner was having trouble making money in the S&L business. Federal efforts to contain inflation and deregulate the S&L industry had reversed the fortunes of the healthiest S&Ls in Texas. The government had removed controls from the interest rates S&Ls could pay to depositors so the savings industry could compete with the emerging money market funds. That meant people like Tanner had to pay savers interest rates of 12, 15, or even 18 percent to keep their money in his vaults. But even with the more liberal Texas investment regulations, they were earning only 6, 8, or 10 percent on the deposits; most had been invested in old fixed-rate home loans that wouldn't be fully repaid for decades. Tanner wasn't the only S&L owner thinking about selling out. Making money in an S&L was going to be a far different proposition in the future.

Lemons parked his car and took Vernon's books and records upstairs to Dondi's corporate offices in north Dallas. Dixon and some trusted aides such as Rick Ramsey started poring over the books while Lemons and Tanner answered questions. A CPA by training and inclination, Ramsey already knew about the interest-rate problems of S&Ls. But he didn't make too much of the ones on Vernon's books. Dixon had a game plan for Vernon

Savings, and Ramsey knew it. A bunch of low-yielding home loans buried in Vernon's portfolio wasn't the problem. The important thing was getting R. B. Tanner's signature on a piece of paper.

About a month after he had first called Tanner, Dixon pulled up in front of Tanner's four-bedroom, two-story home in Vernon with the big white columns. Even in February, R.B.'s beloved pecan trees spanned the large, spacious yard with grace and dignity. Dixon crossed Tanner's threshold and headed for the dining room, where he spread the papers across the table. As he and Tanner went over the deal, the phone rang. "It was a gentleman from Houston," said Tanner. "He called and asked me not to sign the contract. He was interested. He said please don't go through with this. But when I make a commitment, I honor it. Don Dixon was at our dining room table." Tanner signed the deal. Dixon had acquired his hometown savings and loan for $5.8 million in cash. The price was fair—about 1.4 times the association's book value. All that was needed to conclude the deal formally was approval from state regulators in Austin and their federal counterparts in Little Rock, Arkansas. But that wouldn't be a problem; Tanner had already received verbal approval from the authorities.

The contract that Dixon carried out of R. B. Tanner's dining room gave him a lot more than a savings and loan. In its current condition, Vernon Savings was no prize catch. But Dixon was looking toward the future. For a real estate developer, owning a savings and loan was about to become a mixture of bare necessity and golden opportunity. The big developers in the Dallas real estate markets had already hopped into the savings and loan business. Dixon and Ramsey had grown frustrated seeing competitors offer attractive financing terms from a captive S&L to get potential buyers into their homes and condos. But the competitive advantages of an S&L were nothing compared to the potential they held. Federal lawmakers were about to approve a sweeping financial deregulation bill that would make an S&L in the hands of a real estate developer resemble a federal mint.

Ever since he'd started building homes in Dallas, Dixon had scrounged around for capital. He'd tried outside investors, government loan-guarantee programs—the works. If he wasn't borrowing funds from his mother or some independent investor, he was over at the Republic Bank wheedling money from some loan officer at two over prime. It was a real chore. The loan officers at the banks belonged in the Kremlin; all they cared about was paperwork and reports. Being able to tap your very own S&L would change all that.

Under the rules being contemplated by Congress, a developer who picked up an S&L could continue to operate a development business. It was unbelievable. Why borrow money from a commercial bank at 2 or 3 percent over prime, which was then 15 percent? A developer who wanted to build a twelve-story hotel in Coconut Grove could simply have the S&L set up a development subsidiary and use FSLIC-insured deposits to fund the venture. It would cost him far less.

Old conflict-of-interest rules prohibiting savings associations from financing projects owned by their stockholders or officers didn't apply; the institution itself, not an individual or company owned by an insider, was actually the developer. In effect, the new rules would allow Dixon and several hundred others like him to treat federally insured savings and loans as if they were personal piggy banks, borrowing billions of dollars at bargain interest rates for all sorts of ill-conceived projects. Building hotels would prove the start of something big. Why not hunting lodges, too, or ski resorts, or golf courses? One could buy a boat. Why not acquire a whole town that was dry and make it wet for people who wanted to spend Sundays with Jack Daniel's instead of Oral Roberts? If religion struck your fancy, go build a church on spec.

Best of all, thanks to the Reagan administration and Congress, Dixon and his ilk would never have to worry about a shortage of funds. Even though it deregulated the industry, the federal government would continue to guarantee that all depositors in federally insured S&Ls would get up to $100,000 of their money back, no matter how the S&L had invested the funds. In other words, the government deposit-insurance fund bore all of the risk. And if depositors started pulling their money out, all the owner had to do was raise interest rates a little, and the funds would rush back in. Those fellows in the Reagan administration sure understood the free markets. They were Dixon's kind of guys.

A few months after the initial deal was signed, Tanner's phone rang once again. Only this time it was a disturbing call from Dixon. "He said he'd lost one of his financial backers and