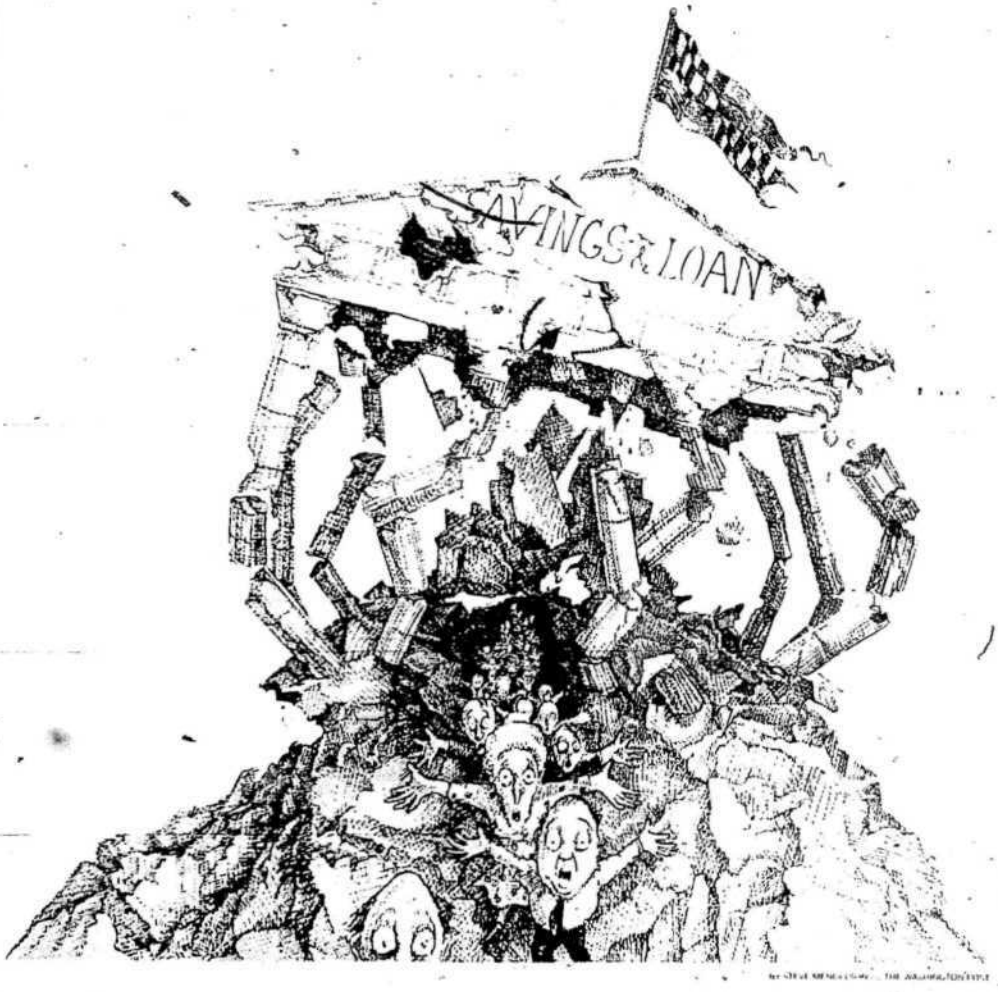
OUTLOOK

Commentary and Opinion

How Politicians Rise as Maryland S&Ls Fall



By Thomas B. Edsall and Alison Muscatine

WHATEVER THE FINANCIAL fallout from Maryland's savings and loan crisis, it is certain to write a new act in the long morality play that opened more than 20 years ago when a new "good government" reform wing of the Democratic Party began challenging "good ol' boys" who were treating politics as a vehicle for personal profit and gain.

More than the traditional struggle between Republicans and Democrats, the nonpartisan tug of war between spoilsmen and those who advanced their political careers by prosecuting corruption has determined the course of state politics for more than a generation.

Over the past 25 years, the balance of power in Maryland has shifted back and forth four times between reform factions and the patronage-minded group that sometimes stepped over the line. And throughout this period, the state's financial institutions and their regulators consistently have been in the thick of the action.

At the moment, the reform wing dominates state government, but the future of its leaders, Gov. Harry R. Hughes and Attorney General Stephen H. Sachs, could well hang on their handling of the savings and loan crisis.

"It is like history revisited," noted former Sen. Joseph D. Tydings (D-Md.), [illegible] his elective career breaking open a Maryland savings and loan scandal in the early 1960s.

Although it is impossible to pinpoint the exact date when the highly complex relationship between the politics of Maryland and the lending industry began, one of the most significant events occurred on Preakness Day 1959 at the Pimlico Race Track in northwest Baltimore.

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MARYLAND, From D1

There, two influential members of the Baltimore County Democratic machine met and discussed plans to form a company that would change Maryland politics. The two politicians, House Majority Leader A. Gordon Boone and House Banking Committee vice-chairman Charles F. Culver joined with out-of-state financiers to set up the Security Financial Insurance Corp., an underfinanced company that gave depositors in shaky savings and loans the illusion of financial security. The scandal that led to the demise of SFIC also precipitated the creation in 1962 of the Maryland Savings-Share Insurance Corporation, whose existence is now threatened by the latest Maryland savings and loan crisis.

When created, SFIC was the only state-chartered private commercial insurance company in Maryland, a position that allowed it to fraudulently drain money out of the state's unregulated savings and loan industry. The scheme also allowed elected officials and private investors in SFIC and in the savings associations to collect high premiums and legal fees for their services.

SFIC was the continuation of a time-honored Maryland tradition allowing politicians to enrich themselves and their friends at public expense. And the politicians who were involved in the scheme met a fate that also has become a Maryland tradition: They went to jail. At least 10 elected officials have followed this route in the last 20 years.

For two other members of the Maryland House of Delegates, however, creation of SFIC was a critically important step in the climb to higher office. One was Joseph Tydings, an intensely ambitious, white-knight reformer. The other was Marvin Mandel, a diminutive northwest Baltimore lawyer with an instinctive understanding of the connection between money, legislation and state regulation.

In many respects, Tydings and Mandel personified the fundamental conflict in Maryland between those who saw winning elections as a way to reform government and those who used government to help out their friends and backers. For more than 10 years, this theme dominated not only the politics of the state, but the politics of the state savings and loan industry, which is now facing a critical juncture for the second time in 25 years.

Concern about financial trouble at Old Court Savings and Loan Association in Baltimore County, one of the 102 state-regulated savings associations, and the earlier S & L crisis in Ohio, led to a run on deposits that threatened to engulf many of the savings and loans covered by the Maryland Savings-Share Insurance Corp. To prevent widespread collapse, Hughes has restricted withdrawals from MSSIC-insured savings associations and is seeking emergency legislation that completely revises state regulation of the industry.

One of the main players in the contemporary struggle has his roots in the early 1960s politics of Baltimore County and in the regulation of the lending industry. Attorney General Sachs, who is now leading the charge in the investigation of the thrift institutions, cut his teeth as an assistant U.S. attorney working for Tydings. And it was Sachs who conducted the successful 1962 prosecution of Gordon Boone on charges of mail fraud.

Just as the savings and loan scandal of the early 1960s propelled Tydings' career from the House of Delegates to U.S. attorney and finally to the U.S. Senate in 1964, the current chapter in the history of lending institutions in Maryland could determine the success or failure of Sachs' bid to win the governorship in 1986.

As if to underscore the continuity of savings and loan difficulties from one decade to the next, the firm of Washington attorney Edward Bennett Williams represents Old Court Savings and Loan, which has been taken over by state regulators. It was Williams who defended Alabama Congressman Frank ("Everybody Is Made For Love") Boykin (D), who was charged and convicted in connection with the 1960s Maryland scandal.

In the present crisis, Sachs has said his office "is considering an investigation of possible criminal misconduct in the general area of conflict-of-interest," referring to allegations of insider dealings by savings-and-loan officers. No individual has been accused.

The 1960s scandals, on the other hand, grew out of a lack of state regulation that invited profiteering and political manipulation and ended in indictments.

Just as Boone and Culver were setting up Security Financial Insurance Corp., a host of financial wheeler-dealers from as far away as Florida, Chicago, Idaho and Utah began setting up S & Ls in Maryland, the only state without regulation. In 1960, the height of the boom, 174 new Maryland saving and loan associations were chartered, six times the total for the previous decade.

Using promotional gimmicks ranging from TV sets to mink coats to draw in cash, 27 of the thrifts went to SFIC for insurance (and for the acquisition of some influential political contacts), while 329 others — the overwhelming majority — had no insurance whatsoever to protect depositors.

In the midst of the expansion, however, there were already strong signals that the industry was dangerously fragile, but regulatory efforts led by Tydings in the state legislature were blocked. One bill regulating the associations passed the legislature in 1960, but was vetoed by then-Gov. J. Millard Tawes. The next year, several bills went before the Ways and Means Committee, chaired by Boone, where subcommittee chairman Marvin Mandel, by then an attorney for several new savings associations, quietly weakened the thrust of the measures.

As S & Ls began to go under (in 1960, First Capitol Savings and Loan in Baltimore, which had advertised internationally and offered exceptionally high interest rates to attract deposits, went bankrupt) Tawes called a special session of the legislature in 1961 to enact reforms.

At the same time, Tydings was appointed U.S. attorney for Maryland. Almost immediately, his office initiated an investigation into charges that officials of SFIC and a number of savings and loans committed mail fraud by claiming that deposits would be well covered by insurance. One of the first assistants Tydings hired to help conduct the inquiry was Sachs, then just a year out of Yale Law School.

In quick order, SFIC folded, but Boone was reelected to the House of Delegates in 1962. When the legislative session began in January 1963, Boone was elected House speaker. Six weeks later, Boone, Culver and four other investors in SFIC were indicted by a federal grand jury on nine counts of mail fraud. Arrested on the stone steps of the state capitol in Annapolis, Boone gave up the speakership but, as his colleagues cheered him on, vowed to return to the powerful post once vindicated.

The next year, 1963, Tydings successfully prosecuted Congressmen Thomas Johnson (D-Md.) and Boykin on charges of conspiring to use their influence to persuade the Justice Department to drop its case against a business associate connected with the Maryland savings and loan fraud schemes.

In the process, Tydings gained extensive favorable publicity. Later that year, he resigned from the U.S. attorney's office to begin his successful campaign for the U.S. Senate. With Sachs stepping in as lead prosecutor, the Boone case was tried in 1964, culminating in a conviction and three-year prison sentence, of which Boone served 13 months.

The prosecution and Tydings' success at the polls marked a high point for the reform wing of the Maryland Democratic Party. It quickly began to go downhill. Once in office, Tydings did little to encourage other reformers to win lesser offices in Maryland, preferring instead to stay aloof from state battles. More importantly, however, the conviction of Boone created a sudden vacuum of power in the state, which was promptly filled by Marvin Mandel, the political antithesis of Tydings and Sachs.

Mandel replaced Boone as house speaker in 1964 and then, in one of the grand flukes of politics, became governor when Spiro T. Agnew left the post in 1969 to assume the vice presidency under Richard M. Nixon. Under normal circumstances, no one would have considered Mandel a serious gubernatorial candidate; but he was able to first win the post by vote of the state legislature where, as speaker, he controlled a majority.

While the reform movement waned in the aftermath of the savings and loan scandal, Mandel and some of his financial backers began to gain firm control of state government, through authority over consulting contracts, insurance of state buildings and projects, the allotment of race track dates and unbid "extras" on state construction projects. Working with Harry and William Rodgers, W. Dale Hess and Irvin Kovens, Mandel turned campaign fund raising into a powerful political weapon, scaring away potential opponents when he faced election in 1970.

It was in this context that the lending industry emerged again as a source of controversy. In 1973, a brief flareup developed over charges by George Delaplaine, a Frederick, Md., newspaper publisher, that investors in newly-chartered Francis Scott Key Bank in western Maryland sold shares to Hess and used the law firm of Mandel's son to gain favorable treatment.

A much more explosive scandal grew out of Mandel's unsuccessful attempt to appoint Joel Kline, a 31-year-old Montgomery County millionaire developer and major campaign contributor, as state banking commissioner. Amid protests from state senators, Mandel dropped the appointment.

The political culture revived by Mandel, however, proved to be fertile ground for the extravagant financial schemes dreamed up by Kline. By 1974, Kline (who later boasted "there probably isn't a white collar crime I haven't been involved in other than forgery") admitted to laundering money and bribing politicians in return for political favors.

Armed with thousands of 3-by-5 cards with names of his contacts, Kline became a lead government witness in the trials that led to the convictions of a prominent savings and loan president and Baltimore County Executive Dale Anderson. Kline told prosecutors that he laundered $25,000 for Anderson, who was convicted of extortion and income tax evasion.

In the continuing struggle between reformers and the patronage crowd, the ascendant Mandel organization was crushed in the mid-1970s by the U.S. attorney's office in an investigation conducted largely by Barnet D. Skolnik, a protege of Sachs. Skolnik was such an admirer of Sachs that he had developed a similar speaking style and hand gestures. The prosecutorial destruction of the Mandel wing of the Democratic Party was devastating, resulting in Mandel, Hess, Kovens and the Rodgers brothers all going to jail on mail fraud charges linked to Eastern Shore land deals, insurance contracts and favoritism to race tracks.

In the decade since then, the reform wing of the Democratic Party has dominated Maryland politics. Hughes, who resigned as secretary of transportation during the Mandel administration in protest, ran as a proponent of clean government and has held the governorship for two terms. Sachs, in turn, was elected attorney general in 1978, and now has his eye on the governorship. In Baltimore County and the southern third of Baltimore city, there are just the vestiges of the old-guard machine; in Baltimore County, the Republican Party is making gains.

In certain respects, the current fiscal crisis facing the state savings and loan industry reflects the continuing power of the reform movement in Maryland politics. Unlike the scandal of the early 1960s, there is no evidence to date of corrupt participation by high-level elected officials profiting from the regulatory process. Instead, the crisis appears to have grown out of the failure of the reforms of the 1960s to cope with the financial realities of the 1980s, and the potential for mismanagement to threaten the deposits of thousands of savers.

The current crisis does, however, illustrate the continuing link between the fortunes of the lending industry and of top officials. The political future of House Speaker Benjamin Cardin — a possible rival of Sachs in the 1986 Democratic gubernatorial primary — will be damaged by the mere fact that his cousin is a minority stockholder in Old Court Savings and Loan. For Hughes, who is considering a bid for the U.S. Senate seat held by Charles McC. Mathias Jr. (R-Md.), his political future is riding on his ability to deal with angry depositors unable to get their money out of S & Ls because of Hughes' emergency orders. Sachs, who won the attorney general's office as a proponent of consumer protection, now faces a severe test of that commitment. Like Tydings, his mentor nearly 25 years ago, Sachs may find the outcome of his bid for the higher office determined by his ability to protect the now-threatened depositors from financial disaster.

MARVIN MANDEL

JOSEPH D. TYDINGS

STEPHEN H. SACHS

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