

CASTLE GRANDE

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MEMORANDUM OF INTERVIEW

INTERVIEW OF JAMES T. CLARK	DATE OF INTERVIEW June 10, 1996	INTERVIEWED BY SA E.P. HUSOK/Sr. Attorney FRED GIBSON
INTERVIEW HELD AT Washington, D.C.	PEOPLE PRESENT N/A	

JAMES T. CLARK, National Bank Examiner, United States Office of the Comptroller of the Currency (OCC), Kalamazoo, Michigan Duty Station, was interviewed on June 10, 1996 by Special Agent E.P. HUSOK and Senior attorney FRED GIBSON. CLARK had been identified as the Examiner in Charge of the 1996 examination of MADISON GUARANTY SAVINGS AND LOAN (MGSL) that was conducted by the Federal Home Loan Bank Board (FHLBB). CLARK was advised that he was to be questioned concerning activities of MGSL he may have become aware of during the examination.

CLARK said that he was employed by the FHLBB from 1973 to approximately 1986 as a Senior Field Examiner at the FHLBB 6th District at Indianapolis, Indiana. From approximately 1986 to approximately 1989, he was administratively transferred to the Federal Home Loan Bank of Indianapolis and performed the same duties. After the enactment of FIRREA, his position was transferred to the Office of Thrift Supervision (OTS) in Indianapolis. In December, 1990, he left for private industry. In January, 1992, he began work with the OCC as a National Bank Examiner.

CLARK recalled the examination of MGSL commenced on the first business day after March 4, 1986. He stated that he was the Examiner in Charge of the examination and, as such, spent time on site at the institution. He said that a request letter would have been sent to the institution prior to the arrival of the examiners advising them of the pending examination. CLARK said that it was standard policy to set the "as of" date, that date on which any transactions or documents in institution files would be subject to review, would be the last day of the previous month. CLARK said that in this case that date would be February 28, 1986, and he believed that the request letter would have advised MGSL of that "as of" date.

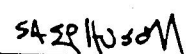
CLARK said that he wrote three approximately monthly interim reports and a final report detailing the findings of the examination.

CLARK was asked whether he was familiar with a purchase of property or assets referred to as IDC by MGSL or its affiliate MADISON FINANCIAL CORPORATION (MFC) from the examination. He stated that he was. He recalled that the IDC was an independent developer that owned property, some industrial buildings, and a water and sewer system south of Little Rock. He also recalled that there were some non-contiguous parcels held by IDC. CLARK said that he understood that by the mid 1980's, the industrial development was not doing well, and that MADISON purchased it as a part of a workout agreement. CLARK said that, as an entity of MADISON, he knew the entire IDC property that had been purchased as CASTLE GRANDE.

CLARK said that soon after the examination began, he observed from institution records that a lot of loans were being made in the area directly surrounding MGSL, the QUAPAW Quarter. CLARK said that when loan

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files began to be reviewed, it was noticed that many of the requisite documents, such as down payment and disbursement documents were not in the files. He said that it was decided that a project known as 1308 Main Street was chosen for a review. He said that a number of relevant loan documents were not in the file, so they began to track down the information at title companies, and by reviewing the check processing system. He said that the review of the financial situation disclosed a "series of flips" of the property.

CLARK said that from what he had seen in the first three weeks of the examination, he developed a theory concerning the operation of MGSL. He said that he considered it a "ratchet and house rake off" scheme, by which deposits were put into development projects, the profits from sales were booked, allowing the institution to increase its net worth, obtain more deposits and continue the cycle; while at the same time, institution insiders had money flowing to them through other institution entities.

CLARK said that to test the theory, CASTLE GRANDE and the developments known as MAPLE CREEK, and 12th and MAIN were chosen for review.

CLARK said that he was familiar with subsidiaries of MGSL, such as MFC and MADISON REAL ESTATE. He said he was initially advised by people at MGSL that the subsidiaries were actually separate companies owned by people he had come to believe were insiders.

CLARK said that when he tried to locate corporate records of the subsidiaries at MGSL, as he would have suspected them to be maintained, he found that he could not. He stated that the search was expanded to sources outside of the institution, trying to trace a money flow to insiders. He said that he found indicators that the subsidiaries were "shams...shells... no real existence." He said that at a May 29, 1986 management conference attended by MCDUGAL, see below, he advised MCDUGAL that the subsidiaries could represent a conflict of interest, and was then told by MCDUGAL that the subsidiaries were really MGSL entities, so that in dealing with the subsidiaries, MGSL was in effect doing business with itself.

CLARK said the first interim report done by the examiners in approximately early March, 1986 was substantive and reported these and the other findings made to that date.

CLARK was asked why he dealt with MCDUGAL on questions concerning MGSL when MCDUGAL had ceased to be an officer of MGSL subsequent to a 1984 examination of MGSL by the FHLBB. CLARK said that MCDUGAL had not been removed by the FHLBB, was still the primary stockholder in MGSL, and had stayed as President of MFC. CLARK said that although he was not able to ultimately pierce the corporate shell among MGSL and the subsidiaries, his contention was that MCDUGAL and the HENLEY's were the controlling group at MGSL.

CLARK said that, at least for the May management meeting, he requested that MCDUGAL attend. He said that at an April 11, 1986 management meeting, see below, someone from the institution may have requested that MCDUGAL attend.

CLARK said that he was familiar with JOHN LATHAM as the President of MGSL, and had met with him on a regular basis during the examination. He said that he felt that LATHAM spoke on behalf of MGSL, but he believed that decisions were made by MCDUGAL.

CLARK was asked if he was familiar with SETH WARD. He said that he was. He said that he believed that WARD may have acted as the go between with MFC and MCDUGAL for the purchase of CASTLE GRANDE.

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He said that he was also aware that WARD had acted as a "straw" buyer of CASTLE GRANDE property on behalf of MFC.

CLARK was asked what he meant by a "straw" buyer. He said that a straw buyer is a "buyer who has no real monetary or other interest in the property but who is acting as a front for the real purchaser who does have an interest."

He was asked what banking regulation would be violated by a "straw" purchase, and said that it would be a violation if it caused false loan documents to be produced. He said that it would depend on the specific loan, and said that he did not believe that MGSL was cited in the 1986 examination for "straw" purchases singularly.

CLARK was asked what banking regulation would be violated by the institution in utilizing a "straw" buyer. He said that general regulations addressed a transaction with an affiliated person, and that a specific regulation called for all transactions to be executed with the safety and soundness and best interests of the institution in mind.

CLARK was asked if he had encountered "straw" purchases at any of the examinations at other institutions that he had examined and said that he did not believe that he had.

CLARK was asked whether he was aware during the MGSL examination of any restrictions on direct investments in subsidiaries by the institution. He said that there was a direct investment restriction on federally chartered thrifts, which MGSL was not. He recalled that at some time during the examination he learned that there was an Arkansas state restriction on direct investments.

CLARK was asked if he recalled the issue of potential direct investment violations coming up in the MGSL examination. He recalled that had MGSL purchased CASTLE GRANDE directly, they would have exceeded their direct investment limit.

CLARK was asked what effect violating a state regulation would have on a federal examination. He said that internal FHLBB procedures called on an institution to be in compliance with state regulations. He said that violating the state regulation would mean that the institution was not operating safely and soundly.

CLARK was shown a copy of April 30, 1986 handwritten notes titled "Reconciliation of Service Corporation Investment". He recognized the handwriting as his. He was questioned concerning a note at the bottom of the page that indicated that MGSL was not subject to the state direct investment limitation, but that there apparently was a state restriction limiting the allowable investment to 6% of gross assets. The note also indicated that LATHAM reported that the state limitation had been waived at MGSL by state authorities.

CLARK said that he did not specifically recall the reported conversation with LATHAM, but did recall attempting to track down the ARKANSAS regulation. He said that if he had been told that the state regulation had been waived he might ask for documentation, but could not recall if he had done so in this matter.

CLARK was asked why an institution might use a "straw" purchaser when it is lending all of the money and said that avoidance of direct investment regulations could be one reason. CLARK was asked if he was ever told that the CASTLE GRANDE purchase was structured to avoid a direct investment limitation and said he had not been. He said that if he had mentioned direct investment in one of the interim or final examination report,

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it would have been because someone told him or that he had seen it in institution records.

CLARK was shown a passage from page 11 of the May 8, 1996 interim report that read that "Ward apparently warehoused this land to reduce Madison Financial's investment and the attendant borrowing from Madison Guaranty. In this way, limitations on Madison Guaranty's investment in its service corporation are avoided." CLARK said that was consistent with recollection of WARD's role in the purchase.

CLARK said that by the time of the May 8, 1986 interim report, the examination had determined that the three projects that had been under review would seriously impair the net worth of the institution.

CLARK said that in the initial stages of the investigation, he had decided that the examiners would not seek direct responses to questions or advise of concerns that they had for fear that records would be hidden or destroyed if the areas they considered problems were evident to institution personnel. He was asked if he had any specific knowledge of documents being hidden or destroyed at that point and said he did not. He said that they had some trouble in obtaining requested loan files, and suspected that documents may have been added or removed. He repeated that he had no specific recollection of documents being hidden or destroyed, but recalled that some files were so devoid of documents that he questioned why all of the information was missing. He also recalled feeling that if the documents existed, they were never put in the file and he questioned whether an institution that would not comply with basic regulations might remove or destroy files that were present.

CLARK was asked if there came a time when he thought the examination was being obstructed. He said he had no specific recollection, but that it was just an accumulation of incidents involving dealing with MGSL management when he felt he was being lied to.

CLARK said that after the May 8, 1986 interim report, he decided to shift the manner of conducting the examination to more direct contacts with MCDUGAL and LATHAM about what their concerns were and what areas they were interested in so that their reactions could be noted. He said approval to do so required quite a bit of negotiation with the FHLBB in Dallas, Texas, who oversaw MGSL, because there was a restriction in place at that office at that time on discussing loan classifications with institution personnel prior to FHLBB supervisory personnel signing off on the examination reports. He said he was eventually authorized to discuss the classifications at the institution as long as it was made clear that the classifications were tentative.

CLARK was shown a copy of a May 29, 1986 file memorandum from him concerning a management meeting he reportedly held on that date with MCDUGAL and LATHAM. At page one of the memorandum, CLARK wrote that they discussed his primary concerns in the examination; losses on real estate development projects, and substantial payments to apparent affiliated persons or affiliates. The memorandum further indicated that MCDUGAL and LATHAM were advised that "We were recommending losses under the asset classification regulations that exceeded Madison's net worth on just the three projects reviewed to date."

CLARK was asked if he thought that there came a time during the examination when officers or employees of MGSL may have reasonably believed that there was a possibility that the institution would be closed or that certain officers or employees would be removed.

CLARK said that by early May, 1986, he believed that some people were getting "antsy". He said they had not drawn any conclusions, but that they were asking questions of people in the institution. CLARK referred to a copy of handwritten notes he had made while the examination was underway. In an entry dated May 12,

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1986, he wrote that LATHAM had questioned him as to how long the examination would continue, and when the examination could be discussed with management. LATHAM reportedly told him that employees felt frustrated that there had been no general grading of the association by the examiners, and that two had threatened to quit.

CLARK also noted the May 29, 1986 management meeting reported in the memorandum of that date. He said that he might not have said that the institution was in bad shape or that supervisory agents might take action, but felt that having pointed out that the three projects reviewed were classified as losses greater than net worth rendering the institution insolvent, and that they "certainly by May 29 knew" the institution was "in serious trouble."

CLARK said that at that time, closings or removals were occurring at institutions. He said that the regulation enabling examiners to classify loans had come into being in late 1985, and that examiners were using the regulation to render institutions insolvent. He said that the use of that regulation was the genesis of the FHLBB Dallas directive against discussing classifications with examiners.

CLARK was asked who at MGSL at that time might have reasonably expected a possibility of removal and he replied LATHAM and MCDUGAL. He was asked whether he thought Chief Loan Officer DON DENTON might have the same concerns and he said that it was possible. He also said that at some point, probably in June, 1986, the institution received a letter from the FHLBB Supervisory Agent advising them that a meeting would be held in DALLAS on July 11, 1986.

CLARK was questioned about a reference at page three of the May 29, 1986 memorandum stating that "Latham stated that a subordinated debt issue had been held back because of the difficulty in finding an underwriter for such a small issue (\$3 to 4 million)".

CLARK did not recall the statement in any more detail than reported in the memorandum. He said that he recalled that MGSL planned to increase its net worth by growing the institution, but that regulations required greater capital first. He said that he believed that the debenture issue may have been discussed with FHLBB Dallas previously, and that the institution may have submitted a growth plan or business plan in furtherance of the plan.

CLARK was asked if he was aware of any previous plans by MGSL to raise capital. He recalled that MGSL considered a number of ideas, "none practical". He said that it was his belief at the time of the examination that the plans were an attempt to forestall supervisory action of one type or another so that more funds could be diverted from the institution. CLARK stated that the longer the "meter runs" in a "ratchet and rake-off" scheme, it would be in the "McDougal/Henley group's interest to keep it running because the longer it ran, the more money out" and that "delay for them" was "a tactic that could be used".

CLARK was asked if he recalled any law firm working on any such capital raising issue for MGSL and said he could not. He said that if he had been told about attorneys working on such an issue he may not have considered important to note the attorney's names.

CLARK was asked if he recalled any discussions with state regulators in any of the capital raising plans. He said he could recall no such discussions.

CLARK said that at some time after the May 29, 1986 conference with LATHAM and MCDUGAL, he

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forwarded the "as of" date to April 30, 1986, bringing into the scope of review transactions and documents first at the institution after February 28, 1986.

CLARK was shown a copy of a letter dated June 3, 1986 letter that he wrote to LATHAM requesting documents that had previously been requested by the examiners in the May 29, 1986 management meeting. CLARK said it was consistent with his recollection that by that time he had decided to make requests for information in writing.

CLARK was shown a copy of a June 5, 1986 letter from LATHAM to him. CLARK recalled the letter. In the letter, LATHAM referred to the June 3, 1986 CLARK letter, above, and said that some of the information CLARK had provided had already been provided to, and was in the possession of, the examiners. In the letter, LATHAM also referred to a May 21, 1986 discussion with CLARK wherein CLARK had reportedly said that he had not received all of the information requested, and asked that CLARK provide him a list.

CLARK was also shown a copy of a June 6, 1986 letter from LATHAM to him wherein LATHAM requested, among other things, that CLARK provide him a list of all sales at CASTLE GRANDE that were "straws".

CLARK recalled the letters. He said that he responded to those letters in a June 10, 1986 letter to LATHAM. In that letter, which CLARK was shown, he advised LATHAM, among other things, that he intended to send him two letters requesting additional information, the first of which would involve the three projects that had previously been reviewed. CLARK said that he did not want to provide LATHAM with the information concerning which transactions he thought were "straws" to LATHAM for fear the loan files could be doctored.

CLARK said that by that time, he had decided to go to written request of LATHAM rather than verbal because the responses from MGSL kept changing. CLARK also said that at that time he was still waiting to get authority to discuss the classification issues with MGSL management. He said LATHAM was becoming more aggressive questioning what documents the examiners wanted, why they wanted them, and what conclusions they were coming to. He said that he believed that LATHAM wanted to know what conclusions the examiners were coming to so that they could contact FHLBB Dallas directly on issues in contention.

CLARK was shown a copy of a June 17, 1986 letter from him to LATHAM wherein he requested specific information, including information concerning a number of CASTLE GRANDE related loans. CLARK recalled the letter. He said that it was the first letter he had referred to in his June 10, 1986 letter to LATHAM.

CLARK was asked why he requested information on what purchases were financed, the down payment, and the source of funds for several loans, including the WARD loan, #2962, that financed the initial purchase of CASTLE GRANDE. He said that it was because these were the loans that they believed after tracing the cash were "straw" loans.

He was asked why he requested the purpose for the use of the proceeds of the loan and said that it was to determine whether MGSL received any value for its money.

He was asked why he requested plats, mortgage surveys and other drawings that showed the boundaries of the property purchased by WARD and MFC from IDC. He said that it was because the examiners had attempted to trace the series of transactions to determine who actually bought what property, but that there had been overlap on the property descriptions that were available.

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CLARK was questioned concerning notes he made June 20, 1986 concerning CASTLE GRANDE. In the notes is a comment that the CASTLE GRANDE files had been rearranged since their earlier review by the examiners. The comment indicated that the rearrangement may have occurred while institution employees were preparing a response to examiners.

CLARK recalled that the files had been rearranged, and that memoranda dated June 2 and June 13, 1986 that were attached to his notes, had not been in the file when it was originally reviewed. The memoranda, which concern CASTLE GRANDE appraisals, were attached to CLARK's notes.

CLARK was shown a copy of a June 24, 1986 letter from LATHAM to him that was a response to CLARK's letter of June 17, 1986. Included in the response was a statement that WARD loan #4027 would be repaid "From the sale of real estate that is under option to Madison Financial Corporation; if option is not recognized, from sale of real estate to other investors". CLARK recalled the letter. CLARK said he had asked for an explanation of the source of the funds for repayment because he was trying to trace the source of funds going into and out of the project. The letter also contained a response concerning the disbursements of the proceeds of WARD loan were used in part to make a loan to the WILSON company. CLARK said he conducted an analysis of the responses by LATHAM in a file memorandum dated June 26, 1986.

CLARK was shown a copy of the June 26, 1986 analysis and recalled that it was the analysis he performed. CLARK said that he thought that he thought that a series of transactions between MGSL, MFC, WARD and WILSON was designed to channell funds into MFC in a manner to disguise that it was an actually a direct investment of MGSL in MFC. He wrote in his analysis that the response to his inquiry in the above decribed June 24, 1986 letter from LATHAM confimed in part his belief that the transactions were an attempt to disguise a direct investment.

CLARK also wrote in the analysis that the property descriptions of CASTLE GRANDE property were not concise, and that information provided by LATHAM in the June 24, 1986 letter were not sufficient to clarify the boundaries. CLARK explained that in April, 1986, the examiners had been attempting to construct concise property descriptions and found that they could not. He said they were using the information provided by the institution when the "as of" date for materials was February 28, 1986, and did not believe they had tried to trace meets and bounds descriptions. CLARK was shown a copy of the property description of 27 and 28 Holman Acres that had been attached to the mortgage securing Ward loan 4027. He said that he had no particular recollection of the description.

CLARK said that it was only after the "as to" was changed from from February 28, 1986 to April 30, 1986 that he first became aware that loans had been made to WARD during the examination. He said that it was decided then to go back and review CASTLE GRANDE transactions for evidence of land flips.

CLARK was asked if he thought the fact that the WARD loan 2962 was paid off with funds from the sales of property to FULBRIGHT and CASTLE SEWER AND WATER all occurred on February 28, 1986, the day before the initial "as of" date may have been done to place the WARD loan into a paid off status to lessen the chance of examiner's scrutiny. CLARK said that he thought it reasonable.

CLARK was asked if he became aware duiring the examination that WARD believed that he had commissions due to him from the sale of CASTLE GRANDE property.

CLARK said that the first time he became aware of commissions due to WARD was in approximately mid-May,

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1986. CLARK said at that time, he and other examiners were at MGSL after the institution employees had left for the day. He said that they were checking the drawers of desks in their area to store their working papers when an examiner discovered certain documents. CLARK said that he reviewed the documents and discovered one was a September 24, 1985 letter from WARD to MCDUGAL that set out an agreement by which the IDC property would be purchased. CLARK was shown a copy of a September 24, 1985 letter from WARD to MCDUGAL, that did not caveat that WARD would retain 22.5 acres. CLARK said that letter was among the documents discovered. He said that it was the first indication he had concerning the commissions.

CLARK identified a July 1, 1986 file memorandum as one he wrote. The memorandum, at page two, discussed the discovery of the documents found in the desk drawer and identified the September 24, 1985 letter as being among them. The memorandum also referred to a June 24 letter from WARD to MCDUGAL reaffirming their CASTLE GRANDE agreement. CLARK wrote in the letter that the agreement was dated after the May 29, 1986 management conference when he had discussed concerns about "straw" purchases, and the June 17, 1986 letter he sent to management requesting information about WARD and CASTLE GRANDE. CLARK wrote that the examiners, through June, 1986 had found no evidence of commissions paid WARD, and that he thought that the reaffirmation letter may have been an attempt by management to evidence a continuing involvement in CASTLE GRANDE. CLARK confirmed that he wrote the memorandum and recalled that the events occurred as written.

CLARK said that he believed that the first time institution people were made aware of the discovery of the documents was at the July 11, 1986 supervisory meeting at Dallas. He said that he was not certain if the specific subject of the September 24, 1985 WARD letter or of commissions was raised, but believed that they were.

CLARK was shown a copy of the September 24, 1985 letter from WARD to MCDUGAL that contained the caveat concerning the 22.5 acres and was asked if he recalled seeing it or the attached property description in the Ward loan 4027 documents. He stated with reference to the letter "I don't recall ever seeing it", but was knowledgeable at the time about the 22.5 acre parcel.

CLARK was shown a single page of notes that contained at paragraph 2 information concerning an option agreement on the 22.5 acre parcel. The notes indicate that the writer discussed with someone that MFC wanted to purchase the WARD property, but that WARD had another buyer and would not consummate the sale for tax purposes. The note refers to a WARD attorney preparing an option to purchase the property. The note also referred to a loan to WARD that was unconnected and was to pay off loans on personal property.

The note also refers to a loan to MFC for \$370,000 executed to guarantee the purchase of real estate pending the completion of the option. CLARK was shown a copy of the MFC notes to Ward and asked if he recalled them. He stated that he did. He was asked what he recalled about these notes. He stated that his concern as an examiner was whether the notes represented independent financing of MFC by Madison Guaranty. He would be concerned about where Ward came up with the cash and that the examiners would be concerned that the proceeds came from Madison Guaranty. The examiners would be concerned whether the loans between Ward and Madison Guaranty, and from Ward to Madison Financial, were connected in some fashion.

The note from the examination workpapers is not dated. At the bottom of the page is a note in different handwriting. That note is dated April 29, 1986. It indicates that "Darlene" spoke to DON DENTON about the option and had been told that the option had not yet been prepared, but that he would get it to the examiners. The note also referred to two notes that would not be funded.

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CLARK confirmed that he wrote the first note. CLARK said that the name of the attorney that appears in parenthesis in his notes is "HUBBELL". He said that he did not recall the specific discussion, but recalled the situation. He said that he became aware that MFC had borrowed \$300,000 and \$73,000 from WARD in April, 1986 and was attempting to determine whether the borrowing was connected to the \$400,000 loan MGSL made to WARD on March 31, 1986. He recalled that he was told during his inquiries that the notes were not connected and that loan #4027 was not related to the Ward loan to Madison Financial. CLARK was not sure, but believes he was talking to DENTON when he wrote the notes.

CLARK did not specifically recall the notes by "Darlene." He said that was DARLENE FORD, an examiner who assisted him on the examination. He believed that he may have asked FORD to follow up on what he had been told about the option.

CLARK was asked to outline his understanding at the time of the examination of the relationship between loan #4027 and the Ward to Madison Financial loan. CLARK stated again that he was told that the loans were "completely separate deals". Madison's "excuse" for loan #4027 was that it was "not connected to the Ward-MFC" loan, but was to enable WARD to payoff other loans or debts. CLARK stated that Madison's "excuse" for the Ward-MFC loan was "MFC wants to buy land from Ward, they're going to write option agreement, Ward wants a guaranty of performance on the option, and that is the reason for this note -- in the fullness of time, note will not be funded because the option will be exercised and WARD paid then, and the note will be cancelled." CLARK was asked whether this was an unusual arrangement, and he responded that it "Makes no sense at the time, less now", especially when the property securing loan #4027 was the same land subject to the option.

CLARK was read portions of testimony by LATHAM concerning the connection between WARD loan 4027 and the two notes made by WARD to MFC, and that the loan 4027 was a way to pay WARD commissions. He said that he had not been aware of that reported connection between the loans. He said that if he had known, he would have called the transaction a direct investment in MFC by MGSL. He said that MGSL should have shown the notes from WARD listed on their books as accounts receivable. CLARK stated that the testimony "cannot jibe with what was said" to the examiners.

He said that if he had known about the commissions, at the very least he would have called it a direct investment by Madison Guaranty into MFC because MGSL would be funding MFC's obligations, and he would have been asking what WARD did to earn the commissions, and that the commissions would be a further indication that WARD was a "straw" buyer in the IDC purchase. He also said that if the loan had been made to pay commissions, he would have considered the loan "deceptive on its face." CLARK stated it would violate regulations that required transactions to be fully and completely documented so that their true nature is apparent to the examiners and anyone else. CLARK said that there was no way that the trial testimony was consistent with what he had been told during the examination. CLARK stated that "connection was the very point he was seeking and they're saying in the examination -- no." CLARK also indicated that based upon what he had now learned the option was created "in order to conceal the connection -- whatever it was -- between #4027 and Ward-MFC".

CLARK was asked about the possible use of the May 1, 1986 option to establish a value for the property for the benefit of the examiners. CLARK stated that he "would not have credited the value based on the option price".

CLARK was shown a copy of the front page of a version of the May 1, 1986 option that had a note by FORD

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indicating that she had talked to DENTON about the description being wrong. He had no particular recollection of the note or the circumstances.

CLARK was asked whether he was aware of WARD being released from personal liability on three of his loans in June, 1986. He said he had not been, and likely would not have seen the releases because the "as of" date at that time was April 30, 1986.

CLARK was asked whether he dealt with any state regulators during the examination.

He recalled the involvement of BEVERLY BASSETT, the Arkansas Savings and Loan Supervisor. He said that shortly before the July 11, 1986 meeting at FHLBB Dallas between MGSL officials and FHLBB supervisory agents, he was told by supervisory agent CHIP KEISWETTER, that BASSETT had requested that she attend the meeting. CLARK said that KIESWETTER indicated that he was concerned because in other cases, Texas regulators had attended the meetings and had taken the side of the institutions. CLARK was asked if it was common for state regulators to attend the supervisory meetings. He said that this instance was the only one he was involved in Texas, but that the practice was relatively common in other FHLBB districts.

CLARK said that on another occasion shortly before the meeting, one of the examiners involved in the examination had indicated a concern to him that BASSETT had previously done work for MGSL on the CAMPOBELLO project, specifically concerning an interstate issue, and that the examiner had thought it represented a conflict for BASSETT. He recalled that BASSETT had been working at MITCHELL, WILLIAMS when that occurred. CLARK said that he believed that he relayed that concern to KEISWETTER, and that KEISWETTER brought it to BASSETT's attention. CLARK did not know what the result was, but recalled that she did attend the meeting.

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