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**FDIC FILES LAWSUIT AGAINST DREXEL, E.F. HUTTON AND OTHERS
OVER LOSSES AT GUARANTY FEDERAL S&L, DALLAS**

The Federal Deposit Insurance Corporation announced today that it has filed a lawsuit in the U.S. District Court in Dallas seeking payment for damages stemming from an alleged fraud scheme that led to the 1988 demise of the \$2 billion-asset Guaranty Federal Savings and Loan Association, Dallas.

The FDIC's lawsuit seeks \$129.2 million in actual damages and \$387.6 million in punitive damages against:

- o Drexel Burnham Lambert Incorporated and its affiliate, Drexel Burnham Lambert Government Securities, Inc.;
- o The former E.F. Hutton & Co. and its successor, Shearson Lehman Hutton Holdings, Inc.;
- o Five former salesmen at Hutton and Drexel;
- o Paul Sau-Ki Cheng and Simon Edward Heath, two former co-chairmen of the Board of Directors at Guaranty Federal; and
- o Two trusts and three corporations controlled by the two former co-chairmen.

The FDIC complaint alleges that Cheng and Heath engaged with salesmen at Drexel and Hutton in a scheme to defraud Guaranty Federal by diverting profits from trades of U.S. government securities to entities privately controlled by the two former co-chairmen. At the same time, according to the FDIC suit, losses sustained in the trades were put into the accounts of Guaranty Federal.

The complaint alleges that the central purpose of the fraud scheme was to divert federally-insured deposits to shore up a takeover attempt by Cheng

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and Heath of U.S. Home Corporation, a large publicly-traded home building company. The lawsuit contends that, at the time, Drexel served as U.S. Home's investment banker and that personnel at Drexel's office in Beverly Hills, California, "advised and encouraged" Cheng and Heath to attempt the takeover. The proposed acquisition failed, resulting in major losses to Cheng, Heath and a realty company they led.

Guaranty Federal lost approximately \$68.5 million due to the transactions while the brokers gained an estimated \$49.6 million in commissions and markups, according to the FDIC complaint. In addition, the FDIC alleges that trusts and private companies controlled by Cheng and Heath received approximately \$11.1 million in profits. The FDIC suit contends that Drexel and Hutton knew or should have known of the scheme carried out by their employees, and that their failure to warn federal regulators "amounts to misrepresentation, deceit and fraud."

The FDIC complaint, filed on February 14, charges violations of federal securities and banking laws, and also includes several Texas law claims. Cheng and Heath also are defendants in a federal criminal indictment, unrelated to the new FDIC lawsuit, which charges the two men with defrauding Guaranty Federal in connection with a commercial real estate loan.

Guaranty Federal was declared insolvent and placed in receivership by the Federal Savings and Loan Insurance Corporation (FSLIC) on September 30, 1988. Its assets were transferred to Guaranty Federal Savings Bank of Dallas, a newly-chartered federal stock savings bank. The FDIC acquired the Guaranty Federal receivership as a result of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, which abolished the FSLIC and put the FDIC in charge of federal deposit insurance for savings institutions.

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