

FHA INVESTIGATION

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

UNITED STATES SENATE

EIGHTY-THIRD CONGRESS

SECOND SESSION

PURSUANT TO

S. Res. 229

PART 1

JUNE 28, 29, 30, JULY 1, 2, 12, 14, 15, 16, 19, AND 20, 1954

Printed for the use of the Committee on Banking and Currency



UNITED STATES
GOVERNMENT PRINTING OFFICE

WASHINGTON : 1954

COMMITTEE ON BANKING AND CURRENCY

HOMER E. CAPEHART, Indiana, *Chairman*

JOHN W. BRICKER, Ohio
IRVING M. IVES, New York
WALLACE F. BENNETT, Utah
PRESCOTT BUSH, Connecticut
J. GLENN BEALL, Maryland
FREDERICK G. PAYNE, Maine
BARRY GOLDWATER, Arizona

BURNET R. MAYBANK, South Carolina
J. WILLIAM FULBRIGHT, Arkansas
A. WILLIS ROBERTSON, Virginia
JOHN SPARKMAN, Alabama
J. ALLEN FREAR, JR., Delaware
PAUL H. DOUGLAS, Illinois
HERBERT H. LEHMAN, New York

JOHN R. HANCOCK, *Chief Clerk*
RAY S. DONALDSON, *Staff Director*

FHA INVESTIGATION UNDER SENATE RESOLUTION 229

WILLIAM SIMON, *Chief Counsel*

CONTENTS

	Page
S. Res. 229.....	1
Testimony of—	
Banks, W. S., University City and Huntington Apartments, Arlington, Va., accompanied by James M. Ernest and Solomon Grossberg, counsel.....	724
Berne, Gustave M., Rockaway Crest Apartments, Far Rockaway, N. Y.....	373
Blackburn, Robert C., South Ozone Park, New York, N. Y.....	644
Bonner, Bertram F., Bondale Apartments, Norfolk, Va., etc., accompanied by Orren G. Judd and W. R. Ashburn, counsel.....	693
Bovard, Burton C., Lorton, Va., accompanied by Clayton M. Burwell, counsel.....	257
Bros, E. M., Shirley-Duke Apartments.....	115
Budwesky, Carl, Shirley-Duke Apartments.....	115
Clark, Francis H., White Plains, N. Y.....	679
Collins, Hugh T., Roosevelt, Long Island, N. Y.....	652
Cowan, Link, Page Manor, Dayton, Ohio, accompanied by John Cahill and Loftus Becker, counsel.....	740
Crabb, Earl E., chairman, executive committee, and T. L. Kenealy, auditor, accompanied by John W. McCartin, general counsel, Investors Diversified Services, Shirley-Duke Apartments.....	115, 205
D'Aquila, Anthony, Flushing, N. Y.....	671
Frost, Andrew, Albuquerque, N. Mex.....	251
Gevinson, Dr. Daniel, Washington Circle Apartments, Washington, D. C., etc.....	728
Glueck, Charles H., Gary, Ind., Mid-City Investment Co., accompanied by Alfred P. Draper, counsel.....	311
Gordon, Bryan, Jr., Shirley-Duke Apartments.....	115
Gross, Alfred, Glen Oaks Village, Jamaica, N. Y., accompanied by Harold Goldman and Lonnie Garvin, counsel.....	546
Hoffman, J. R., representative, National Better Business Bureau, Inc., New York, N. Y.....	685
Hutman, Herman W., Shirley-Duke Apartments.....	115
Jackson, Hugh R., president, Better Business Bureau of New York City.....	561
Levitt, William J., Beth-Page Realty Co., New York, N. Y., accompanied by Richard L. Levy.....	538
Lewis, Jay Charlie, Shirley-Duke Apartments.....	115
Loftus, Don A., Shirley-Duke Apartments, Alexandria, Va., accompanied by Albert R. Hamilton, accountant and Edward J. Eagan, counsel.....	497
Maged, Joseph L., Alley Park Homes, Bayside, N. Y.....	714
McKenna, William F., Deputy Administrator, accompanied by Simon H. Trevas, Counsel, Housing and Home Finance Agency... 2, 61, 86	2, 61, 86
Murchison, Clint, Jr., Page Manor, Dayton, Ohio, etc., accompanied by Loftus E. Becker and John T. Cahill, counsel.....	841
Murphey, Gerald, Beverly Manor, Columbus, Ohio.....	307
Muss, David, Page Manor, Dayton, Ohio, accompanied by John Cahill and Loftus Becker, counsel.....	754, 786
Neel, Samuel, general counsel, Mortgage Bankers Association of America.....	305
Nicol, Andrew D., prosecutor's office, Bergen County, N. J.....	475
Nyborg, Victor H., president, Association of Better Business Bureaus.....	581
Pine, Robert L., Page Manor, Dayton, Ohio.....	777
Powell, Clyde L., accompanied by Daniel B. Maher, counsel.....	73
Preston, Earl J., Shirley-Duke Apartments.....	115

	Page
Testimony of—Continued	
Roberts, Abner, Brooklyn, N. Y.-----	675
Rose, Charles, Jefferson Village Apartments, Falls Church, Va., accompanied by Julian Jawitz and Simon W. Levitan-----	326
Sarner, Sidney, Linwood Park, Teaneck, N. J., accompanied by George I. Marcus, counsel-----	388
Solow, Ralph J., Linwood Park, Teaneck, N. J.-----	466
Sonnenblick, Nathan J., Shirley-Duke Apartments, accompanied by Fred S. Weitzner, counsel-----	473
Trump, Fred C., Beach Haven Apartments, Jamaica, N. Y., accom- panied by Oren G. Judd and Mathew J. Tosti, counsel-----	395
Waugh, Arthur, Staten Island, N. Y.-----	667
Winston, Norman K., Page Manor, Dayton, Ohio, accompanied by John Cahill and Loftus Becker, counsel-----	801
Zabiegalski, Anthony, Investigator, Banking and Currency Com- mittee-----	496
Letters, memorandums, exhibits, etc., submitted for the record by—	
Barnhart, Dr. John W., Wilmington, Del.: Medical certificate for Don A. Loftus-----	309
Better Business Bureau of New York City:	
Statement of Hugh R. Jackson, president-----	562
Correspondence regarding title I cases-----	660
Blackburn, Robert C., South Ozone Park, New York, N. Y.: Corres- pondence with newspaper and Better Business Bureau on title I case-----	648
Bonner, Bertram F., Bondale Apartments, etc., Norfolk, Va.:	
Article, Engineering News-Record, 608 Meant To Be Profitable, Old Senate Hearings Show, etc.-----	706
Tabulation of proceeds and surplus of insured projects-----	713
Bovard, Burton C., Lorton, Va.:	
Letter to chairman-----	259
Reply to charges-----	262
Notice of proposed adverse action from FHA on dismissal-----	273
Amended notice of proposed adverse action-----	276
Letter to Attorney General on Shelby Claiborne Towers case-----	286
Capehart, Homer E., a United States Senator from the State of Indiana:	
Testimony of Mr. Powell on July 29, 1949-----	24
Testimony of Mr. Lockwood, president, National Association of Home Builders in 1950-----	28
Letter to Wilson Wyatt-----	69
Civil Service Commission: Application for position of Clyde L. Powell-----	80
Clark, Francis H., White Plains, N. Y.: Letters to FHA-----	681
Collins, Hugh T., Roosevelt, Long Island, N. Y.:	
FHA completion certificate-----	656
Letter to Approved Home Developers-----	656
Letter to Franklin National Bank-----	657
Re-Nu-It 10-year registration certificate-----	657
Approved Home Developers, 10-year guaranty-----	658
Feay, Herbert L., Forest Hills, N. Y.: Correspondence with Senator Lehman and Mr. Cole concerning cooperative housing-----	422
Federal Housing Administration. See Housing and Home Finance Agency.	
Glueck, Charles H., Gary, Ind., Mid-City Investment Co.:	
Application for mortgage insurance for Tri-City Village, Inc., Gary, Ind.-----	323
Section 608 projects-----	346
Letter to FHA on suspension-----	347
Mid-City Investment Co., stockholders-----	349
Letter to Board of Directors, Mid-City Investment Co.-----	356
Grace, George, New York, N. Y.: Telegram to chairman-----	358
Gross, Alfred, secretary, Glen Oaks Village, Inc.: Statement-----	559
Housing and Home Finance Agency:	
Number of title I cases referred to FHA by FBI, and number of cases referred to Justice Department by FHA-----	6
Letter from Mr. Thompson to Mr. Powell on Elisabeth Apart- ments, Astoria, Long Island, N. Y., dividends-----	22

CONTENTS

V

	Page
Letters, memorandums, exhibits, etc.—Continued	
Housing and Home Finance Agency—Continued	
Letter from Mr. Powell to Mr. Roth on same.....	23
Letter from Mr. Roth to Mr. Powell in reply.....	23
Letter from Mr. Powell to Mr. Roth on same.....	24
Report of investigation of employees of District of Columbia insuring office.....	32
Summaries of 27 FHA section 608 case investigations.....	49
Prevailing wage violations, section 608 projects.....	92
Actions taken since April 14, 1954, to strengthen the operations of FHA.....	100
Report of FHA action on prevailing wage violations.....	101
Rental projects of 12 or more units which were insured under section 203.....	106
Notice of proposed adverse action in Bovard case.....	273
Amended notice of proposed adverse action.....	276
Letter to Attorney General on Shelby Claiborne Towers case.....	286
Memorandum from Mr. Fitzpatrick to Mr. Foley on investigation of FHA Indianapolis office.....	341
Supplemental memorandum.....	344
Investors Diversified Services:	
Section 608 loans made.....	208
Section 213 loans made.....	218
Statement.....	231
Internal Revenue Service:	
Letter in regard to taxes of Shirley-Duke Apartments.....	161
Letter to chairman on testimony of Mr. Budwesky.....	558
Justice Department:	
Report of investigation of background of Clyde L. Powell.....	77
Letter regarding testimony of Messrs. Sarner and Solow.....	466
Loftus, Don A., Shirley-Duke Apartments, Alexandria, Va.:	
Beverly Manor Corp., distribution to stockholders.....	500
Statement on Beverly Manor project.....	521
Statement on Clifton Park Manor Apartments.....	523
Statement on Cleveland Parkway Gardens and Broadview Gardens.....	526
Statement on Shirley-Duke Apartments.....	527
Marcus, George I., Hackensack, N. J.:	
Article, Bergen Evening Record, Linwood Park cited in gift, etc.....	389
Article, Hudson Bergen Dispatch, asks refund to Linwood tenants, etc.....	390
Article, East Bergen Bulletin, Tenants Seek To Recover Rent From Linwood Park.....	391
Medine, Leigh, acting chairman, Conference of Presidents of FHA Section 213 Cooperatives: Letter to chairman.....	425
Muss, David, Page Manor, Dayton, Ohio: Option to purchase land.....	784
Nicol, Andrew J., prosecutor's office, Bergen County, N. J.:	
Sales manual "Close," by E. C. Dempsey.....	480
Chart for sales manual.....	Facing 484
Protexa-Wall insurance registration certificate.....	487
Indemnity Insurance Co. of North America: Correspondence and policy regarding Protexa-Wall insurance.....	488
Nyborg, Victor H., president, Association of Better Business Bureaus:	
Statement.....	576
Summary of statistics:	
1949.....	581
1950.....	585
1951.....	592
1952.....	608
1953.....	618
Membership roster.....	634
Powell, Clyde L.:	
Report of investigation of background by Justice Department.....	77
Application for position in civil service.....	80
Petition for redress of grievances.....	531
Sarner, Sidney; George I. Marcus, counsel; David L. Konigsberg, accountant; and Mrs. Margaret Monastero, assistant: Special inter- view in executive session.....	426

Letters, memorandums, exhibits, etc.—Continued		Page
Shirley-Duke Apartments:		
Letter from Clyde L. Powell granting increase in rents		132
Analysis of operating costs, section IV		133
Contract of sale of land		136
Application for insured commitment		139
Loan agreement, section V and Investors Diversified Services, Inc		143
Solow, Ralph J., Englewood, N. J.: Special interview in executive session		452
Teachers Insurance and Annuity Association of America, Richard M. Hurd: Letter to FHA regarding Mid-City Investments, Inc.		344
Trump, Fred C., Beach Haven Apartments, Jamaica, N. Y.: State- ment		417
Wyatt, Wilson, Louisville, Ky.:		
Correspondence on FHA projects		62
Letter to Senator Capehart on testimony		69

FHA INVESTIGATION

MONDAY, JUNE 28, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to notice, at 10:10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Ives, Bush, Goldwater, Maybank, Sparkman, Frear, and Lehman.

Also present: William Simon, general counsel, FHA Investigation.

The CHAIRMAN. The committee will come to order.

We will insert in the record Senate Resolution 229 under which we are proceeding in this investigation.

(The resolution referred to follows:)

[S. Res. 229, 83d Cong., 2d sess.]

RESOLUTION

Resolved, That in holding hearings, reporting such hearings, and making investigations as authorized by section 134 (a) of the Legislative Reorganization Act of 1946 and pursuant to its jurisdiction under rule XXV (1) (d) 4 of the Standing Rules of the Senate, the Committee on Banking and Currency, or any duly authorized subcommittee thereof, is authorized until January 31, 1955, to make such expenditures, and to employ upon a temporary basis such investigators, and such technical, clerical, and other assistants, as it deems advisable.

SEC. 2. The expenses of the committee under this resolution, which shall not exceed \$150,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the committee.

The CHAIRMAN. Our first witness today will be Mr. McKenna, who is the Deputy Administrator of the HHFA, and who was called in 2½ months ago by Mr. Cole of the HHFA to investigate the so-called irregularities in FHA. My understanding is that Mr. McKenna was called in at the suggestion of the President. You will recall that the administration broke the news of the irregularities some 2½ months ago, and that the President of the United States ordered all the files of FHA seized. Mr. McKenna, who is a lawyer from California, I believe, was employed to make certain investigations for HHFA themselves. He was appointed Deputy Administrator. He has been working on this matter for 2½ months. He has quite a sizable staff. He has been working with the Internal Revenue Service, the Attorney General, and other governmental departments.

We invited Mr. McKenna to come here today and to give us a report on what he has found, to give us the pattern that he has found on section 608 and title I—section 608, of course, being rental property. His investigation covers not only section 608 but also sections 213 and 207. We are all familiar with what title I is.

We want Mr. McKenna to tell us exactly what he has accomplished to date, the general pattern that he is uncovering. I suspect it will take him all day today and possibly the biggest part of tomorrow.

Senator MAYBANK. Mr. Chairman are we going to meet with the House conferees at 2 o'clock this afternoon?

The CHAIRMAN. Yes, 2 o'clock.

Mr. McKenna will be our witness today and part of tomorrow. After Mr. McKenna finishes tomorrow morning, Mr. Powell will be our witness. Mr. Powell, you know, was for twenty-odd years the department head in charge of section 608. Mr. Powell will be here tomorrow morning.

On Wednesday, we will take up our first, what we call "case," which is the Shirley-Duke Apartments in Fairfax County, Va. They will be our first witnesses. There are some eight men involved in this Shirley-Duke Apartment project and they will be here on Wednesday.

Possibly tomorrow or Wednesday we will give you our witnesses for Thursday and Friday of this week. At this time we are going to ask Mr. McKenna to tell us exactly what he has found, as briefly as he can, what he has accomplished. Give us the general pattern of the irregularities. After he is finished, our first witness, I again repeat, will be Mr. Powell, followed on Wednesday by the Shirley-Duke Corp., or project, of Fairfax County, Va., at which time we will go into those projects—I think there are six of them—we will go into them very, very thoroughly.

Will you be sworn, Mr. McKenna? Do you solemnly swear the testimony you are about to give is the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF WILLIAM F. MCKENNA, DEPUTY ADMINISTRATOR,
ACCOMPANIED BY SIMON H. TREVAS, COUNSEL, HOUSING AND
HOME FINANCE AGENCY**

Mr. MCKENNA. I do.

The CHAIRMAN. Thank you.

Suppose you proceed, Mr. McKenna, in your own way and tell us what you have accomplished up to this time and the general pattern of what you are finding.

Mr. MCKENNA. Mr. Chairman and Senators, as I believe we are all aware, the investigation was started on April 12 of this year. The evening the investigation was ordered, I called on the then highest official in the Federal Housing Administration, to read to him the President's order regarding the files of the Federal Housing Administration and the Administrator's order about the custody of them.

At that time, I had with me two members of our investigative staff, Mr. Lester P. Condon and Mr. A. V. Ammann, and there were present also the Associate General Counsel of the Federal Housing Administration, who has since resigned, Mr. Howard Murphy.

Senator MAYBANK. You say the President ordered this investigation?

Mr. MCKENNA. The investigation, I believe, was ordered by Administrator Cole.

Senator MAYBANK. I want to make sure for the record who ordered the investigation.

Mr. McKenna. I believe Administrator Cole ordered the investigation.

Senator Maybank. You said the President and now you say Administrator.

Mr. McKenna. I believe the order regarding the custody of FHA files was signed by the President because of the limited authority that the Administrator has over the constituent agencies.

Senator Maybank. What about the files of title I?

Mr. McKenna. They were included in the custody order.

Senator Lehman. Mr. Chairman, I am not quite sure about Mr. McKenna's relationship to the HHFA. Has he come into this thing fresh or has he been connected with housing?

The Chairman. Mr. McKenna has had no connection with HHFA up until two and a half months ago. He was employed by the top officials over there, to make the investigation. They are investigating themselves and he is the man they picked to head that investigation. He has a staff of people that are making that investigation at the moment, but they are primarily working as I understand it—he had better tell his own story—with the Internal Revenue Service and the Attorney General's Office and other departments of Government. I thought it was well that he tell us of his experience up to this time—exactly what they have accomplished and the general pattern that they are finding, of irregularities, if any.

Senator Lehman. Would it not be well if Mr. McKenna would also place on the record a statement with regard to his previous experience and with regard to his previous occupations?

The Chairman. Yes. Mr. McKenna, give your full name for the record.

Mr. McKenna. My name is William F. McKenna.

The Chairman. Where is your home?

Mr. McKenna. My residence is in Los Angeles, Calif. I am a native of Providence, R. I. At the time this investigation was ordered, I was practicing law in Los Angeles. Before that, last year I was counsel for the House Committee on Government Operations. The previous year I practiced law in Los Angeles, Calif., and before that I had been minority counsel for the House Committee on Expenditures in the Executive Departments, in the 82d Congress.

Prior to that I had been litigation counsel for the Home Loan Bank Board. Before that, for less than a year, I was in China with the State Department, and for most of 4 years was overseas with the United States Navy.

The Chairman. You were employed by whom?

Mr. McKenna. I was employed by Mr. Cole, by the Housing and Home Finance Administration. I might point out in that connection we have a staff of 95 persons in this investigation, no one of whom is an FHA employee. We have been very careful from the start, that this would not be a case of the agency investigating itself. We have retained, in addition to that 95, 8 of the investigators of FHA, but we are very careful they have no access to investigative files and do none of our investigating in section 608.

Senator Maybank. Who employs these people?

Mr. McKenna. By me and HHFA.

Senator Maybank. And Mr. Cole employed you?

Mr. MCKENNA. Yes, sir.

Senator MAYBANK. So the agency is investigating itself.

Mr. MCKENNA. HHFA has had practically no control over the FIIA and none of these people are Federal Housing Administration people.

The CHAIRMAN. Suppose you proceed, then, and tell us what you have done up to date, and I am sure the Senators will have a lot of questions for you as you go along.

Mr. MCKENNA. We did call on the highest official of the FHA, the Deputy Commissioner, Mr. Greene, that night, which was the night of April 12, the first day of the investigation. With him, Mr. Greene had the Associate General Counsel of FHA Mr. Howard Murphy.

I read the President's order and I read Mr. Cole's order to Mr. Greene. Mr. Murphy then in the presence of two other investigators and myself advised Mr. Greene. He told Mr. Greene that Mr. Greene was in danger of having to pay for any telegrams he sent out in response to the President's order out of his own pocket, because Mr. Murphy doubted whether the President of the United States had any control over the Federal Housing Administration, except to appoint the Commissioner with the advice and consent of the Senate.

Nevertheless, in spite of that advice from the Associate General Counsel, Mr. Greene did send the telegrams and we did place the files in protective custody.

The CHAIRMAN. Did you have complete control over all FHA files here in Washington as well as each and every field office?

Mr. MCKENNA. We have the control which we believe is necessary for the purpose of investigation. Of course, we have not stopped the operations of FHA.

The CHAIRMAN. That control was a result of the Executive order of the President of the United States?

Mr. MCKENNA. It was, Senator. I believe, too, that the committee is aware of the reasons behind the order for the investigation, but I think it might be well if in a few words I restate them.

It is my understanding that early last year, the executive branch of the Government was concerned because of the number of complaints that were received about alleged abuses in the title I program.

The CHAIRMAN. Pull that a little closer to you and talk into the microphone, will you, please? And pull this other little one up there. I don't know what it is, but talk right into the microphones.

Mr. MCKENNA. Title I abuses, of course, bear little possibility of ultimate loss to the Government. The amounts involved are very small, but they are nevertheless a very serious matter to the man or the family which is a victim of this type of abuse. The few hundred or a thousand dollars which may be taken away from him by a slick artist operating under color of FHA authority in this manner can very well cause him to lose his home, can impose a debt burden on a family of very small means which may take years to get the better of. Because of that, I understand—and this is just the understanding that has been given to me—last summer the Department of Justice asked the Federal Bureau of Investigation to make a study of the title I situation throughout the United States.

I further understand that the results of that study were available early this year. In addition—

Senator LEHMAN. Have you made any investigation of title I?

Mr. MCKENNA. We are making an investigation of title I and I will explain, Senator, the scope of it shortly.

At the same time, the facts of the section 608 program became increasingly known to persons through the executive branch of the Government, and, of course, associated with that were rumors which kept repeating themselves about personnel who were involved in the administration of the section 608 program.

Some of those went past the stage of rumor, before the investigation began, it is my understanding.

Because of that, the investigation was ordered. It was ordered by the Housing and Home Finance Administrator. As you know, the Housing and Home Finance Administrator has had until very recently only the loosest form of control over the constituent agencies. He has had no real authority over the FHA. Once the investigation began, we were faced for practical purposes with the necessity of defining the scope of it. We had to know at least in some way, some general way, what our own objectives were.

Because of the reasons behind the order ordering the investigation, there were two principal facets of it, of course: Title I and section 608. The biggest change with respect to title I was put into effect immediately upon the date of the investigation. Until April 12 of this year, the Federal Housing Administration did its own criminal investigating. With respect to matters within the jurisdiction of the FHA, the Federal Bureau of Investigation was excluded.

The Federal Housing Administration on its own, as I think we can show, extended that understanding to fields in which, I believe, it was never intended that the Federal Housing Administration have any criminal investigative jurisdiction—at least I can go into the specific cases later and the Senators can draw their own conclusions.

So we reached an arrangement with the Federal Bureau of Investigation whereby we intensely searched all the files of the Federal Housing Administration for abuses of the title I program that had not been previously investigated. We found, for example, that under this arrangement during the previous 2 years the Federal Bureau of Investigation had sent over to the Federal Housing Administration 163 cases of alleged abuses of the title I program. Of these 163 cases, we reached a rather amazing conclusion that only 9 were ever investigated by the Federal Housing Administration. About 50 of the 163 ever got to the investigative section of the Federal Housing Administration, and all but 19 of those that did get there were accompanied by indications from superior authorities, which definitely discouraged the making of any investigation by the Federal Housing Administration investigators.

Senator MAYBANK. Who were the superior authorities?

Mr. MCKENNA. Principally the legal staff, General Counsel and the Associate General Counsel, Mr. Bovard and Mr. Murphy.

The CHAIRMAN. You say there were 163 cases turned over by the FBI, or the Attorney General, to FHA?

Mr. MCKENNA. Yes; 163, Senator.

The CHAIRMAN. Now my question is: Did FHA fail to turn over to the FBI or to the Attorney General any cases of collusion or irregularities?

Mr. McKenna. I believe that is the case, and I intend later to go into some detail as to those cases, Senator.

Senator Lehman. You referred to 163 cases which were referred. Over what period?

Mr. McKenna. In about 2 years 163 cases were referred by the FBI. At the same time, the Federal Housing Administration got many, many times more cases from other sources. These we were able to pin down. We couldn't find out how many complaints came from private sources. That would be a task we couldn't undertake.

Senator Lehman. That was over a period of the last 2 years?

Mr. McKenna. Yes, those cases came from the FBI or Department of Justice only. The significant thing is that of the 163 cases referred by the Department of Justice, only 9 were investigated, 10 more were held for investigation—

The Chairman. Only 9 of the 163 were investigated by the FHA Administrator?

Mr. McKenna. That is right, sir.

The Chairman. What reason did they give for not investigating all of them?

Mr. McKenna. Again, we have gotten no reasons, of course, except the reasons of inadequate investigative staff, but I think perhaps the pattern will become clear as we go on case by case as to what was done with allegations that were received by the Federal Housing Administration.

Senator Goldwater. Mr. McKenna, what was the date the FBI sent these 163 cases over to FHA?

Mr. McKenna. Periodically as they arose over 2 years.

Senator Goldwater. Between what dates?

Mr. McKenna. I can't give you the precise dates. I can give them to you later if you wish. They were for a period of 2 years ending about the time the investigation was ordered.

The Chairman. That would be 2 years prior to April of this year?

Mr. McKenna. Yes. Those are the approximate dates.

Senator Goldwater. Would you supply that for the record, the dates of the reports of the FBI to the FHA?

Mr. McKenna. We can supply the committee. It may take a little while, but we will supply it.

(The information referred to follows:)

In response to your inquiry of June 28, 1954, FHA records indicate that from September 29, 1952, to April 12, 1954, the FBI made 163 referrals to the FHA with respect to title I loans and these reports were submitted from time to time on the following dates: September 29, 1952; November 21, 1952; April 10, 1953; May 6, 1953; September 8, 1953; March 22, 1954; April 1, 1954.

The 9 cases investigated and referred to the Department of Justice by the FHA from the 163 cases referred to it by the FBI, were sent to the Department of Justice by the FHA on the following dates: November 6, 1952; June 18, 1953; November 10, 1953; November 23, 1953; February 24, 1954; March 18, 1954.

Senator Lehman. They were all within the period of 2 years prior to April 12, 1954?

Mr. McKenna. Yes. The significance of those figures is not the number of them, of course, because this was only one source of complaints and probably a relatively minor source. The significance is that though the complaints came from another agency of the Government charged with cognizance of criminal matters, nevertheless the

FHA practically did nothing with them except in the case of nine of them. That is the significance of those figures as I see it.

Senator MAYBANK. What did they do about the nine?

Mr. MCKENNA. Investigations were conducted on the nine.

Senator MAYBANK. Did they put them in jail?

Mr. MCKENNA. There have been convictions of some of the nine; yes, sir.

Senator MAYBANK. How many?

Mr. MCKENNA. I don't know. The last figures I obtained informally from the Department of Justice are that since the investigation started there have been 56 indictments obtained across the country for title I violations involving 113 persons.

Senator MAYBANK. Indictments, but they haven't been sentenced yet; have they?

Mr. MCKENNA. There have been a few convictions, but the full impact of the intensive investigations we are conducting now will not be felt for many months. It takes many months to get an indictment.

Senator MAYBANK. I was curious because there were so many complaints and they only convicted a very few people—a handful of people. There might be some justification in what Mr. Hollyday had to say here. Was it Mr. Hollyday?

Senator LEHMAN. Mr. Hollyday.

Senator MAYBANK. I am not defending it at all. Don't misunderstand me.

Mr. MCKENNA. I understand we have made since the investigation began 83 referrals involving criminal action to the Department of Justice, involving title I, and it is my opinion that is a small proportion of the total that the FBI has got up on its own. It probably is rather dangerous right now for these slick artists to abuse title I because of the intensity of—

Senator MAYBANK. There is no doubt of the publicity that has been given by the administration downtown, their statements and those of the chairman of this committee—at least as far as these people who were so outrageously exploiting title I.

Mr. MCKENNA. That is our intention.

Senator MAYBANK. It was a joint effort on your part, your part and everybody's part.

Senator GOLDWATER. Mr. McKenna, when you supply the dates of the referral of the FBI to the FHA, will you also supply the dates that the nine cases had action given to them? (See p. 6.)

Mr. MCKENNA. We will, sir.

Senator LEHMAN. Could you tell us in a general way what the most numerous reasons were for complaints or indictments or convictions in connection with title I?

Mr. MCKENNA. Of course, in getting an indictment under title I, the Department of Justice almost has to rely on a misrepresentation some place along the procedure. The normal tactics, or one of the standard tactics for these people who have been doing the defrauding of homeowners around the country, is to use the name and the facilities of the Federal Housing Administration to talk these people into signing a contract for home repairs. Some of the money that is borrowed by these people may go into home repairs. There will be other guises, such as "Yours is a model home. You will not have to pay

for this. It will be taken out of the money that we get from your neighbors, who will come in and look at your home and thereby give us contracts, too."

But the end result is the homeowner signs a negotiable instrument. He may or may not get part of the repairs for which he has bargained. The negotiable instrument, if the homeowner defaults, is ultimately transferred or turned over to the FHA which insures the financial institution. The United States Government, then, the United States Attorney, has to bring suit on that negotiable instrument against the victim of the fraud, and the victim of the fraud, of course, is rather upset that the United States Government is suing him instead of the fellow who defrauded him.

Senator LEHMAN. Were most of these cases based on misrepresentation or nonperformance?

Mr. MCKENNA. There really is no criminal statute violated simply by nonperformance, no Federal criminal statute. There has to be some sort of misrepresentation in there for the Government to sue.

The investigation of the title I program has been carried on, of course, largely by the FBI. They were doing the intensive work in this field. We, however, have, I believe, 8 investigators, devoting full time to going through the files of the Federal Housing Administration, and other complaints that have been received by us, in order to build up files of the records of FHA, and other documents which we obtained in order to refer cases to the Department of Justice, for consideration for prosecution.

We have made 83 such referrals since we started. We have under consideration over 500 such cases.

So far as the section 608 program is concerned, that is our major undertaking and the one that I propose with the indulgence of the Senators to discuss, case by case, so that rather than rely on my conclusions as to what the patterns are, you can make your own conclusions from the facts as we have discovered them in the files of FHA. That does not mean we are neglecting the other programs of the Federal Housing Administration. We plan to go into them. We are going into them. We find preliminarily that section 213 seems to offer about the same or possibly even greater possibility of serious frauds than section 608 has offered, and we are intensely investigating the section 213 program at this time as well as other programs of the FHA.

I might remark that in connection with the section 213 program, since the program is newer, since it is current, there probably is more possibility of criminal prosecution than in the section 608 program. Many of the actions which appear to us to be clear criminal violations in the section 608 program are protected by the passage of time by the statute of limitations. That probably will not be so true in the section 213 program.

Senator MAYBANK. Let's get that straight. If the statute of limitations will stop the conviction of a guilty man, I want to be a party to help Senator Williams to get his bill out.

You think the statute of limitations will make it difficult for you?

Mr. MCKENNA. In by far the majority of cases we have come across so far the statute of limitations protects persons who according to the records were violating criminal statutes.

FHA INVESTIGATION

Senator MAYBANK. Are you familiar with Senator Williams' bill?

Mr. McKENNA. I am, sir, vaguely. I believe, however, that that does not attempt to lift the bar retroactively.

Senator MAYBANK. Has the administration recommended such procedure?

Mr. McKENNA. That I don't know. There is a constitutional question as to whether or not a statute of limitations can be lifted retroactively.

Senator MAYBANK. If it is unconstitutional or even questionable, I wouldn't want to have anything to do with it, but I do think if the statute of limitations could be adjusted by the Congress, through the proper committees—Judiciary Committees—it would materially aid in punishing the guilty. It ought to be considered and the administration ought to recommend proper procedure for Congress. I mean, because you know how it would affect you. We don't. You are looking at it.

Mr. McKENNA. The Senator, of course, makes a very strong point in that a 3-year statute of limitations applied to major frauds is quite a protective device for the perpetrator of those frauds.

Senator MAYBANK. I think Senator Williams said that on the floor. I can't remember.

The CHAIRMAN. It ought to be longer. I think we are going to try to get the Williams bill through. It doesn't apply on retroactive cases. I don't think you can pass a law and make it retroactive.

Mr. McKENNA. There is a big question of that.

Senator FREAR. The only retroactive clause where fraud is involved is under the Internal Revenue Service, is it not, where a person is found guilty of fraud and you can go back any number of years under that statute?

Mr. McKENNA. I am not an expert on that. I believe it is 6 years. I don't know by any means. I haven't looked at that in years.

Senator LEHMAN. Mr. McKenna, you testified that there was the opportunity of fraud in section 213—at least as great, or possibly greater than in section 608.

The provisions of section 608 expired in 1950, as I recall it. The provisions of section 213 are still in existence. To your knowledge, have any steps been taken by the Administrator or by the agency to make it impossible for people to avail themselves of the loopholes or the fraud that is contained possibly in section 213?

Mr. McKENNA. We have been given a free hand, Senator, in investigating section 213 cases, and we are doing it so intensely I believe that we will stop that practice.

Senator LEHMAN. Have you actually put into effect any changes that immediately put a stop to those practices? I don't mean you. I mean the agency.

Mr. McKENNA. That I don't know about administrative orders. I would say though the most effective stop is thorough investigation, with the awareness on the part of the people involved that they will be caught pretty quickly if they engage in these things and that is what we are currently doing.

Senator LEHMAN. To your knowledge, no steps have as yet been taken to put a stop to the practices under section 213?

Mr. McKENNA. The investigation is directed toward that, which I think is the biggest step that can be taken.

Senator LEHMAN. I mean by Executive order, legislative order, or administrative order.

Mr. MCKENNA. I know nothing about that.

Senator LEHMAN. Then these abuses can and probably are going on today?

Mr. MCKENNA. I would say because of the intensity of the investigation, they probably could not be carried on right now. That would be my opinion.

The CHAIRMAN. What we are doing is changing the law. We are going to start at 2 o'clock this afternoon in conference with the House to change the law. That is the way you get at that.

Mr. MCKENNA. Possibly, in illustrating the abuses that we believe have been committed in the section 608 program, it would be better from the viewpoint of the Senators if I went at it case by case, rather than draw my own conclusions or my own summaries of what the situation is, and if the Senators agree that is the way, I would propose to do it.

We have, I believe, distributed summaries of the cases I plan to discuss to the Senators for the record so it will be easy to follow me as I go along.

Senator MAYBANK. Who released these names to the public 2 weeks ago? Did you do that?

Mr. MCKENNA. That was my responsibility; yes, sir.

Senator MAYBANK. You are going to release them all before this thing is over?

Mr. MCKENNA. It is our plan to release them all.

Senator MAYBANK. I don't think it is fair to a few people—I don't know any of them—to have their names brought out and other people's names not brought out.

Mr. MCKENNA. I think that is true.

Senator MAYBANK. I think you will agree we want to be fair to everybody. These are terrible cases, just glancing through them, but I think since their names have been put in the paper, everybody's name who is likewise in the windfall category or whatever you might call it should be treated the same way and you intend to do that.

Mr. MCKENNA. I think that is unquestionably true, Senator. In compiling this list, the instructions I gave to the staff was to list every person and every corporation.

Senator MAYBANK. This is a small number. These people got a lot of publicity. Of course, I guess the others will, too.

Mr. MCKENNA. It is true, Senator.

Senator LEHMAN. Mr. McKenna, I want to establish one thing which is not clear in my mind: The Senate has passed legislation relating to section 213 making abuses much more difficult, if not impossible. One of the main factors was requiring certification as to cost. But that statute or that bill is not in effect yet. The bill, as I recall it, is still in conference. What I don't understand is why, in view of the fact that you testified that these abuses can exist and have existed for a long time in the past, I wonder why no steps have been taken by administrative or Executive order to tighten up so as to make it quite impossible, regardless of the investigation? I wonder whether you can enlighten us on that.

Mr. MCKENNA. It is my personal opinion, Senator, that no abuses in the section 608 program could have been anywhere as widespread as

they have been if an adequate inquiry into the facts had been made before FHA committed itself.

The CHAIRMAN. Isn't it a fact that you have discharged "X" number of people who participated in these irregularities? You say nothing has been done to tighten it up yet but haven't there been many dismissals?

Mr. MCKENNA. The Deputy Commissioner of FHA retired, the general counsel was placed on annual leave, pending his dismissal under civil service procedures.

The CHAIRMAN. The Commissioner was dismissed?

Mr. MCKENNA. The key people responsible for the administration of the aspect of the FHA program have been dismissed or caused to resign.

The CHAIRMAN. These irregularities I think we will find as we go through here—I am only speaking now from having sat in on some twenty-odd executive sessions with these gentlemen that have been participating in these things—and I think you will find they come about through maladministration, and to a certain degree, looseness of the law, I might say, in all fairness.

You have—at least the administration has discharged or dismissed quite a number of people that participated in these irregularities in the past: is that correct?

Mr. MCKENNA. Yes, Senator. It is my opinion that these abuses could not have happened under the present law if the present law had been properly administered, but the Senators can draw that conclusion for themselves or discard it as I go into the facts as we found them.

The CHAIRMAN. We have handled some 20 cases now in executive session and I would say it has been due personally to the looseness of the law and partially to poor administration. I am not going to say yet whether there is any collusion, or direct violation of the law, because we are not through with our inquiry. I am not going to say that, but we certainly are going to get into it. That is the purpose of the investigation.

Senator LEHMAN. Do you know whether there have been any changes made in the personnel that administer section 213?

Mr. MCKENNA. Of course, the man in charge of the section 213 program was dismissed. That is Mr. Clyde Powell, sir.

The first case I should like to discuss with the committee is the case of the Shirley-Duke Apartments in Fairfax County, Va. The reason for selecting this case is that it offers a discussion of several points of the section 608 program.

In the Shirley-Duke Apartments, there were 6 loans which amounted to a total of thirteen-million-eight-hundred-thousand-and-some-odd dollars. Behind this \$13,800,000-some in loans was a capital investment of the shareholders of the corporation of \$6,000.

This was at the rate of \$5 a share. The investment was at the rate of \$5 a share. The mortgage proceeds were distributed to the shareholders in the average of \$1,737 for each \$5 share. The largest stockholders—

The CHAIRMAN. Does that mean for a \$5 investment they got back \$1,737.25?

Mr. McKenna. Substantially, that is what it means, Senator. The largest stockholders were Mr. and Mrs. Hutman of Washington, D. C., who received over \$600,000 in the distribution of the mortgage proceeds. However, Shirley-Duke Apartments offers an aspect of the mortgaging-out system, which I believe, has not previously been discussed. That is one in which the lenders shared as well as the stockholders.

The information obtained by the committee's investigators by field investigation is that the project was planned by the lender; that the stockholders or the sponsors were solicited by the lending institution; that the idea was conceived by the lender.

Senator MAYBANK. What is the name of the lender?

Mr. McKenna. The name at that time was Investors Syndicate.

Senator MAYBANK. Who owns that corporation?

Mr. McKenna. I believe Alleghany Corp. owns it.

Senator MAYBANK. In other words, it is really Alleghany Corp.?

Mr. McKenna. I believe that is true, sir.

The CHAIRMAN. You say Investors Diversified Services owns it?

Mr. McKenna. Investors Diversified Services is the present name of the original mortgagee. The original mortgagee was Investors Syndicate. The stockholders, of course, own it.

The CHAIRMAN. Where is Investors Diversified Services located?

Mr. McKenna. In Minneapolis, Minn.

The CHAIRMAN. Who do you say owns it?

Mr. McKenna. The stockholders owned it at that time.

The CHAIRMAN. Who are the stockholders?

Mr. McKenna. We have a list of them. Mr. and Mrs. Hutman are the largest—

The CHAIRMAN. You are giving the Shirley-Duke stockholders. I want to know those of Investors Diversified Services.

Mr. McKenna. Alleghany Corp., I believe, owns it.

The CHAIRMAN. Who is Alleghany Corp.?

Mr. McKenna. I believe that is Mr. Robert Young's corporation, but I know nothing of Mr. Young's financial interest.

The CHAIRMAN. Where is Investors Diversified Services located?

Mr. McKenna. In Minneapolis, Minn.

The CHAIRMAN. It is owned by the Alleghany Corp.?

Mr. McKenna. I believe so, sir.

Senator MAYBANK. Do you know if they handled any mortgaging-out loans in Minnesota?

Mr. McKenna. The former local counsel for Investors Services, Mr. Budwesky, who is also a stockholder of this corporation, told our investigators that Investors Services made approximately \$26 million out of their section 608 operations around the United States. We have made no field investigation to verify what Mr. Budwesky told our investigators.

The CHAIRMAN. Do you know that Investors Diversified Services, which is owned by Alleghany Corp., participated in 157 section 608's?

Mr. McKenna. I do not know that of my own knowledge. They would have to have participated in a very large number in order to have netted \$26 million.

The CHAIRMAN. You mean Investors Diversified Services netted \$26 million?

Mr. MCKENNA. According to the investigators' report, the investigator was so told by Mr. Budwesky, counsel for Investors at that time, local counsel for Investors Services.

The CHAIRMAN. You mean Investors Diversified Services made \$26 million?

Mr. MCKENNA. That is what the counsel, the former local counsel for them, told our investigators, that they made.

The CHAIRMAN. Out of 157 projects?

Mr. MCKENNA. The number of the projects I don't know, sir.

The CHAIRMAN. How much money did Investors Diversified Services make out of the Shirley-Duke Apartments?

Mr. MCKENNA. That figure we cannot give you exactly. It certainly was over \$1 million. They represented on their application to FHA they were going to charge a one and a half percent service fee. Instead they charged a 6 percent service fee, which means that including the 4 percent interest they netted 10 percent out of their interim financing.

Senator MAYBANK. Did they have a contract for one and a half percent?

Mr. MCKENNA. This project was constructed this way, Senator. The sponsors, the people solicited by Investors Syndicate, and Investors Syndicate entered into a contract, an arrangement for interim financing, which depended upon their getting an FHA commitment for insurance. After that they got the FHA commitment for insurance but the insurance was to be effective upon the completion of the construction of the project. It was to be insurance of the final loan and not the interim financing. Investors Syndicate then advanced the interim financing to the sponsors whom they had selected, which included some of their own personnel, and for that interim financing they collected at least ten percent, and I believe it is substantially more than that.

The CHAIRMAN. Let me ask you—how much did Shirley-Duke Apartments mortgage out?

Mr. MCKENNA. The excess of the mortgage over cost was something slightly over \$2 million. I believe it was \$2,136,358.

The CHAIRMAN. Was this \$2 million mortgaging out over cost after paying Investors Diversified over \$1 million?

Mr. MCKENNA. That is correct, sir.

The CHAIRMAN. It would really be \$3 million?

Mr. MCKENNA. Yes.

The CHAIRMAN. What services did Investors Diversified render in order to earn over \$1 million?

Mr. MCKENNA. They advanced the money for the construction of the project. They first got the FHA commitment, then after having gotten that commitment for the final loan they made the interim loan to the project to construct it.

The CHAIRMAN. You say there was only \$6,000 capital placed in the corporation that built these six apartment buildings?

Mr. MCKENNA. According to the records, that is the case.

The CHAIRMAN. Six thousand dollars?

Mr. MCKENNA. Yes.

The CHAIRMAN. Why would Investors Diversified finance this with just a \$6,000 corporation?

Mr. McKENNA. They had no risk, Senator, because the final commitment was insured by FHA.

The CHAIRMAN. Are you telling us, then, that the men that invested \$6,000 took out over \$2 million; that Investors Diversified Services, who financed it—made the interim financing—took out over \$1 million; all out of the mortgages?

Mr. McKENNA. I think that is an understatement of how much they took out, Senator. There are other aspects in which they obtained substantial funds.

The CHAIRMAN. I see the manager for Investors Diversified, personally, and his wife, took out \$89,000.

Mr. McKENNA. That is correct.

That illustrates, besides showing how a lending institution could participate in this mortgaging out, that illustrates also how the burden of this mortgaging out process was placed.

The CHAIRMAN. Let me ask you this. This is interesting: How many cases have you found similar to this, where someone such as Investors Diversified went to a couple of fellows or three fellows said: "You put up \$6,000 and we will loan you the money to do certain things, buy the land, etc., if you will let us make a lot of money on this"? Is this a pattern, or is this an isolated case?

Mr. McKENNA. We are not in position to prove other cases, Senator, now.

The CHAIRMAN. What about the other 157 cases that the Investors Diversified Services have participated in? Did they do the same thing in those?

Mr. McKENNA. If we believe the former representative of Investors Services, with whom our investigators talked, yes, but we are in no position to prove it. This, however, I believe you can pretty well pin down.

The CHAIRMAN. Who paid for all this mortgaging out? Where did the money come from to give these fellows \$2 million immediate profit, and to give this Investors Diversified Services, this Minneapolis concern, owned by Alleghany Corp., over \$1 million?

Mr. McKENNA. Of course, Senator, that shows the harm that is done by the whole mortgaging out process. The burden is placed upon the tenant. The person who should have benefited by the act is paying for this. Every family in the Shirley-Duke Apartments pays a minimum of \$70 to \$85 a year because of this mortgaging out process, and will pay it for the 33-year life of the loan.

The CHAIRMAN. Is it a fact that Investors Diversified Services, in addition to getting 6 percent, which amounted to some \$900,000, likewise got a 5- or a 10-year contract to operate the property after it was completed at a 5 percent fee?

Mr. McKENNA. That is correct. The contract was terminated practically upon the completion of construction, and the project paid additional money to Investors Services for the privilege of getting out of the contract.

The CHAIRMAN. Has this been turned over to the Attorney General?

Mr. McKENNA. It has been turned over to the Attorney General, Senator, for such criminal investigation and civil proceedings as the Department of Justice might institute, but I might point out that the difficulty of the case is that these representations which I believe

were false representations were made in 1949 and there is a 3-year statute of limitations.

The CHAIRMAN. Do you think they violated the law in this instance?

Mr. MCKENNA. In my opinion, the representations of mortgagee and mortgagor were both false.

The CHAIRMAN. Let me ask you this: Is this a pattern? What I am trying to get at, is this a pattern where three people, I believe, invest \$6,000? They enter into a contract with a big concern like Investors Diversified Services, which is a large concern, in which they evidently both agreed before they entered into the contract, or knew before they entered into the contract, that they were both going to make a lot of money by mortgaging out? Is that a general pattern?

Mr. MCKENNA. That part of it, I think, is general. I think these people who went into it knew in advance pretty much how much they were going to mortgage out.

The CHAIRMAN. If there was only \$6,000 in this corporation, Investors Diversified Services, and others involved, would know that if they were going to make any money they would have to make it out of mortgaging out?

Mr. MCKENNA. I think that was generally known, sir: yes.

The CHAIRMAN. You say that is a pattern throughout the Nation?

Mr. MCKENNA. We cannot prove the relationship between mortgagee and mortgagor is a pattern, but the remainder of it I believe is a pattern, in certain areas. I think we should keep in mind the mortgaging out is concentrated in certain localities, in certain major metropolitan areas, and so far as we have been able to find other communities are remarkably free of it.

You may draw the conclusion from that that the fault is more in the administration than in the law. I think in connection with this Shirley-Duke operation, I might point out at this time that the situation in the Washington, D. C., office may very well have contributed to the frequency and the extent of mortgaging out in the District of Columbia. The General Accounting Office, early in 1949, complained to the Federal Housing Administration about the extent to which substantial gifts were being made by builders to persons in the Washington, D. C., insuring office.

The CHAIRMAN. Is this a fact that after these people—this Shirley-Duke Apartments group—after the stockholders that put in \$6,000 took out over \$2 million in profits, and this Investors Diversified took out over \$1 million in fees, that they then came in and asked for a rent increase and the local FHA office granted it?

Mr. MCKENNA. That is true, sir, and we have not been able to find any of the papers on which that rent increase was granted. According to the files of the Federal Housing Administration the proof that was offered for the rental increase was returned to the persons asking for the increase.

The CHAIRMAN. Is that a general pattern throughout the country? Even though they mortgaged out and made considerable money, they immediately came in and asked for a rent increase?

Mr. MCKENNA. I believe it is, sir, and there is a rather technical aspect of this which illustrates how the mortgaging out in effect helped them get a rental increase. I will see if I can explain that.

The mortgaging out that is reported in this case of \$2,136,000 may actually be diminished by about three or four hundred thousand, by reason of the fact there were not included costs of construction that could properly have been included in the costs of the construction. It is our belief that certain costs of construction were not included in the figures initially submitted, in the books of the mortgagor corporation, but, rather, were carried over to the first period of active operation of the section 608 corporation. By carrying part of the costs of construction over to the first period of operation they showed their expenses during that first period to be higher than they actually were.

And on the basis of that they represented to FHA that the rents should be increased because they were not getting back a 6½-percent return on their investment.

Senator LEHMAN. As I have been listening to the testimony of these various hearings that have been going on for some time, it seems clear to me that the only way in which these people could have mortgaged out their projects was due to the discrepancy—the gap—between the appraised value of the project, completed, and the actual cost? These appraisals, of course, were made by officials of the FHA, and apparently from testimony that is already submitted they were in many instances in excess of the actual cost. That is why we are now putting in a certification in the bill.

Have you been able to establish in any substantial number of cases fraud or corruption on the part of those who were responsible for making the appraisals?

Mr. MCKENNA. I might say as a preface, Senator, that the major cases which we are investigating, where we have strong indications of overall collusion, have not reached the point where a definitive answer can be given. That point is being intensely investigated. The fact that the mortgaging out is concentrated in certain localities, the frequency with which Mr. Powell overruled the local offices on routine questions, affecting, however, the amount of mortgaging out, all of those factors together indicate the urgent necessity for investigating that point, and we are doing it, but we haven't reached the point where we can give an opinion one way or the other.

Senator LEHMAN. You are not proceeding criminally against these people?

Mr. MCKENNA. No. Of course we have made recommendations to the Department of Justice. In rather minor cases, as you may have read in the paper, two persons were suspended last week. In some of these cases in which favors are taken by the FHA people, the favors they receive may be relatively small. They may be television sets, wristwatches, things of that sort, which don't mean a big realization to them personally, and which may not be related to the builders' particular project. In other words, a builder may not say "I am giving you this television set," or "I am giving you this watch in order that you will insure a larger loan," but the natural impact of it is that the FHA employee certainly would be inclined to be a little more generous to the man who gives the television set, who gives him the wristwatch, who gives him the silver percolator set, things of that sort.

That is what I wanted to mention in connection with the Washington, D. C., operations. The GAO advised the FHA early in 1949

that there was a general practice of making gifts, like television sets, wristwatches, and other relatively expensive gifts, to the employees of this local office. That, in effect, practically all of the office received such gifts from builders. The matter was investigated by the Federal Housing Administration's own investigative staff, and an investigative report was returned which showed that that was true. It showed 8 Philco console television sets were given in December of 1948, which, of course, is in the middle of this mortgaging-out period; that 18 wristwatches were given to employees by builders. There is a report of investigation which sets forth these things, at the time that all the mortgaging out was going on. And at the top of the copy of the investigative report, which I have here, is the only reference we have been able to find that the matter may have been referred to the Department of Justice. It is a notation on the top "To Department of Justice, 4/15/52," which would indicate certainly it was referred to the Department of Justice on April 15, 1952, or over 3 years after the gifts were received and other offenses were committed, even though the investigative report was completed in June of 1949.

In other words, the Federal Housing Administration sat on this report for almost 3 years, and until the statute of limitations had run before they sent it to the Department of Justice. That had to be a decision, I think, on the top level of the FHA.

Senator LEHMAN. Let me ask you this question: Am I accurate in saying that the main reason for the large mortgaging-out proceeds that came about were due to the fact, in the law, as it then existed, and existed up until the present time with very few changes, there was no relationship between the actual cost of the project and the mortgage that was guaranteed by the Government, based on appraisals. That if it hadn't been for that great gap which we know existed, and which we are trying to correct now in the new law, there could not have been this large mass of mortgaging out of these projects, at large profits? Is that a correct statement?

Mr. McKENNA. I think that is substantially correct, Senator.

I might point out that mortgaging out was increased by several factors. One of them might have been the poor construction. In other words, initially, certain plans and specifications were called for. The builder, for some reason or other, was able to use inferior materials and inferior construction. That probably could be because of poor inspection by the Federal Housing Administration. The excessive cost estimates which you mention are a major factor.

In addition, the builder might have built the project in a lesser time than FHA required. That was aided sometimes by FHA. FHA granted them extensions, or they allowed them to start construction before the mortgage loan was closed.

In many cases the land value was written up by FHA, sometimes for reasons that we cannot find in the files. Many times leasehold arrangements were allowed, and I will go into some of them in detail afterward, in which the builder was allowed to lease the land to the corporation he had set up, taking back a very substantial annual rental for the use of the land, instead of conveying the land to the corporation.

We have some cases even after construction was completed, and there already was mortgaging out, in which FHA increased the

amount of the mortgage loan so there was even more mortgaging out. Of course, in those cases FHA already had the facts of construction available if they wanted to make use of them, and, of course, we cannot put aside the case that I have just mentioned, the Shirley-Duke case, in which the applications do not appear to have stated what the facts were with respect to their own arrangements between the mortgagee and the mortgagor. On top of that you have what I have just recited, that the local FHA offices certainly appear to have been hurt by the fact that the FHA personnel were allowed to accept favors such as television sets.

Senator MAYBANK. Didn't they fire all those local people who did that?

Mr. MCKENNA. In the Washington, D. C., case, the head of the office, and I believe the No. 2 man, were allowed to resign. The others were told they had to return the presents.

Senator MAYBANK. I understand most of them, wherever evidence of a gift of a television set or watch was obtained, were forced to resign. They couldn't indict them for it. That is all they could do. Did that occur in all regional offices? I only recall GAO's report in Washington that those people were all removed.

Mr. MCKENNA. In the Washington office there were 8 television sets received and 2 of the recipients were allowed to resign. The others, I believe, were told to return their television sets.

Senator MAYBANK. You couldn't do any more than tell them to resign. You couldn't put a fellow in jail for taking a television set.

Mr. MCKENNA. To answer the question, I would have to conduct an investigation to tell whether there was a relationship between the television set he received and the actions he took.

Senator MAYBANK. I grant you that. It appears to me we are dealing here with a company that you say throughout America made \$26 million, the Alleghany Co., and they made in this project \$2 million mortgaging out plus \$1 million excess interest, plus all the others. I don't think they could buy all that for television sets. That is my judgment. Of course, you are absolutely right when you say you have to investigate it.

I would like to know if there are any of these fellows who got these presents in the area offices? You don't know of any outside of Washington?

Mr. MCKENNA. There were other cases.

Senator MAYBANK. What happened to them?

Mr. MCKENNA. In the Philadelphia office, for example, it seemed to be the general practice that people received gifts. I believe a year ago the House Government Operations Committee conducted an investigation of the Alaska office in which in connection with one project only it seems every person on the FHA staff received gifts from the builder. It seems to have been a rather general practice for builders to make gifts to the FHA personnel, not just in the Washington, D. C., area.

When you ask me whether there is something beyond that, and an active participation in the profits of these section 608 operations by FHA personnel, that is something that only a very intensive investigation can determine, and that investigation is underway.

Senator MAYBANK. When you made the investigation did you call it to the FHA's attention in Philadelphia?

Mr. MCKENNA. Certain persons have been fired there. I believe that matter was known to FHA some years ago.

Senator MAYBANK. In other words, the people were fired?

Mr. MCKENNA. The people that we know of were fired; yes, sir.

Senator MAYBANK. Then they fired the ones in Washington, or made them resign, whichever it was?

Mr. MCKENNA. In the Albuquerque case, of course, last week they were fired.

Senator MAYBANK. I read that in the paper. I think it was on the front page of the Star on Thursday or Friday; what was his name, Frost?

Mr. MCKENNA. Yes, of the Albuquerque office.

Senator MAYBANK. What did he do, just for curiosity?

Mr. MCKENNA. That is, again, a case where the amount of money that he received, or the benefits he received, probably are not substantial in dollar amounts.

Senator MAYBANK. I understand he is subpoenaed to be here Thursday?

Mr. MCKENNA. Yes.

Senator MAYBANK. Just forget that, if you will, because the chairman told me Mr. Frost was subpoenaed to be here Thursday, so we do not need to burden you with that.

Mr. MCKENNA. In that, the gift did relate to a specific project.

I believe I pointed out in the Shirley-Duke case that the rents which the tenants had to pay really were increased between \$70 and \$85, because of this mortgaging out process, which places where the burden falls, except in those cases where the project defaults.

The CHAIRMAN. These people mortgaged out over \$2 million—this Investors outfit in Minneapolis took over \$1 million out of it, and yet FHA gave them a rent increase?

Mr. MCKENNA. That is correct.

The CHAIRMAN. Almost unbelievable.

Mr. MCKENNA. We have not been able to find the papers on which the rent increase was based. The records of FHA state that the supporting documents were returned to the applicant for the rent increase.

Senator MAYBANK. Why don't you subpoena applicant's papers?

The CHAIRMAN. We will.

Senator LEHMAN. There is no question your figures are correct, and I do not doubt them, that the mortgaging out on such a large scale brought about additional charges on the tenants, but what is the status of this project now? Is it in default?

Mr. MCKENNA. I believe it is operating, sir. The tenants are able to bear the additional burdens, so I believe it is not in default.

Senator LEHMAN. There has been no loss to the Government itself, although there has been placed on the tenants an additional burden. There is no loss as of this moment?

Mr. MCKENNA. I believe that is true, sir. The loss to the Government does not happen, of course, until the tenants cannot carry the burden.

The CHAIRMAN. On Wednesday we will have other figures of this company and also figures of Investors whatever it is, of Minneapolis, here as witnesses. That will be on Wednesday, at which time we will go into that whole business in detail. I might say we have already held meetings with them in executive session. We know their story.

Senator SPARKMAN. Mr. Chairman, I would like to ask Mr. McKenna some questions.

Let me, first, just to be certain, ask when you use the term "mortgage out" just what do you mean?

Mr. MCKENNA. Generally, mortgaging out would mean only the excess of the mortgage proceeds over the cost of the project.

Senator SPARKMAN. When a person applied to the FHA for insurance of the project, did they have to give a complete breakdown of the cost of the project?

Mr. MCKENNA. They gave a breakdown, sir. I do not know that you would call it a complete breakdown.

Senator SPARKMAN. As a matter of fact, under the law, the amount that the FHA would approve it for was not based on cost, was it?

Mr. MCKENNA. It was based only on the estimate of cost.

The CHAIRMAN. Replacement value.

Mr. MCKENNA. There were three tests laid down by the statute. One was estimate of replacement value, and—I can read the other two if we have it here.

Senator SPARKMAN. What were the other two? This is section 608s you are talking about?

Mr. MCKENNA. Section 608s.

Not to exceed 90 percent of the amount which the Commissioner estimates will be the necessary current cost of the completed property or project, including the land, physical improvements—

And so forth, so 90 percent of the cost—

Provided, That such mortgage shall not in any event exceed the amount which the Commissioner estimates will be the cost of the completed physical improvements in the property or project, exclusive of off-site public utilities and streets.

In other words, not more than 90 percent of the estimated cost and—
not more than 100 percent of the construction cost—
and also—

the principal obligation of the mortgage shall not in any event exceed 90 percent of the Commissioner's estimated cost of replacement of the property or project on the basis of the price prevailing in December 31, 1947, whichever of them is the least.

Senator SPARKMAN. In each instance it is based on an estimate rather than on an actual cost calculation, isn't it?

Mr. MCKENNA. With this exception, Senator: I believe in the 80th Congress there was an enactment which provided that—

The Federal Housing Commissioner shall use every feasible means to assure that such estimates will approximate as closely as possible the actual cost of the efficient building operations—

with that exception, yes.

Senator SPARKMAN. The point I want to make—and I believe it is well for us to keep this in mind—was that there was a weakness in the law, wasn't there?

Mr. McKENNA. A great deal of discretion was given to the Administrator, Senator, and that could be called a weakness in the law.

Senator SPARKMAN. Yes, and as a matter of fact that weakness in the law was pointed out repeatedly by reports from this committee, wasn't it?

Mr. McKENNA. It was, sir; yes, sir.

Senator SPARKMAN. And effort was made from time to time in this committee to write amendments to correct that weakness. Are you aware of that?

Mr. McKENNA. I think so, yes.

Senator SPARKMAN. I think they were actually offered on the floor of the Senate and the House.

Senator MAYBANK. They were written into the law.

Senator SPARKMAN. It was knocked out in conference.

The CHAIRMAN. At that point do you have any information available that the head man of the section 608 projects knew of mortgaging out, and testified before this committee that it was impossible—

Mr. McKENNA. The next case I want to mention is the Elisabeth, Gregory, and Marine Terrace Apartments, and related Elmwood Gardens in New York and New Jersey, and I think it bears directly on that point.

The CHAIRMAN. Tell us about that because it is very interesting.

Mr. McKENNA. The original capital investment in each of these corporations was \$4,000. In the first of these—

Senator MAYBANK. Which one is that?

Mr. McKENNA. Elisabeth, Gregory, and Marine Terrace Apartments.

The total investment in all four corporations was \$4,000. The first one was sold and the subsequent stockholders took out \$436,000. In the other two various amounts were withdrawn amounting to about \$1,616,000, on the \$3,000 investment there.

The administration of the project has been expensive. They have made certain charges against replacement reserve.

The CHAIRMAN. The question I want to ask, did at any time any FHA official know in this particular instance that they mortgaged out?

Mr. McKENNA. There was correspondence in FHA's files, a letter signed 2 days before he testified before this committee, by Clyde Powell, which shows he had knowledge of this mortgaging out.

The CHAIRMAN. Do you have a letter?

Mr. McKENNA. I have a photostatic copy of it.

The CHAIRMAN. Let me have it, will you, please?

Mr. McKENNA. Mr. Powell testified before this committee on July 29, 1949, and these letters, which I will hand to the chairman, are, first, a letter from the Comptroller of FHA to Mr. Powell, dated July 1, 1949, and less than a month before Mr. Powell testified, and a letter by Mr. Powell, himself, to the president of Elisabeth Apartments, dated 2 days before Mr. Powell testified before this committee, which I believe show very clearly that Mr. Powell knew at the time he appeared before this committee that there was very substantial mortgaging out in that case.

The CHAIRMAN. In this particular case?

Mr. McKENNA. In this case.

The CHAIRMAN. Will you read what Mr. Powell said to this committee 2 days after he wrote this letter?

First, let me put in the record this letter, if there is no objection. I haven't seen this letter. Here is a letter dated July 1, 1948, from Lester H. Thompson to Mr. Powell, in which he points out the fact that project No. 012-40053, Elisabeth Apartments, Inc., Astoria, Long Island, N. Y., and mortgaged out \$1,370,936.66, and the other letter is a reply from Mr. Powell, written to Mr. Samuel J. Roth, president of Elisabeth Apartments, Inc., in which he acknowledges receipt of that information. In substance, that is what the letters amount to.

I am going to place them in the record so everybody can read them.

Then, again, on August 10, 1949, a similar letter from Mr. Roth about other dividends and Mr. Powell's reply of August 12, 1949.

There is no question from this correspondence but what Mr. Powell at the time he testified before this committee knew that this particular project had mortgaged out to the extent of more than a million dollars.

(The material referred to follows:)

OFFICE MEMORANDUM—UNITED STATES GOVERNMENT

JULY 1, 1949.

To: Clyde L. Powell, Assistant Commissioner.

From: Lester H. Thompson.

Subject: Project No. 012-40053, Elisabeth Apartments, Inc., Astoria, Long Island, N. Y.

Attached is the first annual financial report of the captioned project as at April 30, 1949, together with a copy of the minutes of the board of directors wherein dividends totaling \$550,005 were declared on March 28, 1949.

According to the commitment issued in this case, land was to be furnished by the sponsors and the construction, including other improvements, was to be provided for my mortgage proceeds of \$4,466,000 plus the sponsors' contributions of \$116,500.

In accordance with administrative rules, and as provided in the commitment, the mortgagor was required to deposit with the mortgagee working capital in an amount equal to 1½ percent of the mortgage, or \$66,990, at closing. The mortgagee acknowledged receipt of this deposit in its certification required at closing on FHA form 2434-W.

From information available to us we have prepared the following statement of funds provided and applied in connection with this project's operations through April 30, 1949, the date of its financial report:

Funds provided:

By mortgage proceeds.....	\$4, 466, 000. 00
By issuance of common stock.....	1, 000. 00
By issuance of preferred stock.....	100. 00
Total.....	<u>4, 467, 100. 00</u>

Funds applied:

To fixed assets.....	3, 764, 986. 59
To working capital (net).....	118, 383. 85
To payment of dividends.....	550, 005. 00
To decrease in mortgage payable.....	11, 183. 65
To net loss before depreciation.....	22, 540. 91
Total.....	<u>4, 467, 100. 00</u>

This statement of funds provided and applied was prepared without regard to the corporation's action whereby assets were written up by \$1,370,936.66, thus creating an appraisal surplus in a like amount out of which the dividends totaling \$550,005 were declared and paid. The following comments in connection with this statement of funds provided and applied appear pertinent:

1. Land would not appear to have been furnished by the sponsors since only 1,000 shares of common stock at \$1 a share were issued and no donated or contributed surplus appears in the balance sheet. The conclusion is that land was paid for out of mortgage proceeds.

2. The \$66,990 cash deposit with the mortgagee for working capital must have been returned to the sponsors since it does not appear as funds provided and, according to the balance sheet, does not remain on deposit.

3. Mortgage proceeds in this case exceed the cost of fixed assets, including land shown on the books at \$489,000 by \$701,013.41.

4. Dividends which, according to the terms of the corporation's charter, can only be paid out of net earnings were paid out of surplus created by appraisal. The amount of \$550,005 was paid whereas the maximum amount permitted by the charter was \$35,494.24, calculated as follows :

Depreciation -----		\$96, 901. 66
Deduct :		
Net loss per profit and loss statement-----	\$47,681. 81	
Required amortization-----	11, 183. 61	
Required reserve fund deposits-----	2, 542. 00	
		61, 407. 42
		35, 494. 24

Your attention is also directed to the payment of \$58,040.44 charged as leasing commissions, \$34,916.79 of which appears in the balance sheet as a deferred expense.

LESTER H. THOMPSON,
Comptroller.

In reply refer to RH-10
JULY 27, 1949.

Re Project No. 012-40053, Elisabeth Apartments, Inc., Astoria, Long Island, N. Y.
Mr. SAMUEL J. ROTH,
*President, Elisabeth Apartments, Inc.,
New York, N. Y.*

DEAR MR. ROTH: In reviewing the certified public accountant's audit report covering the above corporation for its fiscal year ended April 30, 1949, we note that dividends in the amount of \$550,005 were paid, whereas the net earnings, after making provision for required amortization and deposits to the reserve for replacements of the corporation, aggregated \$35,494.24 only. In our opinion, permissible dividends should have been limited to the latter amount.

We shall appreciate receiving your comments respecting this matter at your very earliest convenience.

Very truly yours,

CLYDE L. POWELL,
Assistant Commissioner.

Refer to RH-10

ELISABETH APARTMENTS, INC.,
New York City, August 10, 1949.

Re Project No. 012-40053

FEDERAL HOUSING ADMINISTRATION,
Washington, D. C.

(Attention Mr. Clyde L. Powell, Assistant Commissioner.)

GENTLEMEN: We are in receipt of your communication dated July 27, 1949, in which you request our comments in connection with your receipt of our certified public accountant's audit report covering the above corporation for its fiscal year ending April 30, 1949.

Under the laws of the State of New York declaration of dividends may be made out of surplus, whether earned or created by proper appraisal. Such declarations are not in contradiction with the charter and the articles of incorporation of the above corporation.

We wish to call your attention to the fact that the corporation has no obligations other than the mortgage and that all FHA requirements for reserves for

replacements, taxes, interest, amortization, etc., have been met and are current. We are sure upon your reexamination of this matter that you will find the acts of this corporation are proper and correct.

Very truly yours,

SAMUEL J. ROTH, *President.*

In reply Refer to RH-10

AUGUST 12, 1949.

Re Project No. 012-40053, Elisabeth Apartments, Inc., Astoria, Long Island, N. Y.

Mr. SAMUEL J. ROTH,
*President, Elisabeth Apartments, Inc.,
New York City, N. Y.*

DEAR MR. ROTH: This will acknowledge receipt of and thank you for your letter of August 10, 1949, setting forth your comments respecting the dividends paid by the above corporation which were questioned in our letter to you of July 27, 1949.

In view of the information contained in your letter, this Administration shall offer no further objection to the payment of said dividends.

Very truly yours,

CLYDE L. POWELL, *Assistant Commissioner.*

The CHAIRMAN. Let us read the testimony he gave before this committee.

Senator LEHMAN. What date?

Mr. MCKENNA. Two days after he wrote this letter, sir, July 29, 1949.

The Federal Housing Commissioner appeared before this committee with Mr. Powell, Assistant Commissioner. Mr. Powell was asked by the committee whether he thought it possible—

even for the most efficient builder to actually construct a project at 70 percent of the estimated cost?

Mr. Powell said—

No, I do not think so.

Mr. Powell went on further to say:

I do not see how that is possible, because we are right on top of construction costs. Our figures are on the current market, not on the national market, what it costs in this particular community. We might be off 2 or 3 percent. I do not think it would be physically possible to be off anything like 30 percent.

Senator Long also asked Mr. Powell whether he knew—

of any other way where a man by prudence or by care or by any other manner of handling his project might come below or might further reduce his costs in building one of these projects?

The answer he received was as follows:

Mr. POWELL. I do not see how he could unless our local estimate of cost of production of structures would be far in excess of what it would actually cost him to build.

Senator Bricker asked:

There have been many instances like that, have there not, Mr. Powell?

Mr. POWELL. Not to my knowledge, sir.

Senator BRICKER. You do not know of any?

Mr. POWELL. No, sir.

Senator BRICKER. Have you investigated to find out?

Mr. POWELL. We have not made any investigation of any particular project that I know of.

Senator BRICKER. Do you not think that that would be important?

Mr. POWELL. I do not know as we would have any right to do so.

Senator BRICKER. It might be important to get your estimates revised.

Mr. POWELL. We do get those estimated every 30 days.

Senator BRICKER. I happen to know of something, that is the reason I mentioned this.

Mr. POWELL. Every 30 days we make a check.

Senator BRICKER. I brought this up 2 years ago, the very same thing, and tried to write a protective section into the law. I was not very successful at it because it is a very difficult thing to do, to tell you the truth about it.

Of course, that was 2 days after Mr. Powell had written this letter.

With respect to that particular project, there was mortgaging out of approximately \$2,150,000; that is, in the four projects together, and dividends to the original stockholders amounted to \$1,300,000 on the very small investment that they made.

Senator LEHMAN. Mr. McKenna, isn't it a fact, however, that the builders and lenders were enabled to mortgage out on such a large scale with such great profits, only because of 1 of 2 factors: Either because of excessive estimates made by the appraisers, or alternatively by the cutting of construction costs by contractors? And both of those things were permitted under the law, so far as I know, even though this committee and the Senate tried to amend the law.

If we had had in effect what we now have in the bill, the mortgage would be based on actual certified costs. These huge mortgaging out profits would not have been possible, or will not be possible in the future?

Mr. MCKENNA. I might say this, Senator, that there has to be some explanation for the wide divergence between the estimates of cost of construction and the actual costs of construction, concentrated in certain communities. It wasn't nationwide. It has concentrated in certain communities, and it was of such a tremendous amount, and so consistently in excess of the actual cost of construction, that one is hard put to find an answer to it.

It is true that in any one case—in one case out of a hundred—any man is bound to make a big error, and it is true that in a certain number of cases he will make small errors, but the fact that in certain localities they were consistently way off by high percentage points, one case after another, does not seem explainable on the basis of any deficiency in the statute.

Senator LEHMAN. That gets me back to the question which I asked some time ago: I think these unreasonable and inaccurate estimates, which varied with actual costs by 25, 30, 35 percent, would indicate fraud or corruption. That is why I asked you before, whether any steps had been taken thus far to bring those who might have been corrupt to book on criminal charges. It seems to me that you must take into account that these estimates were beyond any reasonable variation, percentagewise, and could only have been brought about, either by lack of judgment on the part of the appraisers, or by corruption. I again want to express some surprise that no steps have been taken, as yet, to bring these people to justice by placing charges against them.

The CHAIRMAN. Let me say, Senator, I happen to know that there have been steps taken. All of these cases have been turned over to the Attorney General. The Attorney General is working on them. The FBI have dozens and dozens of men working all of these cases at the moment, and steps have been taken, and are being taken, to prosecute all violations. This committee, as you know, is working very closely

with the FBI. We are working very closely with the Attorney General. The testimony here proves how Mr. Powell, and others in FHA in those days, pulled the wool over the eyes of this committee. Here is a case where the headman, Mr. Powell, who had been there for 20 years, testified it couldn't happen within 2 days after he wrote a letter, after he knew that this particular concern had mortgaged out to the extent of over \$2 million and had paid dividends. One of the letters will show he approved a dividend to them of one million three hundred thousand and some-odd dollars knowingly that they only put \$6,000, or something like that—\$4,000—into the corporation.

Senator LEHMAN. Frankly, I do not know the extent to which this committee is cooperating with the FBI and the Attorney General. I will have to take the chairman's word for that.

As a member of the committee, I do not know about it, but I asked this question because Mr. McKenna has testified he has been carrying on an investigation of section 608 projects. We are now discussing the section 608 projects.

Mr. MCKENNA. I might add, the investigation has indicated that certain FHA employees were spending money far beyond any possibility of their collecting that money from legitimate salaries. They have been living at a scale that at least prima facie is not reconcilable with their normal legitimate sources of income.

An intense effort is being made to trace that money. We have numerous leads, and we have allegations that FHA people were personally involved in some of these section 608 projects, but for me at this time to say we have established it wouldn't be correct.

In order to find that kind of a fraud, normally you have to investigate a long while, and work very hard. That is precisely what we are doing.

Senator LEHMAN. Have you referred any substantial number of these cases to the Attorney General or to the FBI?

Mr. MCKENNA. This phase of the investigation is being primarily conducted by the FBI.

The CHAIRMAN. I want to say we are leaning over backwards in this committee, and so are all others connected with this investigation, to make certain we do not unduly prosecute anyone, or bring any pressure upon anyone. We want to be absolutely fair and honest, and we want to make certain of our facts. While we may move slowly we are going to move slowly because we do not want to prosecute anyone who doesn't deserve it.

Senator LEHMAN. I am in full accord with that.

The CHAIRMAN. For that reason it may seem as though we are moving a little slowly, but in every instance we have these people in executive session and go over the whole matter with them and get their testimony, and make certain that there is some basis for any allegations against them.

Senator GOLDWATER. Mr. McKenna, you, during the course of your testimony, have referred several times to the fact that these discrepancies have occurred in certain localities, and haven't occurred in a general pattern over the United States.

Would you mind telling generally what localities you have referred to?

Mr. McKenna. We certainly can establish it in the New York City area, for example; in New Jersey and the Philadelphia area; in Baltimore and, in fact, the whole environs of the District of Columbia; in Richmond. We can spot some in some of the Southern States, and a good deal in certain areas of Texas.

Senator MAYBANK. What Southern States besides Texas?

Mr. McKenna. We have evidence in South Carolina, but we haven't established that yet. We have a good deal of evidence in Florida, but we haven't carried the investigation to the point that we can say that is the fact yet, Senator.

The CHAIRMAN. We have a little of it over the United States?

Mr. McKenna. Normally it is concentrated in certain localities.

The CHAIRMAN. It is concentrated in certain localities, but we have some of it all over the United States.

Senator SPARKMAN. Mr. McKenna, are you taking up every section 608 case and studying it?

Mr. McKenna. That is not possible, Senator. There are about 7,000 cases, and it would be physically impossible to conduct audits of 7,000 corporations.

Senator SPARKMAN. Where you find a rather heavy concentration, such as you indicate here in the District of Columbia, then do you take up every case in that area?

Mr. McKenna. We go further than that, and we are conducting now, for example, and are about to conduct an intense personnel investigation of the New York office, for reasons that I will set forth in the next two cases.

Senator SPARKMAN. How about the District of Columbia?

Mr. McKenna. We, of course, have to include the District of Columbia in the same sort of process.

Senator SPARKMAN. You will include every single project?

Mr. McKenna. We pretty well covered the District of Columbia. We will go further to the end and find out why it happened in the District of Columbia, if we can.

In order to illustrate that, I might take up two New York cases together now.

Senator SPARKMAN. Mr. Powell, before you do that—

Mr. McKenna. My name, sir, is McKenna.

Senator SPARKMAN. Mr. McKenna, I am sorry. I had just been reading these letters that I had better give to the reporter.

Mr. McKenna, of course I agree fully with what the chairman has said, and I am sure that every member of this committee wants a full disclosure, but I do want the record to show that this is not something that has just shown up recently; that many of us knew about it, and were trying to do something about it years ago.

You read, for instance, the exchange of questioning there by Senator Bricker and Senator Long. I believe at that time Senator Long was a member of this committee.

When we had a measure before us in 1950, I believe it was, we brought the matter up. As a matter of fact, in that same year we reported a bill out with an amendment in it doing away with this. I want to read for the record just 2 or 3 paragraphs here in which I was examining Mr. Rodney Lockwood, one of the outstanding builders of the country, from Detroit, who at that time was president of the National Association of Home Builders.

I said to Mr. Lockwood:

You have been in favor of section 608, haven't you?

Mr. LOCKWOOD. Yes.

Senator SPARKMAN. In fact, you have done a lot of building under it—I mean your people, not you individually? We have had fine cooperation between the national home builders and the Federal Government, and everybody who is building homes. We have had fine cooperation under section 608.

Yet, isn't it true that under section 608 many times the amount of money that the Federal Government guaranteed or insured or stood for—I don't care what term you apply—represented more than 100 percent?

Mr. LOCKWOOD. I don't know of a single case of that being true. I think that is one of the most widely circulated bits of misinformation I have heard talked about in housing for a good many years. The impression seems to be that the builder gets in the form of a loan under section 608 more than the total cost of the project. Believe me in those that I have participated in that has not been true. I have not actually seen or heard of any in which that was true.

Senator SPARKMAN. I am sure that I can say that there has been ample evidence presented to this committee from time to time justifying our believing that it is true. As a matter of fact, when we reported S. 2246 to the Senate, as you recall, we proposed to cut the amount of the loan insured under section 608 very largely for that reason, and I might also call your attention to the fact that the Architectural Forum, in its November issue, brought out that very point, of excessive loans under section 608.

Mr. LOCKWOOD. May I ask, in all these things, was there any real factual basis or was it just someone's opinion?

Senator SPARKMAN. I don't have it before me, but we had numerous specific cases called to our attention, and I believe I am safe in saying this: That some members of our committee have told us that they had been told by the builders, themselves, that they had gotten more than a hundred percent. If I correctly—I don't say it is positively—but as I remember it, Senator Long said he knew of a case where a builder friend of his had gotten 120 percent. In all fairness, let me say that I am not condemning the builders.

Mr. LOCKWOOD. If I may be facetious, I would like to say that the statement of 120 percent sounds like barroom talk. I can't believe that the FHA would be that lax in its administration.

I may say when we reported this particular bill on which this questioning took place, we again wrote a provision in the Senate bill to correct this proposition under section 608.

I mention that again in order that the record may show that many of us, over several years, recognized the weakness in the law, and tried to do something about it, but never did succeed.

The CHAIRMAN. The reason we didn't succeed was because those that were close to the projects, those that were running them, operating them, those in a position to know, were giving us misinformation.

Senator FREAR. Those who participated from the other end, those who got the windfalls.

The CHAIRMAN. That is what I mean.

Senator SPARKMAN. The vote was had repeatedly in the Senate and the House, in this committee, and in conference committees, trying to do something about it.

Senator MAYBANK. As chairman of the committee at that time, we reported it to the Senate and the Senate kept it in. Then we struggled for the longest time in conference, and finally we had to give in. The House insisted.

I think you were on the conference at that time, and we finally had to give in or have no housing law.

Senator SPARKMAN. I am saying this, I am not justifying the practice. We were condemning it then, but I think the record should stay straight.

Mr. McKenna. I think FHA's own letters substantiate the Senator's position.

The Chairman. I think you will find letters from high officials telling people how to do it. We will have that a little later.

Mr. McKenna. The Congress passed a provision which I mentioned a while ago that the estimate should get as close to actual cost as possible. That was specific enactment of the Congress.

Senator Sparkman. That was an amendment of the act.

Mr. McKenna. That is right. We looked through the FHA files to find out what they did with that provision after it was enacted. We wanted to see how they enforced it. We have been able to find only one single reference to that provision in all of the voluminous files of the Federal Housing Administration. It is quoted, and there is a one-sentence comment on it.

I will read that comment to the Senators:

Therefore, you are directed to take such steps as may be appropriate to make certain that necessary current cost estimates do not reflect costs of inefficient building operations.

And that is all they did with that provision.

I might, with the Senators' indulgence, take up two cases together here, because in a sense they relate. The Vanderveer Estates, Farragut Gardens, is one, and Patchogue Gardens is the other.

In the Farragut Gardens, Vanderveer Estates, on an investment of \$10,000, the stockholders received dividends of \$3,156,000 shortly after completion of the project. The original FHA loan in this case was increased during that time, based on a recomputation of replacement costs. Even though they ended up by mortgaging out over \$3 million during the process, FHA increased the loans.

FHA's files also show the mortgagor obtained deferment of payments on one of the projects during which distribution of payments was made. In addition to this, the sponsors of the project, or the stockholders, owned the land on which the project was built. The lease is for a term of 99 years with an annual rental of \$76,960, and it was agreed if the project defaulted, and FHA needed to acquire underlying real estate, FHA could do it by paying the persons whose project had defaulted \$1,924,000.

In connection with that same case, during the period of construction a mortgagee, a responsible financial institution in New York, received reports that one of the FHA employees, who was doing the inspecting on the project, was on the payroll of the project at \$500 a week. Whether that report is true or false, we don't know even as of now, so there cannot be any inferences drawn from that, but I think that a strong conclusion can be drawn from the way in which the Federal Housing Administration handled that complaint.

The mortgagee financial institution thought enough of the complaint to conduct an investigation on its own, I believe at a cost of something over a thousand dollars. The report was sent to the Federal Housing Administration here in Washington. The Federal Housing Administration did not have one of their regular investigators available to conduct the investigation, so they sent someone from one of their operating divisions down to New York to make the investigation. He conducted an investigation, and I think the committee should see the report of investigation because it concludes noth-

ing. It is an inept, amateurish, and incomplete report of investigation. That came back to the FHA. Because it neither proved nor disproved the charges, the matter was dropped.

Even under the arrangements between the Department of Justice and the Federal Housing Administration, the Federal Housing Administration never had the authority to investigate a charge of bribery against one of its own employees. It had no jurisdiction in the matter. Nevertheless, it undertook to conduct the investigation itself, though one of its operating divisions, received a report which neither proved nor disproved the charges, and never made a reference to the Department of Justice, which is the only agency of the Government that had any right even to investigate.

After that was done, after that report, which even as of now has never been verified or disproved, which, of course, is now the subject of an investigation by the FBI, after that was done the deficiencies in construction in this project proved to be enormous. It was very badly constructed.

The reserve for replacements had to be depleted to make up for the deficiencies in construction, which went on at the time that these allegations were received by the Federal Housing Administration.

The CHAIRMAN. Let me ask you this question: In this particular case they did not sell or include the land as a part of the project. They took a 99-year lease at \$76,960 a year. Is that the general pattern of what happened in New York City?

Mr. McKENNA. That is true of New York, and also some other areas. I haven't yet been able to find out from any FHA man any reason that seems sound why that was permitted.

The CHAIRMAN. It is the general pattern in New York, both on section 608's and 213's?

Mr. McKENNA. It is, sir, and it is a very lucrative means of getting another windfall, so far as the sponsor of the project is concerned.

The CHAIRMAN. The law, of course, says that whoever has the land lease in case of default on the mortgage owns the property. In other words, you cannot repossess without purchasing his land or making a deal?

Mr. McKENNA. That is right.

The CHAIRMAN. In this particular case FHA agreed, if they had to repossess the property, to pay them \$1,924,000?

Mr. McKENNA. That is correct.

The CHAIRMAN. Do you know how much they paid for the land originally?

Mr. McKENNA. In this case we don't. In other cases, we will.

The CHAIRMAN. You do not know in this case?

Mr. McKENNA. No, sir.

The CHAIRMAN. We will find out.

Mr. McKENNA. Yes, sir.

Senator FREAR. Mr. Chairman, which are you tying together, 2 and 3 or 3 and 4?

Mr. McKENNA. Three and six, I believe, sir.

Senator FREAR. You have passed over two, and I notice you didn't give any names of the stockholders.

The CHAIRMAN. We covered two.

Senator FREAR. I say we have, but I notice that in others, you mentioned names and in No. 2 you do not. Is there any particular reason for that?

Mr. McKenna. There is no reason, sir. We can give the names to the committee, if they wish it. I don't happen to have them here at the minute.

Senator FREAR. I think they should be supplied, sir.

Mr. McKenna. As I am talking here we can get the names, sir.

Also in New York, at Patchogue—

The CHAIRMAN. We have the stockholders' names on No. 2, if you are interested.

Senator FREAR. No. It is only a matter of record.

The CHAIRMAN. I don't think it is important.

Why don't you proceed?

Mr. McKenna. In the Patchogue Gardens case, there was initial investment of \$1,000.

The CHAIRMAN. Without objection, we will place the name of the stockholders in the No. 2 sheet here in the record.

(The material referred to is as follows:)

The stockholders of Marine Terrace Apartments, Inc., Gregory Apartments, Inc., and Elisabeth Apartments, Inc., are:

Capital stock originally issued:

Common, class A: Harry Ginsberg, Charles Sliosberg, Elisabeth Gregory, Frums Fliegers.

Common, class B: Samuel J. Roth, Joel W. Schenker, Elisabeth Gregory, George Gregory, H. H. Rosen and J. Choren, trustees for: Andre Gregory, Peter Gregory, Alexis Gregory.

Preferred: Federal Housing Administration.

Mr. McKenna. In the Patchogue Gardens case, there was initial investment of \$1,000, and dividends of \$155,000. In that case, also, the lending institution made or raised the question of how it happened the project was approved so rapidly in 2 or 3 days when usually it took him months. Finger of suspicion was pointed. There are no substantial grounds in the files of FHA to substantiate it in relation to this project, but the reason it becomes important is this: That in 1949 a serious charge was made that a very high official of FHA in New York was personally interested in the law firm, through which FHA applications were processed. It was represented this law firm was the second largest processor of FHA applications in New York, and one of the high officials of FHA in New York was taking part of these profits.

The CHAIRMAN. Who was the high official?

Mr. McKenna. The matter hasn't been investigated, Senator. I say it is currently the subject of investigation. I believe he admitted this later, so possibly there is no great harm in giving his name.

The CHAIRMAN. I don't think we ought to try to use cases without using names. I don't think we ought to say some high official unless we are willing to name him.

Mr. McKenna. It was the State director, Mr. Grace.

The CHAIRMAN. You are the witness. I am not trying to tell you what to say or not say. I don't think we should permit evidence that some high official did something without naming him.

Senator SPARKMAN. Mr. Chairman, I agree with you. I have been thinking a little bit about this. A little while ago Mr. McKenna told about the TV sets, wrist watches and things given to employees in the district office. I wonder if by that we are to understand that every person in the district office was guilty of this, or if those who actually received them ought to be named, so that we could know.

The CHAIRMAN. Let me say this: that that information he gave with respect to watches, et cetera, came from the GAO. They are the ones that uncovered that a few years ago.

Senator SPARKMAN. Did they give names?

The CHAIRMAN. I can't answer that.

Mr. MCKENNA. If the Senator wishes I will give you the report of FHA.

The CHAIRMAN. Without objection, that will be made a part of the record.

(The information referred to follows:)

FEDERAL HOUSING ADMINISTRATION

SECTION OF INVESTIGATION

LEGAL DIVISION

Special agents: R. E. Dwyer, N. A. Hillock

Date of report	Period of investigation	Remarks
June 23, 1949.....	May 27-June 21, 1949.....	Our file No. 4-125.

INVESTIGATION OF EMPLOYEES OF DISTRICT OF COLUMBIA INSURING OFFICE

Investigation disclosed that practically every employee of the District of Columbia insuring office of the Federal Housing Administration received presents from builders, subcontractors, mortgagees, or sponsors at Christmastime 1948; that there was a decided increase in the number and value of the gifts compared to Christmas 1947; that the majority of the employees received token gifts which were, as a rule, in the case of men, in the form of bottles of liquor, fruit, hams, cigars, turkeys, and ties, while to women there were nylons, scarves, candy, and fruit. One realtor gave subscriptions to Reader's Digest to most of the employees. Investigation also disclosed that, in December 1948, 8 Philco console television sets were delivered and installed for employees of the District of Columbia office by Colonial Investment Co., through Mr. N. J. Taub, president; that the recipients thereof were in key positions in the District of Columbia office; that 18 wristwatches were given to employees of the District of Columbia office by Haris Construction Co.; that 3 recipients returned the watches immediately; that in December 1947 approximately 10 portable personal radios were given to employees in key positions by Mr. Taube, president, Colonial Investment Co., and 1 employee returned the radio immediately. Investigation failed to disclose any evidence of misconduct on the part of inspectors.

This concludes investigation of the case.

Approved:

Chief, Section of Investigation, Legal Division.

DETAILS

This investigation is predicated on a memorandum dated May 27, 1949, from Mr. Howard M. Murphy, Assistant General Counsel, containing authority directed by Mr. Franklin D. Richards, Commissioner, to proceed with investigation of allegations made by Mr. William Newman, Associate Director of the Corporate Audit Division of the General Accounting Office, in reference to the District of Columbia office of the Federal Housing Administration.

The allegations set forth that employees of the District of Columbia insuring office received gratuities, gifts, etc., including such items as television sets and, further, that certain field employees, probably inspectors and valuers—identities unknown—are in the habit of meeting in a beer parlor, where they spend the major portion of the day instead of proceeding on assignments.

We are informed that Mr. Newman would not disclose the name of the informant and at first stated that the information came from an Assistant Director of the General Accounting Office who resided in the same apartment with an FHA employee who received a television set—the inference being that the information came from the FHA employee through the Assistant Director. Later, however, a further statement was made by Mr. Newman which indicated that the information came from a girl employee, probably an employee of the district office.

We are also informed that on the afternoon of May 26, 1949, a meeting was held in Mr. Richards' office at which there were present Mr. Richards, Mr. Lockwood, Mr. Greene, Mr. Newman, Mr. Bovard, Mr. Murphy, and Mr. James Hewitt, district director, Federal Housing Administration. Mr. Richards outlined to Mr. Hewitt the nature of the information, and Mr. Hewitt readily admitted that several days before Christmas 1948 a television set had been delivered to his house as a gift from Colonial Investment Co. through Mr. N. J. Taube, president of said Colonial Investment Co. Mr. Hewitt stated that there was not any consideration for the gift and that on 2 or 3 occasions he had made efforts to return the set, but upon each occasion Mr. Taube had talked him out of doing so. Mr. Hewitt further stated that he did not know of any other television sets which may have been delivered to other FHA employees, nor did he know of any other gratuities of a substantial nature. Mr. Hewitt admitted that at Christmastime he had seen bottles of liquor delivered to the office for a number of employees.

Efforts were made by this office to contact Mr. Taube on Friday, May 27, at which time we were informed that Mr. Taube was away for the weekend. We attempted to contact Mr. Taube on Tuesday, May 31, but he had not as yet returned to the city. Contact was finally made on June 1 at the office of the Colonial Investment Co.

Mr. Taube stated that at Christmas 1948 he gave television sets to the following FHA employees of the district office: Mr. James Hewitt, Mr. Elmore T. Burdette, Mr. Thomas M. Burckes, Mr. Thomas W. Lyons, Mr. Thomas W. McQueen, Mr. Robert P. Seaford, Mr. Edward L. Simpson, Mr. Thomas A. Cary.

Mr. Taube stated that the sets were purchased from the Video Engineering Co. at a price of \$232 each and that installation was made by the Video Engineering Co. Mr. Taube stated that, to the best of his recollection, he contacted each of the people mentioned above in order to determine the nature of the installation necessary for the proper operation of the sets; that some of the employees lived in apartments while others lived in the country, and he needed the information in order to properly inform the installer. Mr. Taube also stated that, to the best of his recollection, he obtained the addresses by calling each of the parties or having his secretary call and obtain the addresses.

Mr. Taube stated that in addition to the televisions, he also gave Sunbeam coffee percolators to the following people: Mr. John C. Brennan and Mr. Edward B. Wise; and carving sets to the following: Mr. Joseph C. Tracy, Mrs. Helen E. Mahoney, and Mrs. Dorothy M. Kaiser. Mr. Taube stated that in 1947 he gave personal portable radios to the following: Mr. James A. Hewitt, Mr. Thomas M. Burckes, Mr. Thomas W. Lyons, Mr. Thomas W. McQueen, Mr. Robert P. Seaford, Mr. Edward L. Simpson, Mr. Thomas A. Cary, Mr. Clyde L. Webster, Mr. Heath Berry.

Mr. Taube stated that the value of each radio was approximately \$75. He also stated that in 1945 or 1946 he gave several wristwatches to people in the district office.

Mr. Taube explained the gift of televisions as follows: He stated that it had been his custom to run a Christmas party which cost him \$5,000 or \$6,000 each year, to which he would invite practically all of the people with whom he was associated during the year; that there was liquor at these parties and the next day all anybody had to show for it was a big head; so he decided to give something that could be used during the entire year and appreciated throughout the entire year; that he got a good buy on the televisions which retail normally for about \$400 installed, and thought it would be a nice gesture to give televisions to the men in the Federal Housing Administration; that he talked

to Mr. Hewitt prior to delivery of the sets and told Mr. Hewitt that he was going to deliver a television set; that Mr. Hewitt said he didn't think he could accept it as it was too expensive; and that he (Taube) said to Mr. Hewitt, "Well, you're going to get it whether you want it or not."

Mr. Taube stated that it has been his custom during the years in which he has been in business to give out Christmas presents to people with whom he is associated. He stated that he gives presents to the District Commissioner's Office and any other Government agency with whom he does business, and that the gifts were not given with any thought of benefit to himself.

Mr. Taube stated that he believed Mr. Hewitt returned the television set on Friday, the 27th of May, when he (Taube) was away, but that he had not seen the set.

The Video Engineers were interviewed, and their records disclosed the following deliveries to the people noted:

Philco console television

	<i>Date of delivery</i>
Mr. James A. Hewitt.....	Nov. 30, 1948
Mr. Elmore T. Burdette.....	Dec. 8, 1948
Mr. Thomas M. Burckes.....	Dec. 1, 1948
Mr. Thomas W. Lyons.....	Dec. 9, 1948
Mr. Thomas W. McQueen.....	Dec. 1, 1948
Mr. Robert P. Seaford.....	Nov. 30, 1948
Mr. Edward L. Simpson.....	Dec. 8, 1948
Mr. Thomas A. Cary.....	Dec. 1, 1948

Video Engineers stated that the above television sets were purchased by Mr. Taube, of Colonial Finance Co.

Mr. Harold Straus, of Haris Construction Co. (builders, Viers Mill Village), was interviewed on June 3, 1949. Mr. Straus admitted that shortly before Christmas 1948 he presented numerous wristwatches to employees of the district office as Christmas presents. Mr. Straus could not remember to whom the watches had been given, but stated that he was going to New York over the weekend and thought that he could locate the list of names which he thought was in his New York office.

Mr. Straus was interviewed again on Monday, June 6, 1949, and he failed to produce the list, stating that he could not locate it. He agreed to go over the list of employees of the district office and to name those to whom he may have given wristwatches. The list as given is as follows:

Mr. James A. Hewitt, returned watch about May 16 or May 23, 1949.

Mr. E. T. Burdette.

Mr. J. C. Brennan.

Mr. T. M. Burckes.

Mr. Thomas W. Lyons.

Mr. J. M. Cox, returned watch immediately after Christmas.

Mr. J. R. Blakistone.

Mr. C. Sprigg Sands, returned watch immediately after Christmas.

Mr. Thomas W. McQueen.

Mr. Harold P. Rose.

Mr. E. B. Wise.

Mrs. Travis.

Mrs. Mahoney.

Mrs. Clark.

Mr. Heath Berry, not sure.

Mr. Robert P. Seaford, not sure.

Mr. L. E. Rust, not sure.

Mr. S. N. Fairchild, not sure.

Mr. E. L. Simpson, not sure.

(It will be shown later in the report that there were other watches given which were not reported by Mrs. Straus, to wit: Lacy Smith and Henry G. Herath. It will also be shown that Mr. Fairchild received a watch.)

Mr. Louis Richman was interviewed in the office of the Widrich Court Apartments, Fifth Street and Livingston Road, SE., Washington, D. C., on June 9 and 10, 1949. Mr. Richman stated that he was the builder of the Widrich Apartments and others; that he dealt on occasions with the District of Columbia Insuring office. Mr. Richman stated that it was his practice to give gifts to his employees and friends at Christmastime; that he gave whiskey, magazine sub-

scriptions, and gift certificates which he purchased at Raleigh Haberdasher for this purpose.

When asked whether he ever gave gifts of any kind to FHA employees, Mr. Richman stated that he gave two bottles of whisky to an FHA inspector named Mr. Reed; that he cannot recall the names of any other FHA employees to whom he has given gifts nor can he state that he has or has not given gifts to other FHA employees. (It will be shown that Mr. Orville L. Rice stated that he received a \$50 gift certificate from Mr. Richman, which he, Rice, tore up.)

Mr. William Magazine, builder and sponsor, Denrike Building, Washington, D. C., was interviewed on June 13, 1949. Mr. Magazine stated that sometime in May 1949, Mr. Bigbee, of the FHA office, gave him a ticket to the FHA office party and asked him to attend; that he told Mr. Bigbee that he did not believe he could go, but that he would like to send a little liquor around to the party; that Mr. Bigbee told him that it was not necessary, but that, if he wanted to do so, it would be all right; that he (Magazine) told Mr. Bigbee that he would leave an order at Fig's Liquor Store, and to the best of his knowledge and belief a Mr. Wise picked it up and delivered it to the FHA party.

Mr. Magazine stated that this is the only occasion on which he has furnished liquor for an FHA party. He also stated that before Christmas, 1947, he asked Mr. Hewitt whether it would be all right to bring the girls in the office a box of candy and some of the men bottles of liquor, and that Mr. Hewitt said it would be all right; that during the Christmas season of 1948 he did give girls in FHA boxes of candy and some of the men bottles of liquor; that he did not give more than three bottles of liquor to any one employee.

Mr. James A. Hewitt and Mr. Thomas N. Burckes were not interrogated by the Section of Investigation.

Mr. Elmore T. Burdette, 1105 Trenton Place, SE., Apartment 2-B, Assistant Director, Federal Housing Administration, District of Columbia office, was interviewed on June 7, 1949, by Mr. R. E. Dwyer and N. A. Hillock. Mr. Burdette admitted that he received a personal portable radio from Colonial Investment Co. at Christmas, 1947; that he received a television set from Colonial Investment Co. in 1948; that he received a wristwatch from Harris Construction Co. in 1948; that he received a ham from the Metropolitan Mortgage Co. in 1948; and that he received 15 or 20 bottles of liquor from various persons or companies whose names he did not remember. Mr. Burdette admitted that he knew it was wrong to take the gifts and stated he would be glad to return them if so requested.

Mr. Thomas W. Lyons, chief valuator, was interviewed on Wednesday, June 1, 1949. Mr. Lyons admitted that he received a personal portable radio in 1947, a television in 1948, and a watch in 1948. He stated that he thought the television came from Colonial Investment Co., and he did not know whom the watch came from—that the watch was not any good, although he had it on. Mr. Lyons also admitted receipt of bottles of whisky—the exact amount he did not state—but he stated that they were from various sources.

Mr. Edward L. Simpson, chief construction examiner, 102 East Woodbine, Chevy Chase, Md., was interviewed on June 7, 1949. Mr. Simpson admitted he received a television set in 1948 from Colonial Investment Co., but he denied that he received a watch in 1948 or a radio in 1947. Mr. Simpson stated that several times items have been delivered to his desk which he has never received and that possibly that may be what happened to the radio and the watch.

Mr. Simpson admitted that he received approximately 4½ bushels of grapefruit, a box of pears, a basket of fruit, and 1 dozen bottles of whisky at Christmas in 1948, and one ticket to a Redskin football game and a hunting trip of 1 day's duration to the lodge of Mr. Don Chamberlin. He explained the fruit by stating that, when he was approached by various persons in reference to Christmas gifts, he informed such persons that the rules of FHA forbade acceptance of anything but perishables or whisky. Mr. Simpson, continuing, stated that in September 1948, after Mr. Jacobs, inspector in Virginia, had been removed to another project, Mr. Hewitt called all the inspectors into the office and told them not to accept any gifts except perishable gifts or bottles of whisky.

Mr. Simpson also stated that in January 1949, he was "feeling around" to see who received television sets and that Mr. McQueen and Mr. Lyons intimated that they had received sets and, further, that they stated that, inasmuch as the sets had come from a mortgagee it was ruled O. K. to accept same. Mr. Simpson could not explain why he accepted a television set when he had been instructed by Mr. Hewitt not to accept any large gifts and when he (Simpson) had in turn instructed employees not to accept any large gifts.

Mr. Thomas W. McQueen, chief mortgage credit examiner, 4808 North Second Road, Arlington, was interviewed June 7, 1949. Mr. McQueen admitted that he received a radio in 1947 from Colonial Investment Co., a television set in 1948 from Colonial Investment Co., a wristwatch in 1948 from Haris Construction Co., a box of apples from Republic Engineering Co., a box of pears from Investors Syndicate, a ham from De Lashmutt Bros., a turkey from McCollum, Inc., 1½ to 2 dozen bottles of liquor from various sources, and a ticket to a Redskin football game from Mr. Taube. During 1948 he received 2 tickets to the opening baseball game of the Washington Senators and in 1949 he received 1 ticket to the opening game, said ballgame tickets coming from one Mr. Pomponio. Mr. McQueen stated that he took these gifts in the same spirit he did when he worked in a bank. He cited "service" to builders, etc., and cited night and Saturday calls to his house in reference to cases in process. He stated that he did these things to help out the builders whereas he could have told them, "Go to your mortgagee."

Mr. Thomas A. Cary, construction examiner, Box 33-B, Route No. 3, Alexandria, Va., was interviewed June 7, 1949. Mr. Cary admitted that he received a personal portable radio in 1947 from the Colonial Investment Co., and a television in 1948. He stated that a watch was handed to him by a young man, but he handed it back and refused to take it. Mr. Cary admitted that he knew he should not have accepted the television set and the radio. He said that in 1947 he did not even know who Colonial Investment was and was given the radio by an employee of the Federal Housing Administration after Christmas, but he does not remember who the employee was. Mr. Cary stated that, after the television set was delivered, he received a letter from Video Engineering stating that said television was installed by courtesy of Mr. Nat Taube. Mr. Cary also admitted receiving 4 or 5 dozen bottles of whisky. He stated that he does not drink and gave at least half of it away. He also received two tickets to the opening baseball game from Mr. Pomponio.

Mr. Robert P. Seaford, valuator and property manager, 2908 Cortland Place NW., was interviewed on June 3, 1949. Mr. Seaford admitted that in 1948 he received a television set. He also admitted that he received approximately 30 bottles of liquor from various sources, the largest gift being 6 bottles from Mr. L. Richman. Mr. Seaford stated that prior to delivery of the set Mr. Taube contacted him and stated that he (Taube) usually had a big Christmas party, but this year he was going to give Christmas presents instead and was going to send out a television set to him (Seaford). Mr. Seaford admitted that he did not object. He denied that he received a wristwatch from Haris Construction Co.

Mr. Samuel N. Fairchild, 1228 South Thomas Street, Arlington, was interviewed June 3, 1949. Mr. Fairchild admitted that he received a wristwatch from Haris Construction Co. at Christmas time, 1948; that he came in the office and found the watch in the drawer of his desk, wrapped up in brown paper; that there was no card or name on the package and he did not know at the time of receipt just who had sent it, but that later in the day during talks with other employees who had received watches he assumed that it had come from Haris Construction Co. Mr. Fairchild stated that, if he had known where the watch came from, he would have given it back to the donor. He also admitted receiving 2 or 3 bottles of liquor, 2 ties, and a subscription to Reader's Digest. He admitted that he did not exert much effort to determine who sent the watch to him.

Mr. Lacy H. Smith, 8015 East Avenue, Silver Spring, Md., Apartment T-4, was interviewed on June 8, 1949. Mr. Smith admitted that he received a Dumont wristwatch from Haris Construction Co. at Christmas, 1948; that he received 7 or 8 bottles of whisky; that he received a turkey from Laurel Nichols Realty Co.; that he received a basket of pears from Investors Syndicate and a subscription to the Reader's Digest.

Mr. Henry G. Herath, construction supervisor, 212 East Hamilton Avenue, Silver Spring, was interviewed on June 8, 1949. Mr. Herath stated that at Christmas, 1948, he received a wristwatch from Haris Construction Co., 14 or 15 bottles of whisky from various sources, a box of fruit, a turkey from Mr. Nichols, of Laurel, Md., and two neckties. Mr. Herath admitted that there were meetings in reference to gratuities at which time Mr. Hewitt instructed the inspectors to be careful of accepting gifts and to confine acceptances to perishable goods and bottles of whisky occasionally.

Mr. Orville L. Rice, construction examiner supervisor, 231 Ascot Place NE., was interviewed on June 3, 1949. Mr. Rice stated that in 1947 a portable per-

sonal radio was sent to his office from Colonial Investment Co. and that immediately thereafter he returned said radio to Mr. Levin, of the Colonial Investment Co. Mr. Rice stated that around Christmas, 1948, he received approximately 20 bottles of liquor, the largest donation being 8 bottles from Cassell & Perlmutter, which liquor was left at his house. In addition to the 20 bottles, Mr. W. Glassman put 12 bottles of liquor in his car after he (Rice) had told Mr. Glassman not to put the liquor in the car; that he (Rice) gave the liquor away and therefore feels that he did not accept the liquor from Mr. Glassman. Mr. Rice also stated that Mr. Louis Richman gave him a gift certificate for \$50 around Christmas, 1948, which he (Rice) tore up and did not use. Mr. Rice was questioned in reference to the reports that inspectors were spending some time in the beer parlors, and he stated that he did not believe this to be true insofar as his men are concerned; that he calls on some of the jobs every day and the inspectors do not know which job he is going to call on; that the inspectors could not make up their reports without being on the job, and he would find out in that manner.

Mr. Joseph C. Tracy, Assistant Chief, Mortgage Credit Section, 3820 Second Street SE., was interviewed on June 8, 1949. Mr. Tracy admitted that in 1948 at Christmas he received a wristwatch from Haris Construction Co., a carving set—the donor of which he claims he does not know—14 bottles of whisky from various persons, 2 ties, a subscription to Reader's Digest, and some fruit from Investors Syndicate. Mr. Tracy stated that he kept the watch because a number of other people received watches and he did not see why he should return the watch under those circumstances. Mr. Tracy also stated that he never received any instructions in reference to the acceptance of gifts.

Mr. James M. Cox, assistant chief underwriter, 2227 20th Street NW., was interviewed on June 8, 1949. Mr. Cox stated that around Christmas, 1948, a watch was left in his desk; that from 1 of the girls in the office who received a watch he learned that the donor was Haris Construction Co.; that shortly after Christmas, Mr. Straus, of Haris Construction Co., came into the office, and he put the watch in Mr. Straus' pocket. Thereafter he again found the watch in his desk drawer and, when Mr. Straus came in again, he insisted that Mr. Straus take the watch back. Mr. Cox stated that he also received 6 or 7 bottles of whisky which were left on his desk and were from various donors.

Mr. Cox stated that Mr. Blackistone came to him and asked whether he (Blackistone) should keep a watch which had been given him by Haris Construction Co.; that he told Mr. Blackistone he could use his own judgment, but that he (Cox) had returned his watch to Mr. Straus. Mr. Cox also stated that he had mentioned the watches to Mr. Hewitt, who told him that the people would have to use their own judgment in reference to acceptance thereof. He also stated that Mr. Rose and Mrs. Mahoney came to him and requested his advice in reference to keeping wristwatches which had been given them by Viers Mill; that he spoke to Mr. Hewitt and that Mr. Hewitt stated he did not want to spoil Mrs. Mahoney's holiday and she would have to use her own discretion in reference to acceptance of the watch.

Mr. Harold P. Rose, mortgage credit examiner, 5833 North Washington Boulevard, Arlington, was interviewed June 8, 1949. Mr. Rose stated that around Christmas, 1948, he received a wristwatch from Haris Construction Co.; that the watch was a Bulova 17-jewel and had a price tag in the box of \$65; that he talked to Mr. McQueen and Mr. Wise about receiving the watch; that he doesn't recall what Mr. McQueen said; that Mr. Wise said he knew the watches were coming in; that after Christmas he (Rose) spoke to Mr. Cox about accepting the watch, and Mr. Cox stated he would talk to Mr. Hewitt again. Mr. Rose stated that he also talked to Mr. Blackistone, who told him he had heard that the watches were given out with the permission of the front office. In addition to the watch, Mr. Rose stated he received about 7 bottles of liquor and a box of fruit, a subscription to Reader's Digest, a gift certificate for \$25, which certificate was received through the mail from Rose & Hamburg (Jefferson Village Apartments).

Mr. Rose was questioned in reference to a chicken fry which was held on the property of Mr. Daniel C. Bigbee at Temple Hill on Thursday, May 26, 1949. Mr. Rose stated that the chicken fry was an annual picnic of the District of Columbia insuring office and that tickets were \$1.50 apiece; that he believes a case of liquor was donated by Mr. Magazine, which liquor was brought to the site of the picnic by Mr. Wise.

Mr. Edward B. Wise, mortgage risk examiner, was interviewed on June 1, 1949. Mr. Wise admitted that at Christmas, 1948, he received a wristwatch from Haris

Construction Co. and a Sunbeam electric percolator from the Colonial Investment Co.; and that he also received several bottles of whisky. Mr. Wise stated that on Thursday, May 26, he picked up a case of liquor at Eig's Liquor Store on Georgia Avenue and took the liquor to the FHA picnic; and that the liquor was donated by Mr. Magazine.

Mr. John R. Blakistone, assistant chief valuator, 2116 South Culpepper Street, Arlington, was interviewed June 8, 1949. Mr. Blakistone stated that around Christmas of 1948 he received a wristwatch from Haris Construction Co, 7 bottles of liquor from various sources, a year's subscription to Readers' Digest, 2 neckties from an unknown source, and some fruit from Investors Syndicate. Mr. Blakistone stated that, when the watch came in, he went to Mr. Lyons, his superior, and asked Mr. Lyons for advice in reference to the wristwatch; that Mr. Lyons told him he saw no harm in it—that he (Blakistone) was not the only one who received a watch, and apparently it was given to him in appreciation for the help he gave Haris Construction Co. during the year. Mr. Blakistone stated that he also consulted Mr. Cox, assistant chief underwriter, and that Mr. Cox told him to use his own judgment—that the front office knew about the watches, but that he (Cox) was going to give his watch back. Mr. Blakistone stated that he did not return the watch.

Mrs. Marie Travis, clerk-typist, was interviewed on June 6, 1949. (Mrs. Travis is no longer in the employ of the Federal Housing Administration.) Mrs. Travis admitted that around Christmas, 1948, she received a wristwatch from the Haris Construction Co.; that she also received a small vial of perfume from Godden & Small, and a silk scarf which was sent through the mail from Grossberg; that she also received 2 pounds of candy from unknown sources. Mrs. Travis stated that Mr. Brennan, her superior, knew about the watches and knew that she had received one, as had a Mrs. Clark, also employed in the section.

Mrs. Travis was asked whether she was ever requested to give preferential treatment to any particular case, and she stated that mortgagees called her in reference to cases in process and, when she had located the cases, she would, in turn, refer them to Mr. Brennan; that after Mr. Brennan looked over the cases he would return them to her with the instructions, "Do this case next," or "Do this case today," or "Do this case whenever you can."

Mrs. Helen Mahoney, 4624 Knox Road, College Park, Md., clerk-typist on receiving desk, was interviewed on June 6, 1949. Mrs. Mahoney stated that around Christmas, 1948, she received a wristwatch from Haris Construction Co., a set of carving knives from Colonial Investment Co., a small vial of perfume from Godden & Small, and a scarf which was sent through the mails from a Joe Smith or Grossberger. Mrs. Mahoney stated that Mr. Cox came to her after Christmas and stated he had received a watch, but was returning it and that at the time she did not realize that Mr. Cox was telling her to return her watch. Mrs. Mahoney stated that all the girls knew she had the watch although she did not open the package until she got home, and that there were several watches given out in the office.

Mr. John C. Brennan, office manager, was interviewed on June 6, 1949. Mr. Brennan stated that around Christmas, 1948, he received a Wittnauer Longine watch from Haris Construction Co.; that there was a price tag in the box of \$60 or \$65; that he also received a Sunbeam electric percolator from Colonial Investment Co. and about four bottles of liquor from various sources. Mr. Brennan stated that the watches came in by Western Union messenger; that Mr. Burckes and Mr. Hewitt were out, but he saw the messenger go into their offices and thereafter he (Brennan) had occasion to go into Mr. Hewitt's office, in which there is also the desk of Mr. Burdette, and on each desk he saw the same type of package as the one delivered to him (Brennan) by the messenger boy.

Mr. Brennan stated that after Christmas he talked to Mr. Cox and Mr. Cox informed him that he had received a watch, but returned it. Mr. Brennan stated he had no excuse to make—that he knew it was wrong and he should not have accepted the watch, but he did so as others were getting watches and he saw no reason why he should be different from the rest.

Mr. James I. Birchett, construction examiner, 3426 16th Street NW., apartment 602, was interviewed on June 8, 1949. Mr. Birchett stated that at Christmas, 1948, he received one bottle of whisky and he does not know who the donor was. He stated that he had been at home quite a while with a broken ankle and therefore had not been on the job prior to Christmas. (The leave records disclosed that Mr. Birchett was on sick leave from November 30 to December 13, 1948, which used all of his accrued sick leave, and from December 14 through 4 hours of December 24, he was on annual leave.)

Mr. William F. Raymond, construction examiner, 712 Varnum Street NW., was interviewed June 8, 1949. Mr. Raymond stated that he received 5 or 6 bottles of whisky from various donors at Christmas, 1948. He stated that he did not know of any occasion where inspectors met or spent any time in beer parlors.

Mr. Daniel C. Bigbee, construction examiner, 2200 32d Place SE., was interviewed on June 8, 1949. Mr. Bigbee stated that he received a subscription to Reader's Digest around Christmas, 1947, and on Christmas, 1948, he received 2 ties from an unknown donor and 5 bottles of liquor from various sources. Mr. Bigbee stated that he was in charge of arrangements for the chicken fry which was held on his property in Temple Hills on Thursday, May 26, 1949; that he (Bigbee) invited Mr. Magazine to attend the party and Mr. Magazine stated that he could not go, but that he would like to donate a case of whisky; that he (Bigbee) asked Mr. Wise to pick the whisky up, which was done and said whisky delivered to the picnic grounds.

Mr. Lawrence W. Rust, assignment valuator, 4000 Cathedral Avenue NW., apartment 118 was interviewed on June 8, 1949. Mr. Rust stated that in 1947 at Christmas he received 1 bottle of liquor and that at Christmas, 1948, he received 3 or 4 bottles of liquor from unknown donors.

Mr. Charles H. Bohland, construction examiner, 4308 Kaywood Drive, Mount Rainier, apartment 5, was interviewed on June 10, 1949. Mr. Bohland stated that in 1947 he received 2 rolls of colored 33 mm. film, 3 bottles of liquor, and from Colonial Investment Co. an Emerson personal portable radio; that in 1948 he received 2 or 3 bottles of whisky. (It is to be noted that Mr. Bohland's name is not on Mr. Taube's list for radios in 1947. Information disclosed during investigation indicates that somehow the distribution of the radios was confused at the party which was held by Mr. Taube just prior to Christmas, 1947.) Mr. Bohland expressed the thought that it was always his opinion that he was given the radio by mistake.

Mr. William P. Robinson, construction examiner, 2510 Second Street NW., apartment 206, was interviewed on June 10, 1949. Mr. Robinson stated that he did not receive any presents from anyone connected with FHA transactions in 1947 or 1948.

Mr. Walter W. Birchett, construction examiner, 4926 Sedgwick Street NW., was interviewed June 10, 1949. Mr. Birchett stated that around Christmas, 1948, he received 3 bottles of whisky and 1 bottle of wine from unknown donors.

Mr. Edward E. Knott, construction examiner, George Washington Inn, New Jersey Avenue at C Street SE., was interviewed June 10, 1949. Mr. Knott stated that he has been with Federal Housing Administration for only 6 weeks.

Mr. Frank J. Wilfong, construction examiner, 1734 North Troy Street, Colonial Village, Arlington, apartment 1726, was interviewed June 10, 1949. Mr. Wilfong stated that in 1948 he received 2 or 3 bottles of liquor from unknown sources, 1 turkey from Jefferson Village, and an electric clock from Mr. Bernstein.

Mr. Norman L. Dean, valuator, 1500 Farragut Street NW., was interviewed June 10, 1949. Mr. Dean stated that in 1948 he received 2 bottles of whisky from Mr. Pomponio, 1 bottle from an unknown source, 2 ties from an unknown source, a subscription to Reader's Digest from Berens & Co., and a carton of pears from Investors Syndicate.

Mr. Clarence H. Fleming, construction cost examiner, P. O. Box 526, Alexandria, was interviewed on June 10, 1949. Mr. Fleming stated that in 1947 about Christmastime he received a bottle of whisky from an unknown donor; that about Christmas, 1948, he received 5 bottles of whisky from an unknown source, 3 ties from an unknown source, and a subscription to Reader's Digest from Berens & Co.

Mr. George Van Wagner, construction examiner, 1735 33d Place SE., apartment 104, was interviewed June 10, 1949. Mr. Van Wagner stated that he received approximately 4 bottles of whisky around Christmas, 1948, from unknown sources.

Mr. Rufus A. Wilson, construction examiner, 10005 Brookmore Drive, Silver Spring, was interviewed June 9, 1949. Mr. Wilson stated that he received 6 bottles of liquor from Mr. Anthony Izzo, 3 bottles of liquor from Mr. Magazine, 1 bottle from Republic Engineering Corp., to which there was attached a \$20 bill which he returned to Mr. E. Rosenfeld 2 or 3 days later, and 3 bottles of liquor from unknown sources, a set of kitchen knives from Sligo Construction Co., 2 ties from unknown sources, a subscription to Reader's Digest from Berens, a basket of fruit from Jefferson Dyer Co., and he attended a party given by Mr.

Magazine at Benny Bortnick's early in the fall of 1948. In 1947, Mr. Wilson stated he received a \$10 hat certificate from the Goodacres job, a key carrier and wallet from Sligo Construction Co., and 4 or 5 bottles of liquor from unknown donors.

Mr. Ole Larson, construction examiner, 1110 North Pitt Street, Alexandria, was interviewed June 9, 1949. Mr. Larson stated that in 1948 around Christmas he received 2 quarts of whisky from unknown donors, 1 ham from Virginia Gardens, 1 electric alarm clock from Fort Myer Heights, 1 turkey (small) from Leland Construction Co., 3 ties from an unknown source, and a subscription to Reader's Digest from Berens.

Mr. Robert C. Higgins, construction examiner, 1200 South Thomas, Arlington, was interviewed on June 9, 1949. Mr. Higgins stated that about Christmas, 1948, he received 2 bottles of whisky from unknown sources, 2 ties from an unknown source, and a subscription to Reader's Digest from Berens & Co.

Mr. Ernest T. Reilly, construction examiner, was interviewed on June 9, 1949. Mr. Reilly stated that he received 3 bottles of whisky from an Italian subcontractor whose name he does not remember, 3 bottles of whisky from Wortheimer, and about 20 bottles from unknown sources; that he received 2 ties through the mail from an unknown source, and a subscription to Reader's Digest from Berens & Co.

Mr. Alexander Linn, construction examiner, 1725 North Twelfth Street, Arlington, was interviewed June 9, 1949. Mr. Linn stated that in 1948 around Christmas he received 3 or 4 bottles of whisky from unknown sources, 2 ties from an unknown source, 1 gift certificate for \$25 from Jefferson Village—said certificate being drawn on Woodward & Lothrop; that he spoke to Mr. Simpson about the gift certificate, and that Mr. Simpson told him to use his own judgment; and that he also received a subscription to Reader's Digest from Berens & Co.

Mr. John T. Whittaker, construction examiner, 608 Prince George Street, Laurel, Md., was interviewed June 9, 1949. Mr. Whittaker stated that at Christmas, 1948, he received 6 or 8 bottles of whisky from unknown sources; 2 ties from an unknown source, a subscription to Reader's Digest from Berens & Co., a \$25 gift certificate from Mr. Richaman drawn on Raleigh Haberdashers. Mr. Whittaker stated that he did not consult Mr. Simpson about the gift certificate inasmuch as he knew several other certificates had been given out in the office.

Mr. George J. Schladt, valuator, 5501 Potomac Avenue NW., was interviewed June 10, 1949. Mr. Schladt stated that around Christmas, 1948, he received 2 bottles of liquor, 2 ties, and a subscription to Reader's Digest.

Mr. Edward M. Horn, valuator, 3051 Idaho Avenue NW., apartment 209, was interviewed June 10, 1949. Mr. Horn stated that at Christmas, 1947, he received a carton of cigarettes from an unknown source; that around Christmas, 1948, he received 5 bottles of whisky from various sources, 2 ties from an unknown source, and 1 ham from the Metropolitan Mortgage Co.

Mr. Max L. Waeber, assistant chief architect, 7234 15th Place NW., was interviewed on June 10, 1949. Mr. Waeber stated that in 1948 around Christmas he received four bottles of whisky and a subscription to Reader's Digest. Mr. Waeber was asked whether he ever drew plans for builders or others for which he received compensation. He stated that he had drawn the plans for a house on East-West Highway and received \$250 therefor from a Mr. Sandberg or Sarberg, but that he was given permission by the national office, as the job was not an FHA transaction. He also stated that he drew plans for a house for Mr. Simpson, Mr. Burdette, Mr. Hewitt (barn and antique shop), and alterations for a house and garage for Mr. Blakistone; that he also drew plans for a house for the former office manager of the district office before Mr. Brennan. Mr. Waeber stated that all the houses were erected except Mr. Burdette's. He stated that he also drew plans for close friends for which he received no compensation.

Mr. Robert L. Hart, construction aide, 3647 11th Street NW., was interviewed on June 10, 1949. Mr. Hart stated that around Christmas, 1948, he received two ties, a bottle of wine, and a subscription to Reader's Digest.

Mr. Henry Dollar, construction examiner, 401 37th Place SE., apartment 202, was interviewed on June 10, 1949. Mr. Dollar stated that around Christmas, 1948, he received 6 bottles of liquor from unknown sources, 2 neckties from an unknown source, and a subscription to Reader's Digest from Berens & Co.

Mr. Walter E. Wakeman, who was at home ill during this investigation, called the office of the Section of Investigation and made the following statement on June 10, 1949: That around Christmas, 1947, he received approximately 5 bottles of whisky from unknown sources; that around Christmas, 1948, he received "

subscription to Reader's Digest from Berens & Co., 3 bottles of liquor from unknown sources, 2 ties from an unknown source, a gift certificate for a shirt from a Mr. Kinsky; and that during the year 1948 he received a ticket to the opening ball game, he believes, from a Mr. Pomponio.

Mr. Charles Henry Gaskins, construction examiner, 312 Highview Avenue, Silver Spring, was interviewed on June 13, 1949. Mr. Gaskins stated that he received one necktie from a Mr. Smith around Christmas, 1948.

Mr. Walter H. Wolverton, construction examiner estimator, title II, 1715 19th Street NW, Apartment 5, was interviewed on June 13, 1949. Mr. Wolverton stated that in 1947 he received a subscription to Reader's Digest from Berens & Co.; that in 1948 he received a subscription to Reader's Digest, 2 ties from an unknown source, and 3 bottles of whisky.

Mr. Albert E. West, estimator, 1309 Emerson Street NW, was interviewed on June 13, 1949. Mr. West stated that around Christmas, 1948, he received 2 ties, a subscription to Reader's Digest, and 4 bottles of whisky which were given to him by the boys in the FHA office.

Miss Florence Dalton, administrative analyst, 1855 Irving Street NW, was interviewed on June 13. Miss Dalton stated that around Christmas, 1948, she received a subscription to Reader's Digest, a bottle of wine, and 3 bottles of whisky from the man in the FHA office.

Miss Bernice Large, clerk-typist, 4102 Gallatin Street, Hyattsville, Md., was interviewed June 14, 1949. Miss Large stated that around Christmas, 1948, she received one box of candy from an unknown donor and a scarf through the mail.

Mr. Clyde Webster, architectural examiner, 2811 Eighth Street, South Arlington, Apartment 392-A was interviewed on June 14, 1949. Mr. Webster stated that around Christmas, 1947, he received a personal portable radio from Colonial Investment Co.; that in 1948 he was visiting his people at home and, when he returned to the office after the holidays, he found one bottle of liquor in his desk drawer.

Mr. Kevin Thomas Ryan, construction examiner, RFD No. 1, Bowie, Md., was interviewed on June 14, 1949. Mr. Ryan stated that in 1947 at Christmas he received 3 bottles of whisky and a subscription to Reader's Digest; that at Christmas, 1948, he received 7 bottles of whisky, 3 of which were from Mr. Magazine, 3 ties from an unknown source, a box of pears from Investors Syndicate, and a subscription to Reader's Digest from Berens & Co.

Mr. C. Sprigg Sands, construction cost examiner, Box 93, Gambrills, Md., was interviewed on June 9, 1949. Mr. Sands stated that around Christmas 1948, he received a wristwatch from Haris Construction Co.; that he returned this wristwatch by registered mail a week or 10 days after Christmas and holds the registered receipt therefor; that in 1948 he also received 2 ties from an unknown source, 3 bottles of liquor, and a subscription to Reader's Digest. (It will be noted that Mr. Sands testified before the Senate committee hearing on Viers Mill Village.)

Mrs. Anne H. Hushing, clerk-typist, 400 East Custis Avenue, Alexandria, was interviewed on June 14, 1949. Mrs. Hushing stated that around Christmas, 1948, she received 2 boxes of candy from an unknown source, 1 vial of perfume from Godden & Small, a subscription to Reader's Digest from Berens & Co.; 1 silk scarf which was left in her desk, and 3 pairs of nylons which were left in her desk.

Mr. John W. Foreman, construction examiner, Greenway, Va., was interviewed on June 14, 1949. Mr. Foreman stated that around Christmas, 1948, he received 2 bottles of whisky from the boys in the office, a subscription to Reader's Digest from Berens & Co., and 2 ties from an unknown source.

Mrs. Jean D. Baker, secretary-stenographer, 3509 Ames Street, NE, Apartment 203 was interviewed on June 14, 1949. Mrs. Baker stated that at Christmas, 1948, she received 2 or 3 pounds of candy, a scarf, a small vial of perfume, and a subscription to Reader's Digest.

Mr. Francis A. Simmons, construction examiner, 3715 T Street NW, was interviewed on June 14, 1949. Mr. Simmons stated that around Christmas, 1948, he received one bottle of wine which was left in his car and a bottle of whisky which was left in his car and a subscription to Reader's Digest from Berens & Co. Mr. Simmons stated that he attended a party in the spring of 1948 which was given by Mr. Magazine at Benny Bortnick's Restaurant; that a number of FHA inspectors who worked on Mr. Magazine's project were present; that Mr. Simpson was also present, but that he does not remember any others.

Mrs. Shirley Windsor, 3511 Longfellow Street, Hyattsville, Md., was interviewed on June 14, 1949. Mrs. Windsor stated that she has been employed by FHA only since March 31, 1949.

Miss Mary Marathon, clerk-typist, 1501 Neal Street NE, was interviewed on June 14, 1949. Miss Marathon stated that around Christmas, 1948, she received a silk scarf, 3 pounds of candy, and a subscription to Reader's Digest.

Mr. George H. Lommel, construction examiner, 2818 South Eighth Street, Arlington, Va., was interviewed on June 14, 1949. Mr. Lommel stated that around Christmas, 1948, he received 7 bottles of liquor, some fruit, 2 ties, and a subscription to Reader's Digest.

Miss Louise Surface, clerk-typist, 1010 Randolph Street NW., apartment 2, was interviewed June 14, 1949. Miss Surface stated that at Christmas, 1948, she received 2 pounds of candy, a silk scarf, and a subscription to Reader's Digest.

Miss Lucy L. Tuinman, 1855 Irving Street NW., was interviewed June 14, 1949. Miss Tuinman stated that at Christmas, 1948, she received 2 pounds of candy, a silk scarf, and a subscription to Reader's Digest.

Miss Aileen Lee, Beltsville, Md., was interviewed June 14, 1949. Miss Lee stated that at Christmas, 1948, she received a pair of nylons from the men in the office, a vial of perfume, 3 boxes of candy, and a subscription to Reader's Digest.

Mrs. Pat M. Schladt, clerk, 5501 Potomac Avenue NW., was interviewed June 14, 1949. Mrs. Schladt stated that at Christmas, 1948, she received 2 handkerchiefs from Haris Construction Co., 1 scarf from an unknown source, a subscription to Reader's Digest from Berens & Co., 2 or 3 pounds of candy, and 2 pairs of nylons from a Mr. Kinsky.

Miss Jean M. De Meritt, assistant closing clerk, 4000 21st Street NE., was interviewed June 14, 1949. Miss De Meritt stated that at Christmas, 1948, she received a silk scarf through the mails.

Mr. Frank E. Steff, construction examiner, 5403 Queens Chapel Road, Hyattsville, Md., was interviewed June 14, 1949. Mr. Steff stated that at Christmas, 1948, he received about 1 dozen bottles of liquor, among which were 2 bottles of liquor and 1 bottle of wine from Mr. Magazine and 3 bottles of liquor from Mr. Tony Izzo, 1 turkey from Morris Hurwitz, 3 ties from an unknown source, and a box of fruit from Mr. H. P. Dyson, and a subscription to Reader's Digest from Berens & Co.

Mrs. Naomi Williams, secretary-stenographer, 751 12th Street SE., was interviewed on June 14. Mrs. Williams stated that in 1947 she received a carton of cigarettes through the mail from Investors Syndicate and a subscription to Reader's Digest from Berens & Co.; that in 1948 she received a subscription to Reader's Digest from Berens & Co., 4 or 5 boxes of candy from unknown sources, a vial of perfume, a scarf, 2 handkerchiefs, and a small bottle of toilet water.

Mr. Perley W. Clogston, construction examiner, Annapolis Hotel, Apartment 1114, was interviewed June 14, 1949. Mr. Clogston stated that at Christmas, 1948, he received 3 bottles of liquor from M & P Co., 3 ties through the mail, and a subscription to Reader's Digest from Berens & Co.

Mr. Ralph Cooper, construction examiner, 2134 G Street NW., was interviewed June 14, 1949. Mr. Cooper stated that he has been employed by FHA only since May 2, 1949.

Mr. Harrison C. Jacobs, construction examiner, 714 North Kenmore Avenue, Arlington, was interviewed on June 15, 1949. He stated that in 1947 at Christmas he received a half case of whisky from Olney & Landreth; that in 1948 he received 4 decanters of Kentucky Tavern whisky from a Mr. Hurwitz, 1 bottle of whisky from Goodwin Gardens, 2 neckties from an unknown source, and a subscription to Reader's Digest from Berens & Co.

Mr. James M. Long, valuator, 1351 Park Road NW., Apartment 1, was interviewed June 15, 1949. Mr. Long stated that at Christmas, 1948, he received 2 ties from an unknown source and a subscription to Reader's Digest from Berens & Co.

Mr. Ralph R. Rapp, construction examiner, 1421 Massachusetts Avenue NW., Apartment 401, was interviewed June 15, 1949. Mr. Rapp stated that around Christmas, 1948, he received 3 bottles of whisky from various sources, 2 ties, and a subscription to Reader's Digest from Berens & Co.

Mr. Jeremiah Tempone, construction examiner, 1305 Hemlock Street NW., was interviewed June 15, 1949. Mr. Tempone stated that around Christmas, 1947, he received 1 or 2 bottles of liquor and a subscription to Reader's Digest from Berens & Co.; that in 1948 he received 1 or 2 bottles of liquor, 2 ties, and a subscription to Reader's Digest.

Mr. David W. Townsend, construction examiner, 5512 Carolina Place NW., was interviewed June 15, 1949. Mr. Townsend stated that around Christmas, 1948, he received 9 bottles of liquor from 5 different jobs, 1 box of cigars, 2 ties, and a subscription to Reader's Digest.

Miss Camille Fyalkowski, clerk-stenographer, was interviewed on June 2, 1948. Miss Fyalkowski stated that at Christmas, 1948, she received a box of pears from Investors Syndicate, 2 pairs of nylons from Haris Construction Co., a pair of nylons from the men in the office, a vial of perfume from Godden & Small, and a silk scarf from Smith-Grossberger.

Miss Betsy Sprague, 2707 Eighth Street, South Arlington Apartment 333-A was interviewed June 6, 1949. Miss Sprague stated that around Christmas, 1948, she received a box of pears from Investors Syndicate, two pairs of nylons from Haris Construction, 1 pair of nylons from the men in the office, a vial of perfume from Godden & Small, and a silk scarf from Smith-Grossberger.

Mrs. Mary Rita Horner, clerk-stenographer, 11 East Rosemont Avenue, Alexandria, was interviewed on June 6, 1949. Mrs. Horner stated that at Christmas, 1948, she received one handkerchief from Haris Construction Co., a small vial of perfume from Godden & Small, a silk scarf from Smith-Grossberger, 5 pounds of candy, a bottle of toilet water from Banks & Lee, and a box of pears from Investors Syndicate.

Mrs. Dorothy M. Kaiser, clerk, was interviewed May 27, 1949. Mrs. Kaiser stated that around Christmas, 1948, she received a set of carving knives from Colonial Investment Co.; that she received a subscription to Reader's Digest, a vial of perfume, and a few boxes of candy, and a silk scarf through the mails.

Mr. John C. Johnson, valuator, was interviewed June 2, 1949. Mr. Johnson stated that at Christmas, 1948, he received a few bottles of liquor, a tie, and a subscription to Reader's Digest.

Mr. J. R. Pasquale, construction examiner, was interviewed on June 13, 1949. Mr. Pasquale stated that at Christmastime, 1948, he received a couple of bottles of liquor from unknown donors.

Miss Antoinette Zyvoloski, clerk-typist, was interviewed on June 8, 1949, and stated that she received a silk scarf, a couple of boxes of candy, and a subscription to Reader's Digest.

Mrs. Shirley J. Wilson, clerk-typist, stated that she received a couple of pounds of candy, a silk scarf, and a subscription to Reader's Digest.

Mr. Lawrence G. Schumacher, mortgage service representative, 2504 Allison Street, Mount Rainier, Md., was interviewed June 20, 1949. Mr. Schumacher stated that at Christmas, 1947, he received 6 bottles of whisky, 3 bottles of wine, 1 ham, a box of fruit mailed to him from Florida by Mr. Magazine, 5 or 6 ties from different sources, and a subscription to Reader's Digest; that at Christmas, 1948, he received a wristwatch from Haris Construction Co., which he returned to Mr. Straus a couple of days later; that he also received 8 bottles of whisky, which included 3 bottles of liquor and 2 bottles of wine from Mr. L. Minscoff, a ham from Mr. L. Anderson, 8 neckties from various sources, a box of fruit from Florida from Mr. Magazine, a carton of cigarettes from Investors Syndicate, and a subscription to Reader's Digest. Mr. Schumacher stated that he returned the wrist watch to Mr. Straus because he thought it was "a little too much to accept."

Mrs. Elizabeth Nurney Weeks, clerk-typist, 1437 K Street SE, Apartment 3, was interviewed on June 20, 1949. Mrs. Weeks stated that around Christmas, 1948, she received two boxes of candy, a silk scarf from Smith-Grossberger, and a subscription to Reader's Digest.

Mrs. Cleo B. Stewart, file clerk (neighborhood information), 3974 Blaine Street NE, was interviewed June 20, 1949. Mrs. Stewart stated that around Christmas, 1948, she received a silk scarf from Smith-Grossberger, 3 boxes of candy from unknown sources, 1 vial of perfume, and a subscription to Reader's Digest.

Mrs. Josephine Cuzzo Vagnoni, clerk-typist, 2015 Jackson Street NE, was interviewed June 20, 1949. Mrs. Vagnoni stated that around Christmas, 1948, she received 1 silk scarf from Smith-Grossberger, 2 boxes of candy from unknown sources, and a subscription to Reader's Digest.

Mr. Telesphore Senesac, construction examiner, 4804 Bradley Street, Chevy Chase, Md., was interviewed June 20, 1949. Mr. Senesac stated that around Christmas, 1948, he received 2 bottles of liquor from the bricklayer subcontractor at Kent Village, 2 ties from unknown sources, and a subscription to Reader's Digest.

Mr. Heath Berry, senior valuator, 7218 Central Avenue, Capitol Heights, Md., was interviewed June 21, 1949. Mr. Berry stated that around Christmas, 1947, he received a personal portable radio from the Colonial Investment Co., and about 14 or 15 bottles of liquor from various sources; that at Christmas, 1948, he received a \$15 gift certificate on Woodward & Lothrop from Hamburg & Rose,

builders, 8 or 9 bottles of whisky from various sources, and a subscription to Reader's Digest. Mr. Berry stated that he still has the gift certificate. He also stated that he did not receive a watch from Haris Construction Co.

The CHAIRMAN. Getting back to this No. 6, Patchogue Gardens, there are a few questions I want to ask about that. They invested only \$1,000 in the project?

Mr. MCKENNA. \$1,000 was their investment. They may have had to advance other sums in order to get it rolling.

The CHAIRMAN. They immediately took out \$155,000 when the project was completed?

Mr. MCKENNA. That is right. They withdrew \$155,000. I don't have the precise amount.

The CHAIRMAN. The project is now back in the hands of FHA? They had to repossess it.

Mr. MCKENNA. That is correct, sir.

The CHAIRMAN. How long after they had paid themselves \$155,000, did FHA repossess this particular project?

Mr. MCKENNA. I believe it was paid to them 3 months after the original default—3 months after the default, but before the acquisition date—it was conveyed to them September 18, 1952. The payment of the dividend was July 1, 1951.

The CHAIRMAN. They paid themselves \$155,000 within 3 months after the project was completed?

Mr. MCKENNA. After the project defaulted, sir. It was already in default when they paid this money to themselves.

The CHAIRMAN. The project was already in default?

Mr. MCKENNA. When they paid the money to themselves.

The CHAIRMAN. When they paid the \$155,000 to themselves?

Mr. MCKENNA. According to FHA records, that is true.

The CHAIRMAN. FHA did nothing about it?

Mr. MCKENNA. FHA took title to the property but did nothing about it.

The CHAIRMAN. Didn't FHA own preferred stock in this project?

Mr. MCKENNA. Yes, and there is another case here which illustrates that rather dramatically. FHA as preferred stockholder had the right when a project went into default to move in, take over the corporation, to collect its assets, and even to avoid the necessity of deficiency judgments proceedings afterward, to get whatever money the corporation had or had a right to then as preferred stockholder and they didn't do it here.

The CHAIRMAN. Let's make sure I understand this. These people only put a thousand dollars in to start with.

Mr. MCKENNA. That was their investment.

The CHAIRMAN. After the project was in default and FHA had repossessed it, they declared \$155,000 dividend?

Mr. MCKENNA. Before they repossessed, but after it was in default.

The CHAIRMAN. Before they repossessed but after it was—while they were in the process of repossessing it they declared \$155,000 dividend.

Mr. MCKENNA. Whether they had begun the repossession process then I don't know, but certainly after the project was in default, yes, 3 months after default.

The CHAIRMAN. Doesn't FHA put these concerns in bankruptcy? I thought we had laws that you couldn't take money out of a cor-

poration within—out in Indiana I forget what it is; I think it is 4 months if you go bankrupt.

Mr. MCKENNA. We are now in the process of determining how much of this money FHA can collect back anyway, Senator, but certainly under those circumstances——

The CHAIRMAN. I don't know about New York, but in Indiana if you take money out of a corporation 4 months prior to going bankrupt, you must return the money.

Mr. MCKENNA. It is my personal opinion that even if it weren't in default FHA could make them pay it back in as a legal matter.

The CHAIRMAN. What do the records show FHA did in this particular instance?

Mr. MCKENNA. They let the \$155,000 go out and didn't do anything about it.

The CHAIRMAN. Did they take any action whatsoever against them?

Mr. MCKENNA. We have no record whatsoever in FHA's records.

In that connection, I might point out that there were rather vague charges against Mr. Grace, indirectly related to this particular project back in 1949. There was a report of investigation there—I don't have it here, but I think it would be well to turn it over to the committee later. The report again was inconclusive. That was back in 1949. That report again was sent to the Department of Justice approximately 3 years later and again after the statute of limitations had run on the charges there set forth. In other words, after they got the report of investigation, making serious charges against the highest official in the New York office, FHA sat on it for 3 years and then, after the statute of limitations had run, sent it over to the Department of Justice. In this, however, apparently if Mr. Grace had those interests that are alleged against him, he didn't get rid of them because there was another investigation in 1952. Again the charge was made that it was his law firm, a firm in which he had interest, that was processing these applications. Again there was an investigation.

The CHAIRMAN. You are throwing this name "Grace" around. What is the full name?

Mr. MCKENNA. He was formerly State director in New York.

The CHAIRMAN. You mean he was former State FHA director?

Mr. MCKENNA. Yes, until about a year ago, I believe.

The CHAIRMAN. And he is a lawyer?

Mr. MCKENNA. Yes.

The CHAIRMAN. Has a law firm?

Mr. MCKENNA. Yes.

The CHAIRMAN. What is the name of the law firm?

Mr. MCKENNA. Grace & Grace.

The CHAIRMAN. It is two brothers, is it?

Mr. MCKENNA. I believe so.

The CHAIRMAN. One of them is a practicing lawyer and the other one was the State FHA director.

Mr. MCKENNA. That is correct.

The CHAIRMAN. Is he still State FHA director?

Mr. MCKENNA. No, he resigned last year after a second investigation, I believe last year or 1952, I am not certain of that date, after a second investigation, and in the course of which he pretty much conceded the basic facts were true. He then was allowed to resign

and this time, so far as I know, no referral was made to the Department of Justice until, of course, this investigation began when we called the matter to the attention of the FBI.

The CHAIRMAN. Do you know Mr. Grace's first name?

Mr. MCKENNA. Thomas. We have no way of knowing whether Mr. Grace is completely innocent or guilty. We can only say this: FHA had no right to sit on those charges since they were charges involving criminal charges and allegations affecting its own employees. Nevertheless, we have another case in which they sat on it for 3 years until the statute of limitations had run.

The Senator asked a moment ago about failure of FHA to protect its interest. We have a case which shows how oblivious FHA was to its own interest, even though it had in its hands power to collect back money due to it. That is the Lewis Garden case, Henrico County, Va., which I believe is close to Richmond. The FHA insurance fund, according to its own estimates, is going to lose somewhere between \$700,000 and \$2 million, and they seem to think it will be \$2 million on Lewis Gardens, which FHA has acquired on the default of the mortgagors. The cost of acquisition on foreclosure and repairs since then by FHA amount to almost \$4 million. FHA itself has valued the project at about \$2 million.

The mortgages in this case exceeded cost by over \$400,000. The sponsor of the project was Franklin A. Trice, of Richmond. He purchased the land on which the project was built for a net price of \$13,987. That is the share of the land, the part of the land which was used in the project. I don't have in hand the total cost of all the land that he bought from the Government, but on the income-tax returns, which he showed to the investigators, he valued that share, which he used there, at \$13,987. Even though he purchased this land from the Government for \$13,900, FHA valued it at \$190,000, and Trice exchanged it for \$526,000 worth of corporate stock. The land was Trice's only investment in the project.

After the project was completed, and when it had half a million dollars in surplus derived from this windfall, FHA nevertheless deferred the corporation's mortgage payments and waived payments to the reserve for replacement on the plea that the income of the corporation was not adequate to make the payments.

The CHAIRMAN. You mean when they had some \$500,000 cash on hand?

Mr. MCKENNA. They had that much in assets on their balance sheets.

The CHAIRMAN. Cash on hand?

Mr. MCKENNA. That is right.

Senator FREAR. It doesn't say "cash on hand."

Mr. MCKENNA. Except to the extent he loaned it to other corporations that he also controlled.

Senator FREAR. Cash could have been made available there.

Mr. MCKENNA. That is correct, sir. In 1952 and 1953 the project defaulted. The five sections were bid in at foreclosure sale by the mortgagees at an acquisition cost which was within about \$40,000 of the total amounts of the mortgages. In other words, by bidding it in that high, FHA precluded itself from large deficiency judgments even though the corporation had the money and since then FHA

has had to pay over \$200,000 to rehabilitate the property. That is in FHA's own records, and while we have conducted a field investigation of this case to verify the facts, nevertheless most of our original information comes from FHA's own records, and FHA's own records show that on August 31, 1952, the mortgagor corporations had \$524,000 in loans outstanding. FHA as the preferred stockholder under the charter of the corporation had the right to move in and to recover this money, but it didn't do so.

Senator FREAR. Were those loans to stockholders or officials of the corporation?

Mr. MCKENNA. The procedure is set forth in the memorandum here, Senator, I believe in the next to the last paragraph. It is rather complicated, but it did go to Mr. Trice's own interest and it eventually ends up with Mr. Trice.

The CHAIRMAN. I might say at this point we find a general pattern where they mortgage out and get several hundred thousand dollars cash on hand. Instead of paying it out in dividends they just loan it to themselves, sometimes at no interest whatsoever. They use the money then in other projects, of course, making money on it. It is pyramided.

Senator FREAR. What liability do they give to the corporation when they take it out in that manner? Is it recoverable in your opinion?

Mr. MCKENNA. It is, of course, recoverable.

The CHAIRMAN. They loan it to another corporation. They are very careful they don't loan it to themselves.

Mr. MCKENNA. It is recoverable but at option of the stockholders. In connection with that, as the Senator knows, one of the reasons for that device is it is just a loan to the taxpayer so he doesn't have to pay any taxes on it, but it is not collectible until he decides it is collectible, which might never be. In effect, he has also avoided income-tax laws by that device.

Senator FREAR. May I ask a question? That has nothing to do with this, but does H. R. 8300 cover this? Have you studied this new law?

Mr. MCKENNA. I am the wrong one to answer that. I have been so immersed in getting these facts I don't know what Congress is doing.

Senator FREAR. It may be one that would be well worth looking over.

Mr. MCKENNA. I think so, sir.

For a reason we haven't been able to find the answer to, FHA killed its own possibility of recouping this money without real difficulty by asking the mortgagor corporations to buy back the \$500 of preferred stock FHA had in the corporation.

In other words, FHA asked the mortgagor corporation to place FHA in the position where it couldn't protect its rights after the default had occurred.

The CHAIRMAN. We are going to look into that, too.

Senator FREAR. May I ask a question right along this line, however, Senator? There is a project that I think has recently been granted an insured mortgage, and I don't know what number it is under, in Camden, Del. Speaking of increased land value, the land on which this project was built was sold in the neighborhood of \$300,000, and

the insured mortgage covers it for \$54,000. That is just one here in the last month or two. I don't know whether you have gotten up that far or not. It isn't a section 608, but something that followed section 608, rental housing in a defense area.

Mr. McKENNA. We haven't come across it, but we will check it, in Camden, Del.

Senator FREAR. That is right. I am in favor of the project. I am in favor of an insured loan, but I can't approve of them giving that amount of money, \$54,000 cost. The second paragraph in this Henrico County case is practically identical.

Mr. McKENNA. On page 2 of the memo on this case, which is a little complicated but nevertheless I think understandable if read, it shows how Mr. Trice ended up with the money that was mortgaged out in the case.

In addition to the mortgaging out in this case, we have the problem of how the project happened to fall in default. One of the reasons was its poor location, but there were two other contributing reasons: At the time the project was constructed, a contract was entered into with a corporation set up for that purpose, which was to provide the project with bottled gas, and it was provided that the project would be heated by bottled gas, a very expensive process, and one which was going to cost the tenants between 70 and 80 percent more to heat their apartments than would have occurred otherwise, the profits, of course, going to this specially established corporation. Also another corporation was set up to make some money on supplying water to the projects. The water was to come from the project's own land, but it was to go through this other corporation, which would sell it to the project. The project couldn't stand those burdens, couldn't stand the poor location, couldn't stand the mortgaging out, so the projects defaulted; FHA has a loss of about \$2 million on them, but the sponsor walks off with more than half a million dollars.

The CHAIRMAN. Which he loaned to himself.

Mr. McKENNA. Another New York case, the Rego Park Apartments in New York, is a case where the investment was \$2,000 and almost immediately upon completion of the development the stockholders who invested that \$2,000 withdrew \$1,700,000 in dividends. Now here is another case of this lease-land arrangement. FHA approved this setup whereby the principals, the persons who sponsored the project, leased the land on which the project was built, for 99 years, at an annual rental of \$31,120, and they gave FHA the right, in the event they failed in that project, to buy that land from them for \$779,000. According to the tax stamps on the previous conveyance they had purchased it for \$400,000.

In addition to the profits they got from the lease, 3 months after the date of the mortgage loans insured by FHA, the sponsors mortgaged this fee that they had retained, getting \$701,100 on the fee title, giving as an additional collateral the assignment of the 99-year lease, and I am informed that they bore no personal liability on these notes; that the mortgagee agreed to look only to the mortgage for the reimbursement.

Because of the passage of time I might skip to the number eight on the list, which is Oakland Gardens, in Bayside, Long Island, Alley Park Housing Corp., and the 77th Road Realty Corp.

There have been \$428,500 which the mortgagors have realized from the mortgaging out of this project. The FHA-insured loans amount to over \$6 million, construction cost on one of the projects was \$3,672,000 as against a loan of \$4 million, giving an excess of loan proceeds of \$322,000 over costs on that project alone and the total investment in both projects was only \$6,000.

This is the part of this project that I think gives an insight into the philosophy of the FHA people.

After completion of the projects, the principals withdrew a large part of the amounts mortgaged out as advances to affiliates. Ninety percent of the stock of the Mortgagor corporation was owned by the Queens Valley Corp. The Queens Valley Corp. is entirely owned by residents of England. The British subjects discovered that the distribution of their windfalls as dividends would subject themselves to English taxes. In other words, the British Government would take away most of the money they made so they wrote to FHA, pointed this out in so many words, perfectly frankly, concealing nothing and requested FHA to approve a plan whereby the withdrawal of the money would be treated as a redemption of part of their stock. The money had already been distributed. Nevertheless, FHA approved the device, and \$3,380 in stock was redeemed for \$336,000. This was done at a time when the mortgagors' financial statements showed heavy operating losses, and there was a deficit in the surplus account.

Following the distribution of the windfall, the mortgagor principal sold out; partly because the project has to pay interest on the withdrawn money that was distributed to the original principal the new owners are having trouble meeting loan payments and FHA has had to grant modifications in payments.

In this project, too, they made money from the leasehold arrangement. The Queens Valley Corp., which these British people own, was the principal which leased Royal land to the two corporations under 99-year leases. Annual rental was \$25,000. They gave FHA the privilege in event they defaulted of buying this land for \$623,000. According to the revenue stamps they bought it for \$384,000.

Senator FREAR. Did you say the annual rental was—

Mr. McKenna. \$25,000, sir.

Senator FREAR. What would you think, Mr. Chairman, if I may ask a question—

The CHAIRMAN. If you will yield one moment. I can see now we are not going to possibly be able to get through all of these cases. Without objection, we will place the summaries of the 27 cases that Mr. McKenna has in the record. If there is no objection what I hold in my hand will be made a part of the record.

(The information referred to follows:)

SUMMARIES OF FEDERAL HOUSING SECTION 608 CASE INVESTIGATIONS PRESENTED TO THE SENATE BANKING AND CURRENCY COMMITTEE BY WILLIAM F. MCKENNA, DEPUTY ADMINISTRATOR, HOUSING AND HOME FINANCE AGENCY

The following summaries of FHA section 608 cases were prepared by investigators principally from material contained in FHA files, including financial statements of the mortgagor corporations involved. The findings are not complete or final because in many instances field investigations have not been made.

SHIRLEY-DUKE APARTMENTS, ALEXANDRIA, VA.

There are six separate insured FHA loans involved in this case amounting in all to loans in the amount of \$13,846,000. The initial capital in each of the

corporations applying for each of the 6 loans was \$1,000, consisting of the distribution of 1,200 shares of stock to 22 stockholders at \$5 a share. The records indicate that the distribution of mortgage proceeds averaged \$1,737.25 per share.

According to FHA records, the largest stockholders were Mr. and Mrs. Herman W. Hutman of Washington, D. C., who received \$607,650.02 from the distribution of mortgage proceeds; Mr. and Mrs. Bryan Gordon, Jr., of Bluemont, Va., who received \$552,483, and Mr. and Mrs. Earl J. Preston and son John E. Preston of Silver Spring, Md., who received \$400,656.34 out of the mortgage proceeds.

The case is an example of the division of the excess of FHA insured mortgage proceeds between the sponsors of the Shirley-Duke Apartments and the lending institution.

Although the schedules attached to the application for mortgage insurance set forth a financing expense at 1½ percent, actually 6½ percent of the total mortgage amount or \$924,990 went to the mortgagee—Investors Diversified Services—in addition to interest and all other charges. Even after this payment of \$924,990 to the financial institution, the FHA insured mortgages exceeded the cost of construction by \$2,084,823.74 which was distributed to the stockholders.

The local manager of Investors Diversified Services, E. M. Bros, and Mrs. Bros, received \$89,699.19 from the mortgage proceeds as stockholders. Mr. Bros resigned from IDS in April of this year when he was asked to furnish information to his company on outside activities.

Notwithstanding the foregoing circumstances, when the mortgagor corporations applied for rental increases on the Shirley-Duke Apartments, the application was granted, thereby placing the burden on the tenants for paying for sums mortgaged out.

The burden imposed by the division of the excess of FHA loan proceeds over costs falls on every family living in that project, each of whom will have to pay at least an additional \$70 to \$85 every year in rents over the 33-year life of the mortgage.

**ELISABETH GREGORY AND MARINE TERRACE APARTMENTS, ASTORIA, N. Y., AND
ELMWOOD GARDENS, INC., EAST PATERSON, N. J.**

The total loans in these developments amounted to \$14,666,000. The four projects were sponsored by substantially the same group and the original capital investment in each mortgagor corporation was \$1,000. Successor stockholders of Elmwood Gardens, Inc., received \$436,200 in dividends. The original stockholders of the other three mortgage corporations, owning the Astoria Apartments, received dividends totaling \$1,300,000 within a few months after completion of the projects, and later additional dividends of \$316,881, amounting in all to \$1,616,881 on an initial investment of \$3,000. Records indicate that the principals in these corporations made numerous large loans to themselves or their nominees and affiliates.

Financial reports from the mortgagors show transactions of doubtful propriety—large loans to principals and affiliates, withdrawal by a stockholder of tenants' security deposits, pledging of personal property of the mortgagor corporations as collateral to notes payable of their parent company—of which the only one questioned by FHA was the stockholder's withdrawal of tenants' security deposits.

Our investigation also disclosed that substantial amounts have been authorized to be withdrawn from reserve for replacements to be used to pay for maintenance expenses.

FARRAGUT GARDENS, INC. (VANDERVEER ESTATES), BROOKLYN, N. Y.

The stockholders of Farragut Gardens, Inc., which built the housing development known as Vanderveer Estates, are Martin H. Bendek, Morris Kavy, Henry Hirsch, and Alexander P. Hirsch.

On an investment of \$10,000 the stockholders received dividends of \$3,158,000 shortly after completion of construction of this apartment development.

The original FHA insured loan of \$19,446,700 was increased to \$21,719,300 based upon recomputation of replacement costs.

FHA files also show that the mortgagors obtained a deferment of payments on one of the mortgages for a period during which a huge distribution of divi-

dends was made. The mortgagors filed required financial reports long after they were due, in some instances more than 12 months late.

The land upon which this project is built is owned by the Newstrand Realty Corp., whose stockholders are the same as those in Farragut Gardens. The lease is for a term of 99 years with an annual rental of \$76,960. If there is a default in the mortgage and FHA wants to acquire title to the land, it must pay a predetermined price of \$1,924,000 for it.

LEWIS GARDENS (LEWIS ROADS), HENRICO COUNTY, VA.

The FHA insurance fund stands to lose approximately \$2 million on Lewis Gardens, a 608 project near Richmond, Va., which the FHA had to acquire in early 1953 when the mortgagors defaulted on loan payments. Costs of acquisition on foreclosure and repairs since then by FHA amount to almost \$4 million whereas FHA has revalued the project after foreclosure at only \$2 million.

Mortgages insured by FHA exceeded costs by at least \$433,850. The sponsor of the project, Franklin A. Trice, of Richmond, Va., purchased the land on which the project was built, for a net price of \$13,987 from the United States Government. Nevertheless, FHA valuers appraised it at \$190,000. Trice exchanged it for corporate stock at a price of \$526,000. This land, which he purchased from the Government at a net cost of \$13,987, was Trice's only investment in the project.

After completion of the project and at a time when the corporation had half a million dollars in surplus derived from the windfall, FHA deferred the corporation's mortgage payments and waived payments to the reserve for replacements in 1950 on the plea that income at that time was not sufficient to make the payments.

In 1952 and 1953, the projects defaulted. The five sections were bid in at foreclosure sale by the mortgagees and FHA at a total acquisition cost of \$3,733,153.79. An additional \$200,000 has been expended by FHA since acquisition.

FHA's own records show that on August 31, 1952, the mortgagor corporations had \$524,625 in loans outstanding. FHA at no time ever exercised the power that it had, as preferred stockholder, to take over the corporations and collect this money. Instead, FHA or the insured mortgagees caused the properties to be bid to within approximately \$40,000 of the amount of the mortgage indebtedness. The principal, Mr. Trice, in a statement made to investigators on June 22, 1954, stated that he knew that deficiency judgments could be obtained by FHA for the differences between the amounts due under the mortgages and the bid prices, that he made inquiry to secure information of the highest amount FHA or the insured mortgagees would make, and that he did get such information. By making increasingly higher bids, Mr. Trice succeeded in causing the five sections to be bid in by the mortgagees and FHA for amounts close to the principal balances.

For some reason, FHA requested the mortgagors to redeem FHA's preferred stock for \$500, which was promptly done. Because of this, FHA has been deprived of the power to protect its own interest.

The field investigator reports that the "windfall" to Lewis Roads Corp., was funneled out by means of loans of approximately \$600,000 made to Lee Circle Corp., a company formed by Trice to construct a medical office building in Richmond; that Mr. Trice personally borrowed from Lee Circle Corp. \$399,250 on his personal notes; that subsequently, Trice personally assumed the indebtedness of Lee Circle Corp. to Lewis Roads Corp. in exchange for wiping out his obligation to Lee Circle Corp.; that Trice, by resolution of the board of directors of Lewis Roads Corp. dated October 29, 1952, was declared dividends of \$565,000.

One of the reasons, in addition to inconvenient location, which contributed to the default of the projects was the use of bottled propane gas for heating and cooking purposes which had to be paid for by tenants. This type of gas, to be provided by a company established for this purpose, was approved by FHA despite original estimates by FHA underwriters that it would cost 70 to 80 percent more than other fuels. Excessive operating costs was another factor, due partly to the cost of water. Water from artesian wells located on the property is supplied to the project at high cost by Lewis Gardens Service Corp., a company originally owned by stockholders of the mortgagor corporation.

REGO PARK APARTMENTS, INC., ELMHURST, N. Y.

The sponsors of Rego Park Apartments, Inc., Elmhurst, N. Y., invested \$2,000 and, almost immediately upon completion of the apartment development, with-

drew \$1,700,000 in dividends. In addition to this, with FHA approval, the principals leased the land on which the project was built for 99 years at an annual rent of \$31,120, giving FHA an option to purchase for \$779,000 in the event the projects defaulted. The sponsors had purchased this land for \$400,000. In addition to the profits arising from the lease between the sponsor and the mortgagor corporation, it appears that approximately 3 months after the date of the mortgage loans insured by the FHA, the sponsors, who had retained the fee title, obtained additional mortgage loans of \$701,100 on their interest in the fee titles and gave, by way of additional collateral, an assignment of the 99-year leases.

The officers of the Rego Park Apartments, Inc., are: Norman Tishman, president and director; R. B. Tishman, vice president and director; David Tishman, treasurer; Reuben Tally, secretary-director.

The Tishman Realty & Construction Co. is the holder of all of the stock of Rego Park Apartments, Inc.

PATCHOGUE GARDENS, INC., PATCHOGUE, N. Y.

The FHA files disclose that sponsors of this project invested \$1,000. One hundred and fifty-five thousand dollars was paid out as dividends to stockholders 3 months after original default on July 1, 1951. At the time they withdrew this money, the project was operating at a loss. The project was completed August 23, 1950.

Within 2 years of completion, the project, in default, was conveyed on September 18, 1952, to FHA upon the condition that sponsors were released of all liability. FHA estimates its prospective loss on this project at between \$74,000 and \$174,000.

FHA received a complaint from a responsible financial institution complaining of the manner in which local officials of FHA processed the application in this case—2 to 4 days after submission of formal application—whereas ordinarily the time is 2 to 4 months. There is no record that FHA, upon receiving this written information, conducted an investigation of the matter. Further, even though the dividends were paid when the project was operating at a loss and were paid in violation of the project's charter, FHA didn't object to the distribution of this money.

According to FHA records, the officers and stockholders of the mortgagor corporation in this case were Jerry Kanner, president; Mack Kanner, treasurer; and Lester Kanner, secretary; all of Merrick, N. Y.

BEACH HAVEN APARTMENTS, INC., BROOKLYN, N. Y.

In this project the loans exceeded the costs by approximately \$3,500,000. Partly because permission to commence construction in advance of loan closing was granted without requiring that the first principal payment be advanced, over \$1,700,000 in rents were collected before the first payment had to be made on the mortgage. At the present time, according to FHA records, \$729,000 of the amounts mortgaged out have been loaned to affiliated corporations. Approximately \$3 million is left undistributed in banks.

In addition to these amounts by which the mortgages exceeded costs, FHA permitted the principals to lease the land on which the project was built, at an annual ground rental of \$60,600 for 99 years. FHA was granted permission in the event the projects defaulted to purchase this rent for \$1,515,000. The records on file in the register's office in Kings County indicate that the principals purchased this property January 12, 1945, for the sum of \$34,500, as indicated by the amount of United States documentary stamps affixed to the deed.

According to FHA records, the principals of this project are Fred C. Trump, 85-14 Midland Parkway, Jamaica, N. Y., and William Tomasello (no address shown).

OAKLAND GARDENS, BAYSIDE, LONG ISLAND, N. Y. (ALLEY PARK HOUSING CORP., 77TH ROAD REALTY CORP.)

Two 608 projects in the Oakland Gardens development have resulted in windfalls totaling about \$428,500 for the mortgagors, Alley Park Housing Corp. and the 77th Road Realty Corp., both of Bayside, N. Y., and both having the same principals.

FHA-insured loans for the two projects amounted to \$6,196,500. The construction costs on one of the projects was \$3,672,681.54, whereas the loan on such project was \$4,005,600, or an excess of loan proceeds of \$332,918 over costs on

that project alone. The total cash investment of the principals in the two projects was \$6,000.

After completion of the projects the principals withdraw a substantial portion of the windfall as "advances to affiliates." Ninety percent of the stock of the mortgagor corporations was owned by the Queens Valley Corp., and all of the stock in the Queens Valley Corp. was owned by residents of England. These British subjects discovered that distribution of the windfalls in the form of dividends would subject them to heavy English taxes. They pointed this out to FHA, and requested FHA to approve a plan whereby the withdrawal of the money would be treated as a redemption of part of their stock. Even though the money had already been distributed, the FHA approved this device, and \$3,380 in stock was redeemed for \$336,000. In addition, the transaction was approved at a time when the mortgagor's financial statement showed heavy operating losses and a deficit in its surplus account.

Following the distribution of the windfall, the mortgagor principals sold out. Partly because the project has to pay interest on the withdrawn money that was distributed to the original principals, the new owners are having difficulty in meeting loan payments, and it has become necessary for FHA to grant modifications in payments.

"Leasehold windfalls" provide an extra source of profit to the original principals. The Queens Valley Corp. which was the principal owner of the 2 projects, leased the raw land to the 2 mortgagor corporations under 99-year leases. Annual rental for the land is \$25,000. If the FHA should foreclose on the projects and if it should desire to acquire the land, it will have to pay nearly \$623,000 for it. Revenue stamps indicate the land was purchased for \$384,000 on October 24, 1946.

LINWOOD PARK, INC., TEANECK, N. J.

The three stockholders of this project, Ralph J. Solow, president, Sidney Sarnier, vice president, and George I. Marcus, invested \$13,000 in capital stock. According to FHA records, certain of these shares were redeemed soon after completion of the project for \$1,318,425. In addition, long-term loans of \$1,270,000 were made to affiliate companies out of amounts by which mortgage proceeds exceeded the cost of construction. Partly because construction was permitted to be commenced before the formal closing of loans, approximately \$1 million in rentals was collected before the first payment had to be made on the mortgages. Over and above this, the mortgagors received commissions for placing the FHA-insured mortgages.

Nevertheless, Assistant Commissioner Clyde L. Powell authorized these projects to charge any tenant who wanted to use television antenna service, \$40.

GLEN OAKS VILLAGE, INC., BELLEROSE, N. Y.

The principals of this apartment development are George M. Gross, Alfred Gross and Lawrence Morton, Glen Oaks, N. Y. Loans to construct this development were in excess of \$24 million, which were made to multiple corporations and thus evaded the \$5 million limitation of the National Housing Act.

Stockholders of the multiple corporations received dividends of approximately \$4,600,000 out of the excess of mortgage loan proceeds over actual construction costs. This was on a capital investment of \$82,500. In addition, this development was built upon land leased by the sponsors to the section 608 mortgagors. These leases run from 50 to 99 years and provide for annual rental payments by the 608 mortgagors to the sponsors of \$108,794. The FHA has an option to purchase the land in case of default for \$2,715,550.

In one of the projects in this development, after construction was completed, FHA allowed an increase in the mortgage amount even though the mortgage amount already greatly exceeded the cost of construction, and 3 months later, an \$800,000 dividend was declared to the sponsors out of this increased excess.

Thereafter, FHA granted an increase in rent to the sponsors presumably based in part on the high costs resulting from the windfalls to the promoters, and still later FHA authorized a depletion of the replacement reserve and the waiver of payments to that reserve.

BILLY MITCHELL VILLAGE, INC., SAN ANTONIO, TEX.

According to FHA records, the stockholders of the mortgagor corporation are David Muss, president, Norman K. Winston, vice president, and Louis N. Kaplan,

treasurer, all of New York City. N. Y., and Henry W. Penn, secretary, San Antonio; and Southwest Homes Texas Co., builder of the project. FHA files disclose that in 1949, FHA required that the mortgagor corporation include certain charter provisions to prevent distributions out of funds other than earnings. The financial reports of the mortgagor corporation, filed in 1950, show that shortly after completion of the project, the book value of the project was \$3,588,175.60, after appreciation of at least \$845,845 for the purpose of creating an appraisal surplus account. Dividends of approximately \$500,000 were paid out of loan proceeds. Capital investment was \$56,000.

No further action by FHA appears to have been taken with respect to the payment of such dividends other than an inquiry by FHA in 1951 with respect to the appraisal. Neither does it appear that FHA, thereafter, took any action for improvement of the language in future charter provisions to overcome obvious inadequacy of language being used.

KEW GARDENS APARTMENTS, BRIARWOOD, QUEENS COUNTY, N. Y.

This development consists of 12 different projects and the total amount of the insured mortgages on all these projects amounted to \$9,400,087.

According to the records made available to the FHA, the amount of the mortgage loan exceeded the actual cost by \$394,200. Reports to FHA show a capital investment of \$1,000 in each of the 12 corporations in the form of 10 shares of common stock to Harry L. Osias and Leah Osias, his wife, of \$100 par value per share, in each of the corporations.

The land in each project is leased for a 99-year term by Harry L. Osias and Leah Osias, his wife, to the mortgagor corporation. The annual rentals for the projects involved come to \$21,080, and the option price for which FHA can purchase this property in the event of foreclosure is set forth as \$527,000. No distribution by way of dividends or repurchase of outstanding stock of the mortgage proceeds in excess of the actual building cost is reported.

This case is significant because of the 99-year leasehold arrangement and the retention by the mortgagor corporation of the excess mortgage funds.

KEW GARDENS HILLS APARTMENTS, KEW GARDENS HILLS, N. Y.

These projects comprise four corporations, of which Harry L. Osias, Brooklyn, is president, and Leah Osias is secretary-treasurer. On a capital investment of \$4,000, dividends of \$190,000 were paid out of the excess of mortgage proceeds over construction costs. Loans to the four corporations exceeded actual construction costs by over \$582,000. FHA was informed of this in corporate financial reports, but no action was taken by FHA to adjust the amount of the loans accordingly. The FHA reduced estimated replacement cost of the projects by \$108,000 in July 1949 to reduce cash escrow requirements of sponsors but did not reduce the amount of loan.

The organization of four corporations with loans amounting to over \$14 million was approved by the FHA, with the result that the \$5 million statutory limitation was circumvented. Construction was by companion companies or by principals of the borrowing corporations. In three of the projects, FHA permitted construction on land leased by the sponsors to the corporations. This land was leased for 99 years at an annual rent of \$34,360. FHA and the sponsors entered into an agreement that in the event the sponsors' project failed, FHA would be able to pay them \$859,000 to buy this land.

BON HAVEN APARTMENTS, INC., RICHMOND, VA. (THREE PROJECTS)

In this case the total loans to the mortgagor corporation amounted to \$3,916,000 on the three projects. The project was completed September 17, 1948. The value of the real estate was written up \$1,350,000 on the books.

According to FHA records, the original incorporators of the three mortgagor corporations were Harry I. Schutte, Jr., Larry C. Melton, and Frank B. Austin, Jr., all of Richmond, Va., who resigned as officers and directors (Dec. 11, 1947) and were succeeded by B. F. Bonner, president, Corella A. Bonner, treasurer, and E. D. Cortright, secretary; and the capital investment in each corporation was \$1,000. Reported subsequent transfers of stock were without FHA approval, contrary to provisions of corporate charters. Construction of the projects was by companies owned by the principals of the mortgaging corporation.

At the same time that these dividends were being paid, the three corporations comprising the projects were engaging in short-term borrowing, upon which interest was being paid. In addition, loan commitments were extended by the FHA for several months.

FHA records disclose that on an original capital investment of \$3,000, dividends paid to shareholders amounted to approximately \$1,250,000. These dividends were paid out of the excess of mortgage proceeds over construction costs in these projects. As early as 1950, the borrowers' financial reports to the FHA clearly indicated that the project loans exceeded construction costs and that book value was being written up to cover the difference. No objection to this, however, was raised by the FHA.

HUNTINGTON APARTMENTS, INC., 1467 HUNTINGTON AVENUE, ALEXANDRIA, VA.

In this case the amount of the mortgage loan was \$570,000. The original officers and directors were George A. Ford, president, William S. Banks, vice president, respectively of Washington, D. C., and Bethesda, Md., and Howard E. Everhart, of Alexandria, Va., secretary.

The project was completed January 31, 1950. According to borrower's financial report of May 31, 1950, the assets were written up \$163,417.20, which amount was added to surplus, out of which dividends were paid (May 31, 1950) in the amount of \$80,100; and additional dividends were paid (May 31, 1952) in the amount of \$15,000, all on capital investment of \$300. The financial report to FHA indicated that the loan exceeded costs.

Though construction was completed in January 1950, the first loan payment was not required by FHA until January 1951. Prior to the date of this first loan payment, the amount of rents collected exceeded \$60,000.

Though rents were estimated prior to construction to be \$17.79 monthly per room, the FHA approved initial rents at \$18.18 per room and subsequently approved an increase to \$19.66.

KNIGHTSBRIDGE APARTMENTS, INC., GREAT NECK, N. Y.

FHA records show that the three stockholders of this project, Gilbert Tilles, president, William Sambur, treasurer, and Herman Tilles, secretary, invested a total of \$10,000 in capital stock. Eight months after the project was completed they received a dividend of \$214,448.55, notwithstanding the fact that the first fiscal year showed an operating loss, even before depreciation. The facts of this dividend declared from "surplus" became known to FHA on May 29, 1951, but no action was taken by FHA other than to ask for a \$5 dividend on the preferred stock customarily held by FHA in 608 projects. In 1954 the common stockholders received an additional dividend of \$16,200.

ED. DONNER GARDENS, INC., JACKSON HEIGHTS, N. Y.

The sponsors of this project were Charles Donner, of Jackson Heights, Charles J. Muss, of Flushing, N. Y., Samuel Donner, of Great Neck, N. Y. According to the FHA records, the initial capital investment was \$1,000 and a mortgage loan of \$2,576,400 was obtained. The FHA records show that a report of the mortgagor corporation, dated December 26, 1950, indicated that the sole stockholder of the mortgagor corporation was the Charlesam Construction Corp.

A review of the statements furnished to the FHA by the mortgagor corporation, including statements dated May 31, 1953, fails to reveal that any distributions, as such, were made by the mortgagor up to May 31, 1953. However, the financial statements show that as of April 31, 1953, the sole stockholder of the mortgagor corporation, Charlesam Construction Corp., was the recipient of loans made from time to time by the mortgagor corporation and that as of April 31, 1953, the Charlesam Construction Corp. owed to the mortgagor corporation the sum of \$671,022.47. Article 2 (d) of the articles of incorporation of the mortgagor corporation states in substance that the mortgagor corporation is prohibited from entering any outside business venture so long as the property is encumbered and insured by the FHA. It is clear too that the principals in the mortgagor corporation and the Charlesam Construction Corp. are the same.

PARKCHESTER APARTMENT DEVELOPMENT, NEW ORLEANS, LA.

In this case, FHA insured loans totaling \$10,845,600 exceeded costs by approximately \$4 million, according to the analysis of FHA's own files, and, substantially

all of this money has been distributed. Last year, 8 of the 11 mortgage loans involved were assigned to FHA which issued debentures for these loans in the amount of \$7,345,350, an amount substantially exceeding the actual cost of all 11 projects. The original sponsors were Paul Kapelow, Lewis Leader, and Emil Bluestein.

Before FHA acquired these mortgages, substantial operating losses were incurred. As far back as March 1952, the district director advised Assistant Commissioner Powell that it was "only a question of time until we will acquire these properties."

At this date, FHA is in the process of taking over the management of all 11 projects.

Although the structures were two-story frame, with no basement or garages, and equipped only with inexpensive floor furnaces and wall heaters, FHA valuers accepted basic cost estimates of approximately \$10 per square foot.

PARKLANDS MANOR, INC., WASHINGTON, D. C.

The officers of Parklands Manor, Inc., which received an FHA mortgage loan of \$3,563,000, are, according to FHA records, Morris Cafritz, president and treasurer, Edward Cafritz and Charles H. Purcell, vice presidents, and Martin Atlas, secretary, all of Washington, D. C. The mortgagee in this loan was the Cafritz Mortgage Corp. FHA records indicate that Morris and Edward Cafritz are trustees for Calvin Cafritz, Carter Cafritz, and Conrad Cafritz, the holders of all of the common stock.

In this case, Parklands Manor, Inc., the mortgagor, has loaned \$630,000 to affiliates (the Parklands Shopping Center, Inc., \$150,000 and Parklands Terrace, Inc., \$480,000). Article 3 (d) of the articles of incorporation of this company, in substance, provides that it shall engage in no other business than the construction and operation of a rental housing project.

The FHA records also indicate that rents of about \$380,000 were collected prior to the date of first principal payment on the mortgage; and that the annual gross rental reported by the mortgagor for the year ending June 30, 1953, amounted to \$524,400, and was \$66,336 more than the rentals shown in FHA project analysis form. Article 12 (a) (1) of the articles of incorporation of the mortgagor states, in substance, that rental rates shall be approved by the FHA.

JEFFREY GARDEN APARTMENTS, BAYSIDE, N. Y.

The original stockholders and officers were Haskell Hess, president, Sidney Kessler, vice president, Benjamin M. Hess, treasurer, all of Jamaica, N. Y., and Rubin Garfinkel, secretary, and Martin Nutkis, stockholder. The mortgage loans amounted to \$2,278,700. On a capital investment of \$2,200 dividends in the amount of \$367,201 were paid to the stockholder and advances to stockholders by the corporations were made in the total amount of \$13,056.94. The financial statements of the mortgagor corporations show an appreciation in assets of \$654,829.

In this case, a swimming pool was built, for which there is no mention in the application, the project analysis, or the commitment. There is nothing in the statute or regulations suggesting that section 608 was intended to insure loans to finance construction of swimming pools. This item was reported to the FHA by the filing of a financial statement dated October 30, 1950, and no questions were raised with respect thereto by FHA.

RODGERS FORGE AND HAMPTON APARTMENTS, BALTIMORE, MD.

According to FHA records, the officers and stockholders of the Rodgers Forge Apartments are James Keelty, Jr., president, James Dorment, vice president, Joseph Keelty, treasurer-secretary, and Louise H. Keelty and Marguerite Dorment (stockholders). James Dorment and Marguerite Dorment and Elizabeth Gaegler are stockholders and officers in the Hampton Apartments. In this case the mortgage loans amounted to \$5,321,700 and exceeded the costs of the project by \$1,052,700. A comparison by FHA of the costs shown in financial reports to FHA in 1950 (first year after construction started) with the estimated percentage of completion shown in contractors' requisitions would clearly indicate that loans would substantially exceed cost of construction.

The capital investment on each project was \$2,000. Loans to officers and the construction company (owned by same group) were made in the amount of

\$200,000 on the first project and on the third project (Hampton Apartments) in the amount of \$190,000. The second project has invested \$450,000 in certificates of deposit. Rents collected before amortization of loans began totaled \$280,000.

CLIFTON PARK MANOR, NEW CASTLE COUNTY, DEL.

The sponsors of this development and the stockholders of each of the mortgagor corporations are substantially the same group of persons in each project. The total amount of the insured mortgage loans on the 3 projects was \$5,980,000. The total capital investment in the mortgagor corporations amounted to \$7,325 on which dividends of \$549,375 were paid on October 31, 1951, which payment was within about 45 days after completion of the project. Fixed assets were written up \$1,580,708 during the year 1952.

The sponsors in the first project in this development were Charles Benzel, 1078 Du Pont Building, Wilmington, Del., George T. Weymouth, Greenville, Del., Charles R. Martin, Box 733, Wilmington, Del.

In the second and third projects the sponsors are the same, except Mrs. George T. Weymouth, who is substituted for Charles Benzel.

According to FHA records, the stockholders when the mortgaged loans were made were as follows: Thomas E. Brittingham, Jr., Nicholas Z. du Pont, Laird & Co., Lamot du P. Copeland, C. Porter Schutt, Don A. Loftus, Thomas B. O'Toole, Charles R. Martin, Pierre S. du Pont III, Charles F. Benzel, George T. Weymouth, Don A. Loftus, trustee.

WOODBRIAR MANOR, INC. (GLENWOOD ESTATES), ELMHURST, N. Y.

The stockholders of Woodbriar Manor, Inc., Elmhurst, N. Y., and the sponsors of the project are Martin Fisher, Larry Fisher, and Emily Fisher, all of Kew Gardens, N. Y. The mortgage loan in this case amounted to \$4,867,300. On a capital investment of \$1,000 in the mortgagor corporation, the stockholders received dividends of \$1 million shortly after completion, in May 1951, of the project.

The project is located on land owned by Martin Fisher and leased to the mortgagor corporation under a 99-year lease at an annual rental of \$17,200. If FHA wants to acquire the land, in the event of default of the loan, FHA must pay \$430,000 for it.

FHA files also indicate that a rent increase was granted by FHA in July 1953 without requiring mortgagor to file documentary evidence in support of the request for increase.

The project in this case was constructed by the J. B. Realty Corp., of which, according to FHA records, Martin Fisher is president.

KEW TERRACE APARTMENTS, FLUSHING, N. Y.

The original stockholders and officers were Morris Brecher, president, Alfred Wohl, secretary-treasurer, and Charles K. Itchkow, vice president. The paid-in capital investment for this development was \$6,000. The mortgage loans amounted to \$3,005,800 and exceeded costs of construction by \$542,428. The book values of the two projects in this development were written up a total of \$946,-\$555.88, and thereafter dividends of \$555,000 were paid to the original stockholders. The borrower's financial reports dated January 31, 1950, submitted to FHA would have, if reviewed, disclosed that the loans exceeded cost of construction and that book values had been written up to assist in the distribution of the windfalls.

The original owners in 1953 disposed of their stock in the mortgagor corporations. The consideration paid for the stock is not known.

HILL DEVELOPMENT CO., BAYSIDE, N. Y.

The original officers and stockholders of the mortgagor corporation were Benjamin Neisloss, president, Harry Neisloss, secretary-treasurer, and Benjamin Braunstein, vice president, all of Jamaica, N. Y. The records show that the paid-in capital investment in the mortgagor corporation amounted to \$30. On August 25, 1950, dividends were paid out in the amount of \$145,000, and during 1952 a further dividend in the amount of \$22,410 was paid. The mortgage loan insured by the FHA amounted to \$1,926,800. From the financial statements of the mortgagor, it appears that after completion of construction assets were written up by \$300,000.

CATHEDRAL GARDENS, INC., HEMPSTEAD, N. Y.

The stockholders in this mortgagor corporation are: Mack Kanner, Jerry Kanner, and Lester Kanner, all of Merrick, Long Island, N. Y. The total paid-in capital is \$1,000. In this case, the mortgage of \$1,924,500 apparently exceeds costs by approximately \$482,046. The financial reports of mortgagor corporation indicate that the book value of the land and improvements was written up by \$723,397, with a corresponding credit to capital surplus.

It is significant to note that in this case the financial report of the mortgagor corporation of September 30, 1950, discloses that on August 26, 1950, cash dividends of \$425,000 were paid to stockholders, but that during the latter part of the period the dividend distribution was repaid in cash to the mortgagor as of August 26, 1950. The financial reports did not indicate any reason for this repayment. As of September 30, 1953, there was a surplus account of \$750,000 available for distribution, and as of the same date there was cash on hand (cash and Government securities) of \$595,055. It appears that substantially all of this cash represents proceeds of the loan in excess of costs.

BRADDOCK GARDENS APARTMENTS, INC., QUEENS VILLAGE, N. Y.

FHA records show that on a capital investment of \$750, distribution of approximately \$52,810 was made to stockholders in 1950 and 1951 alone. The stock of the corporation was sold in August 1950 for \$86,781.46. It cannot be determined from FHA files who received the proceeds of the sale of this stock. Total distributions made were \$289,210.

Present corporate officers are B. Retter, president; M. Retter, vice president; and C. Rosen, treasurer, all of New York City.

Though the project was completed in January 1950, and though the rental income commenced in October 1949, the first payment on the mortgage was not due until November 1950. The corporation, therefore, collected about \$110,000 in rents before it was required by FHA to make any principal payments on the mortgage loan.

Senator FREAR. Under section 203, there is no mortgaging-out clause in the cooperatives, but in the new act that is proposed and is now in conference; there is an anti-mortgaging-out clause. Do you think it might be well to hold up settlement on those until this 1954 act has been passed.

Mr. McKENNA. What do you mean by "settlement," Senator?

Senator FREAR. Well, if settlement is made now, they are not subject to the anti-mortgaging-out clause, but if it is held up until the law passes, then they would be subject to it.

Mr. McKENNA. That is so.

Senator FREAR. Do you not think in the light of what has gone on here now that FHA should be advised to withhold final settlement on that until the disposition of the present bill?

Mr. McKENNA. That would seem to be good administrative discretion on the part of FHA, sir.

Senator FREAR. Thank you.

The CHAIRMAN. I think in the proposed law any renewals are subject to certification.

Senator FREAR. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. McKENNA. Another case in Brooklyn, N. Y., Beach Haven Apartments.

The CHAIRMAN. What page is that?

Mr. McKENNA. That is No. 7, sir.

In this project, the excess of loans over cost was \$3,500,000. The rents collected before the first payment on the mortgage had been paid was \$1,700,000. This was partly due to the fact that FHA permitted construction to begin before they closed the mortgage.

At the present time according to FHA records, \$729,000 of the amounts mortgaged out had been loaned to affiliated corporations, though I understand from other sources that may have been repaid. Approximately \$3 million is left undistributed in banks, but now in addition to the amounts by which the mortgage proceeds exceeded costs, FHA allowed the principals to lease the land on which the project was built to the corporations at an annual rent of \$60,600 for 99 years. FHA was allowed the privilege of buying this land in case the project defaulted for a price of \$1,515,000, and against that price of \$1,515,000 at which FHA is allowed to buy this property, the stamps show that the principal bought it for \$34,500, on January 12, 1945.

The CHAIRMAN. They are going to get \$60,600 a year rent for 99 years, on something they paid \$34,500 for, on January 12, 1945.

Mr. MCKENNA. And if they fail in the meantime, if their projects fail, then they get another \$1,515,000 for that land.

The CHAIRMAN. If FHA has to repossess the land, they will get \$1,515,000 and they mortgaged out to begin with, \$3½ million. It makes you nauseated when you read these figures.

Mr. MCKENNA. In the Glen Oaks case in New York, with which everybody is familiar because of the publicity given to the tax aspects of it, there were dividends paid of \$4,600,000, but there are certain aspects, I believe, which even as of now have not been fully publicized. The leases on these lands, and again it is a case where the principal leased the land to the corporations instead of being required to transfer it, the leases required annual payments of \$108,794 for a period from 50 to 99 years. In the event the projects default FHA then has to pay the people who cause them to default \$2,715,550.

Now, the sequence of events in one of these projects, I think is of some importance in understanding how FHA proceeded. One of these projects, according to FHA's records, is listed as No. 012-40006, and in this project according to FHA's records, it shows that on July 29, 1948, the project was completed. This is one of the Gross-Morton projects.

According to FHA records it was completed on July 29, 1948. On that date, the New York Department of Housing and Buildings gave a certificate of occupancy. Nevertheless, on September 9, 1948, an FHA project analysis recommended that the amount of the insured mortgage be increased and on September 28, 1948, the amount of the insured mortgages was increased.

On December 15, 1948, the sponsors withdrew \$800,000 from that project out of the excess of mortgage proceeds over cost.

In other words, after construction was completed, after a certificate of occupancy was issued, FHA raised the amount of the mortgage. There was already mortgaging out, which was clear according to FHA's records. FHA increased the amount of mortgaging out and the sponsors took the money out of the project.

In New Jersey, in the Linwood Park case, in Teaneck, N. J., after completion of the project, shortly afterwards, some of the stock of these corporations was redeemed for \$1,318,000. In addition, long-term loans of \$1,270,000 were made to affiliated companies. These moneys came out of the excess of the mortgage over cost of operation; also, about \$1 million in rentals was collected before the first payment

on the making of the mortgages. Over and above this, of course, the mortgagors got some money from the lending institutions, because they gave these lending institutions the mortgage, and the mortgages being FHA-insured at that time, they were selling at a premium. Nevertheless, with this background, the Assistant Commissioner in charge of rental housing, Mr. Powell, authorized the projects to charge the tenants \$40 for hooking up to the television antennas.

In San Antonio, Tex., the Billy Mitchell Village, Inc., the FHA records show that the stockholders of the mortgagor corporation are Davis Muss, of New York City, president; Norman K. Winston of New York City, vice president; and Louis N. Kaplan of New York City, treasurer. The secretary is Mr. Henry W. Penn, of San Antonio.

In almost all of these cases, of course, or a high percentage of them certainly, there is a community of interest between the owning corporation and the building corporation. The money which is reflected as mortgaging-out does not include the profits which the building corporation made. The builder's profits are over and above the amounts that are shown to be mortgaged out.

The financial reports of the mortgagor corporation filed in 1950 show that shortly after completion of the project, the book value of the project was written up \$845,845 and \$500,000 was paid out of loan proceeds. This is opposed to a capital investment of \$56,000.

The CHAIRMAN. I think we are going to have to recess now, until this afternoon.

Unless there is objection, I think we will recess now, until 10 o'clock tomorrow morning, at which time we will finish with Mr. McKenna, and after Mr. McKenna's testimony tomorrow morning, we will hear Mr. Powell. That will constitute our two witnesses tomorrow. Then I again want to say, on Wednesday we will listen to the Shirley-Duke case in Arlington, Va.

If there is no objection, we will now recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:12 p. m., the hearing was recessed until 10 a. m., Tuesday, June 29, 1954.)

FHA INVESTIGATION

TUESDAY, JUNE 29, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:05 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bricker, Bennett, Bush, Maybank, and Lehman.

Also present: William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will come to order.

This morning will be a continuation of Mr. McKenna's testimony.

TESTIMONY OF WILLIAM F. MCKENNA, DEPUTY ADMINISTRATOR, ACCOMPANIED BY SIMON H. TREVAS, COUNSEL, HOUSING AND HOME FINANCE AGENCY—Resumed

The CHAIRMAN. Mr. McKenna, you may proceed in your own way.

Mr. MCKENNA. Mr. Chairman, yesterday we discussed various factors which added to the amounts that were mortgaged out to these windfalls, so-called. There was one factor which we did not discuss very thoroughly, and one which I would like to report on this morning.

There is a written report which we have prepared regarding this particular phase which contributed so much to the mortgaging out, and that is the underpayment of workingmen on these projects—

The CHAIRMAN. What?

Mr. MCKENNA. The underpayment of workingmen on these projects on which so much money was mortgaged out.

The CHAIRMAN. Let me ask you a question before you get into that. Are you finished with section 608 projects?

Mr. MCKENNA. With the specific projects. We filed a statement, Mr. Chairman. Unless the committee has questions to ask, I was going forward from that point.

The CHAIRMAN. I have 1 or 2 questions I want to ask about that before you get into this other.

We have found, as you know, a lot of so-called mortgaging out. I think everybody understands what we mean by mortgaging out.

Have you found any evidence of where the officials of FHA or former officials—those employed by FHA in the past—have encouraged or done anything about it?

Mr. MCKENNA. Yes; particularly when we were including former officials. As to persons who were officials at that time, I believe we

can, if the committee wishes, give a list of the occasions on which we feel mortgaging out was encouraged by then officials of FHA, and there was, also, Senator, a common practice, which I believe is still prevalent, of former officials of FHA leaving the employ of FHA, setting themselves up as consultants to builders around the country in order to handle their relationships with the Federal Housing Administration, and we have in that case found instances where these former officials of FHA, having left the employ of FHA, advised builders on how to finance their entire project and realize money from it.

The CHAIRMAN. Have you any concrete examples of it? Have you any documentary proof?

Mr. MCKENNA. Well, in a recent field investigation of the Franklin Manor project, at Sarasota, Fla., the investigators, in the files, took with the permission of the present owners of the files, certain exchanges of letters which show in their text how a former official of the National Housing Administration, the former head of the National Housing Administration, advised and told the builders of the project how they could finance it entirely out of Government money.

The CHAIRMAN. Do you have a letter to that effect?

Mr. MCKENNA. I should say Federal Housing money.

The CHAIRMAN. May I see it?

Mr. MCKENNA. We do have the exchanges of letters.

There is a whole file on this which I will give to the committee. I have in particular here four letters—

The CHAIRMAN. My question is, do you have any documentary proof where former high officials or present high officials at any time encouraged or showed any project owner how he could mortgage out and build one of these projects without putting any of his own money in?

Mr. MCKENNA. This exchange of letters shows the latter part of that, and shows how a former high official advised the builder how he could put his money into the contracting corporation so that it did not show as mortgaging out.

The CHAIRMAN. Let me see it.

Mr. MCKENNA. These are copies. We have the originals on file, if the Senator wishes them.

The CHAIRMAN. Without objection, we will place in the record correspondence between Wilson Wyatt, who was the Housing Expediter back in the forties, addressed to his cousin, Earl Franklin, at Sarasota, Fla., showing how it is possible to mortgage out and build projects without putting any money in, and without objection we will place all this in the record.

(The information referred to follows:)

EXHIBIT D-1

JULY 22, 1949.

Re FHA project No. 067-42017 Franklin Manor, Inc.

Mr. WILSON W. WYATT,
Louisville, Ky.

DEAR MR. WYATT: Enclosed herewith, is a bid-proposal, in the amount of \$473,800, from the R. E. Clarson, Inc., Tampa, Fla., relative to the construction of the apartments (92), office and utility (3) building, subject project.

This general contractor is well established in this area, approved by all Federal construction agencies and is acceptable to the FHA for this project. This con

tractor is now under contract with the F. W. Woolworth Co., Atlanta, Ga. (four to five millions) relative to the construction of buildings in the several southern States.

My contract with their bonding agency, indicates that this one agency has authority to issue bonds for Clarson in the amount of one million, without reference to the home office. Further, I am advised that Clarson can meet all the contract and FHA requirements noted for this project. The bonding company agent being: Mr. Don E. McGuire, 537 10th Street, West Bradenton, Fla.

The only difference between the referenced FHA approved plans and specifications and the working plans and specifications being the construction details, etc. There should be no cost differential, as this plans and specifications are duplicates of other completed (FHA) construction.

Based on this proposal, and using the FHA (commitment) estimate, the following project costs are evident to the sponsors:

1. Improvements to land.....	\$63,040
2. Structures.....	473,800
3. Fee (1/2 architect's).....	16,766
4. Refrigerators, ranges, water and space heaters.....	40,000
5. Carrying and financing.....	40,848
6. Legal and organization.....	2,250
7. Land costs.....	37,000
	<hr/>
Estimated total.....	673,704
	<hr/>
Mortgage proceeds.....	745,000
Estimated costs.....	673,704
	<hr/>
Difference.....	71,296

My personal estimate of these project costs, with construction being handled without general contractor facilities, using the purchasing powers of Franklin Bros., and with competitive (bonded) subcontractors, is as follows:

1. Improvements to land.....	\$43,000
2. Structures.....	422,425
3. Fee (1/2 architect's).....	16,766
4. Refrigerators, ranges, water and space heaters.....	40,000
5. Carrying and financing.....	40,848
6. Legal and organization.....	2,250
7. Land cost.....	37,000
	<hr/>
Estimated cost.....	602,289
	<hr/>
Mortgage proceeds.....	745,000
Estimated cost.....	602,289
	<hr/>
Difference.....	142,711

The above (personal) estimate is capable of being maintained, through the use of on-hand proposals of items indicated under "Improvements to land," saving the general contractor's overheads and profit levels and the use of established (Franklin Bros.) purchasing powers and credits.

This information is being furnished as evidence of the financial soundness of this project in relationship to the FHA estimate, mortgage value and the sponsor's possibilities.

Very truly yours,

FRANKLIN MANOR, INC.
W. H. TYLER.

EXHIBIT D-2

WYATT, GRAFTON & GRAFTON LAW OFFICES,
Louisville, Ky., August 6, 1954.

Mr. W. H. TYLER,
Care of John V. Deegan Realty Co.,
Sarasota, Fla.

DEAR BILL: As I understand it, the following checks have been issued on the dates and in the amounts indicated, on the Liberty Bank account of Franklin Manor, Inc.:

Number	Date	To—	Amount
1	July 25	FHA, inspection fee.....	\$3,725.00
2	July 26	W. A. Wynne, stamps on note.....	747.80
3	do	C. Hagerman, intangible tax.....	1,490.00
4	Aug. 1	City of Sarasota, Lucas, examination fee.....	10.00
5	do	City of Sarasota, Lucas, general contractor's license.....	50.00
6	do	City of Sarasota, building permit.....	1,004.00
7	Aug. 3	Abstract of Sarasota, title policy.....	2,050.00
8	do	Bisbee-Baldwin— $\frac{1}{2}$ of 1 percent, on account, financing fee.....	3,725.00
9	do	Bisbee-Baldwin, escrow deposit for working capital to be held until the end of the job, \$11,175; plus amount necessary over and above mortgage proceeds to complete construction contracts, \$44.....	11,219.00
10	do	Bisbee-Baldwin, FHA mortgage insurance premium.....	3,725.00
		Balance.....	2,254.20

In addition to the above there has been charged to the account the sum of \$98.70 for interest on the \$37,000 loan for the 15-day period from July 14 to July 29. I have requested Vernon, however, to deposit this sum in the account in order that the account will be reimbursed. The \$37,000 loan was renewed for 30 days on July 29, at the end of which time interest in the amount of \$191.20 will be due. The \$30,000 note from the corporation to Earl Franklin and Vernon Franklin and endorsed by them to the Liberty was delivered yesterday by me to the Liberty as collateral on their \$30,000 loan of July 25. Since that was a 15-day loan, it will be due with interest of \$80 on Tuesday, August 9.

Yesterday I gave to Vernon a blank note to be signed by him and his wife and by Earl and his wife and returned to me by Monday, the 8th, or at the latest on Tuesday, the 9th, in order that I may then deliver it to the Liberty (I will fill it in for \$30,000 and for such period of renewal as I shall be able to agree upon with the Liberty) on Tuesday, the 9th, together with a check from Vernon for \$80 in payment of the interest then due. If we are sure that the construction fund loan will be completed, and a check for the first draw received and deposited within a period as short as 15 days from August 9, a 15-day renewal will be sufficient. If, however, it looks as though a little longer will be required for a first draw to be received, it may be best that I renew it for 30 days. I feel sure the Liberty will let me arrange it either way just as long as I am certain that it will be repaid out of the first draw.

Yesterday I spent 2 hours with Mr. Dobbins at the Liberty and gave him a thumbnail sketch of our "11 days of crisis" in Florida. I found his attitude entirely satisfactory.

If you are able to improve the amount of the first draw to bring it in line with anything like the figure that you had previously given me, I shall appreciate immediate notice of this as it will be very important good news. As I understand it, however, the FHA has indicated that the first draw will consist only of the following:

Reimbursement of:

FHA mortgage insurance premium.....	\$3,725
FHA examination fees.....	2,235
FHA inspection fee.....	3,725
Financing expense (1½ percent) (of this amount, \$3,725 has been paid to Bisbee-Baldwin, and, on receipt of the first draw, \$7,450 must be paid to Bisbee-Baldwin. However, since the sum of \$3,725 will be paid by Bisbee-Baldwin to FNMA, there will still be due, out of the final draw, the remaining ½ of 1 percent or \$3,725 to Bisbee-Baldwin).....	11,175
Title and recording expenses.....	5,954
Architect's fee, 60 percent.....	20,120
Total.....	46,934

I understand the architect's account will be as follows:

60 percent reimbursement on first draw.....	\$20,120
Total amount due (2½ percent).....	\$16,766
Heretofore paid on account.....	1,000
Balance due out of first draw.....	15,766

Balance remaining out of first draw for use by Franklin Manor... 4,354

I, therefore, figure that out of the first draw you will have available for payment to the Liberty the sum of \$23,718. This figure, together with the balance in the bank of \$2,254.20, will give a total of \$25,972.20 available to pay to the Liberty out of the first draw, leaving a balance of \$4,027.80, plus \$80 of interest to be produced from sources other than the first draw in order to pay the Liberty its \$30,000 note and interest.

Please doublecheck these calculations and, if accurate, simply mark "O. K." with your initials opposite this paragraph.

I am sending this letter to you in duplicate and shall appreciate it if you will return the carbon to me with a notation as to any inaccuracy in the foregoing, or any comment you may have.

Cordially,

WILSON W. WYATT.

P. S.: Mr. Vernon Franklin: I am enclosing your Liberty-Franklin Manor, Inc., bankbook.

EXHIBIT D-3

WYATT, GRAFTON & GRAFTON LAW OFFICES,
Louisville, Ky., November 16, 1949.

Mr. C. B. COMPTON,
Kentucky Home Life Building, Louisville, Ky.

DEAR MR. COMPTON: I am enclosing the following:

1. Excerpt from contractor's requisition No. 3 for work performed up to the 31st day of October 1949.

The first four columns are taken directly from the requisition filed with the FHA. The last two columns, under the general caption "Estimate of Probable Gain or Loss," were supplied by Mr. Earl Franklin in the course of a full discussion of the situation with him in Florida this past weekend. You will notice that the estimated net would show a gain of \$112,800. From this, however, would be subtracted the fees which will be paid to me for services as attorney and housing consultant in connection with this project from the beginning.

I do not have the exact figure of the amount allowed by the FHA and paid by the Manufacturers Trust on this requisition. It was approximately \$8,000 less than the sum requested. This is unimportant since the amount will undoubtedly be included in a subsequent draw.

2. Itemization of fees and allowances (included within the mortgage of \$745,000), over and above the amount of the construction contract and the contractor's 5 percent cash fee. Opposite each of these items there is also indicated the amount of estimated gain or loss, based similarly on a full discussion with Mr. Earl Franklin in Florida. The net gain of approximately \$16,000 will be almost exactly an offset for the development funds which were put into the corporator

3. Agreement of September 8, 1949, between Franklin Manor, Inc., and W. H. Tyler; also release of liability for debt, executed by Tyler, pursuant to the foregoing contract, on September 14.

4. A file marked "Closing papers." You will probably want to look through this generally, and there are a few documents you will probably want to examine with care. It will not be necessary, I am sure, however, to read all of them through as you will find they are quite voluminous.

Mr. Banks was released by Earl Franklin a couple of days before I got to Sarasota, but he has been replaced by a Mr. Barton who has been at work on the project from the beginning and seems to be competent. I asked Mr. Barton to prepare and send me a detailed breakdown of all money received by Franklin Manor, Inc., and I understand from talking with Earl on the telephone yesterday, that this is in the mail now. As soon as it arrives, I will send it over to you.

I also asked Mr. Barton to send me the checkbook stubs for all checks issued until October 31, as I thought this information might be of assistance to you in making an analysis.

The following is a hurried summary of some of the points which we discussed when you, Mr. Kottke, and Mr. Vernon Franklin were in my office last week:

The land on which the project is located was purchased by Earl and Vernon Franklin personally, at a cost of \$37,000. This money was borrowed by them from the Liberty on their personal note (signed by their wives also) and secured by the pledge of all of the corporate stock of Franklin Manor, Inc., and of Franklin Bros. Hardware & Appliances. Five thousand dollars and interest, was paid on this note last week by check sent from Franklin Manor, Inc. Since the land constitutes the principal basis for the Franklin Manor stock issued to the Franklins, this note should be paid by funds which are clearly personal funds of the Franklins.

It is almost essential that most of the apartments be furnished. This will run approximately \$65,000 in cost. Last week, Franklin Manor, Inc., gave its check to a furniture supplier for approximately \$12,000 in payment (in advance) for furnishings for 16 apartments. These furnishings are to be delivered December 1. I am inclined to think that it will be best for the furniture to be owned by the Franklins individually and leased to Franklin Manor, but I should like to have your thought and advice on this. If the furnishings are to be bought by the Franklins individually, they can be paid for—at least in large part—by the net proceeds which will probably be coming to the Franklins from the construction contract. This contract is between Franklin Manor, Inc., on the one hand, and Earl Franklin and W. H. Tyler on the other. As we discussed last week, Earl Franklin and Vernon Franklin are, in fact, full partners in the construction contract as in this entire venture.

Vernon has been doing the necessary financing arrangements up here, has been running the hardware store and, thereby producing additional funds as needed for payroll, etc., in Florida; has arranged essential financing by increasing the Franklin's loan at Portland by some \$16,000; has conferred with Earl by telephone and letter on innumerable occasions; and has actually been at the project in Florida on several occasions for inspection, consultation, and advice. Furthermore, Vernon and his wife, along with Earl and his wife, signed the indemnification agreement without which the construction contract could not have been authorized.

It would seem to be well to set forth this partnership in the construction contract, with recitals showing all of the factual background and partner participation. If the profits from the construction contract could be divided as between 2 fiscal years, the benefit of the community-property phase of the 1948 Revenue Act would, in effect, give us 8 separate tax brackets. Earl has not yet received any advance rentals and it will probably be December before he does. For this reason it may be just as well to take October 31 as a fiscal year on Franklin Manor, Inc.

Earl Franklin (and Vernon Franklin), as the contractor on the project, has not been issuing any checks. All of them have been issued out of the one bank account which contained all of the transactions on the project: that of Franklin Manor, Inc. It seems to me that it would be well for a ratification and confirmation to be executed by Earl Franklin to Franklin Manor, Inc., with reference to all checks heretofore issued by Franklin Manor, Inc., which were not realty checks, for the construction of the project. Franklin Manor's account from that date forward, it would seem to me, should cover only the financial transactions of Franklin Manor property; and a separate bank account of Earl

Franklin as contractor should reflect all subsequent financial transactions related to the construction contract.

Since you are out of the city today, and since I am leaving for the East this afternoon and will be there until Saturday, I am dictating these facts rather hurriedly before catching my train in order that you and Mr. Kottke will have them before you, along with the various other records which I am sending you from my file, and the records which will be coming forward for you from Sarasota.

Monday morning I suggest that we arrange by telephone for a time that is mutually convenient during next week when we can sit down for whatever time is necessary in order to chart the tax course of the Franklins.

Your counsel and advice will be essential, and I can assure you is not only very much welcomed and desired by me, but the same is true of both Earl and Vernon.

Both of them have real respect and admiration for you, and I know they would not want to proceed on any final tax decision without the benefit and guidance of your views.

I regret that I will not have an opportunity for the letter to be transcribed and checked by me before it is sent over to you, but on my return I shall check it.

With very best personal regards,

EXHIBIT D-4

MAY 24, 1950.

MR. DON REDMOND,
*Care of Federal Housing Administration,
Washington, D. C.*

DEAR MR. REDMOND: I learn through Charlie Powell of the Landscaping Division, that you have a different zone now. I hope this is a better job.

I don't want you to forget that you promised me you would bring your wife and family down here for a vacation. I have been looking forward to it. We have a new boat dock and a good boat to go fishing in.

We will give you an apartment right on the bay, and do everything possible to show you a good time.

I want you to know that Wilson Wyatt, my brother, and I appreciate everything that you did for us, even sacrificing your last vacation for us.

I certainly hope you can come down here. Let me know when you are coming, and I will try to have Mr. Wyatt here, and maybe you can arrange with Mr. Tinney or anyone else you like to come also. We have plenty of room, and I will show you the best time you have ever had.

Hoping to hear from you soon,

EARL FRANKLIN.

EXHIBIT D-5

MR. WILSON W. WYATT,
*Marion E. Taylor Building,
Louisville, Ky.*

DEAR WILSON: I received your letter, and I am sending you a copy of Mr. Munnerlyn's letter of May 25. Wilson, I can't figure it out. Every time we hear from them, they want more money.

I believe we have enough money to run this project until December the way I have cut expenses down. The only extra expense I will have this month at all will be the wiring of the pier and shuffleboard court. I am getting expenses down lower every month—telephone and everything else. Next month will be still lower. But as you say, the money I borrowed, which I owe you, is going to be hard to pay this year. However, I may fool you all. It's going to be a whole lot better this year than last year, because we are ready to take everybody in. We have every unfurnished apartment rented, and we are getting a few more overnight and weekend guests. When school is out the middle of this month, we ought to pick up enough to pay on the project without going into anybody's pocket. I am told that September and October are pretty bad months, but we have the season right afterward. We aren't wasting a nickel. We have our books and bank balance perfect, and every nickel we take in we have a receipt for, and every nickel we spend we have a record of. So our books are ready

for anybody to audit. Still, it seems as though every time we get a few dollars, between Bisbee-Baldwin and Manufacturers Trust, we have to give them up.

I got Don Barton a job through Mr. Ahle, with the Paul Smith Construction Co., starting Monday. Don and I are personal friends, but we couldn't stand the \$70 a week salary. Our monthly statement is also enclosed, and I think you will see a better picture. Next month it will be better still.

Bill Tyler signed an affidavit to George Betts that he had the power of attorney and authority to give him the contract to build this project. Betts claimed that for this reason he went to Sarasota to take the examination for a contractor's license, and that the bid he made us was the reason for our getting the project—otherwise we wouldn't have gotten it. I explained to Betts and his lawyer that Mr. Stanley, Bill Tyler, and I sat in the George Washington Hotel and made out all the papers concerned with the bid, and that everything that Bill Tyler told Betts was a lie, without my knowledge or authority, and that I could prove it. Betts wanted a settlement. I told him I wouldn't give him a dime, and to sue and be damned. I then contacted Bill Tyler and told him that if he didn't sign a release from both the painters and George Betts, I would personally see that he went to the penitentiary for the checks he has written. They want him in Louisville on 2 or 3 indictments. He sold his part of the land to Russel Fye for \$1,000, I hear. He has been paying off checks, but the people he owes are crowding him. I understand he still has over \$1,000 in checks out. He has been begging me to keep the Louisville police off him. He went to Doug Arnest's office and signed an affidavit stating that the only reason he signed the original affidavit to George Betts was because he was in trouble, George Betts made his bond to keep him out of jail; he was desperate and would have signed anything to keep from going to jail. Doug Arnest prepared the affidavit, Taylor signed it, and also one against the painters. All of these releases were truthful, as I didn't even know George Betts at the time the bid was made, the painters didn't fulfill their contract, and anything that George Betts and the painters claimed was a lie. I could have proven it by bringing Dick Stanley and Ball from the FHA in, which would have defeated Betts' case anyway. Doug Arnest laughs and says he thinks that's all over with.

I am doing my best to work on these taxes and cut them down. I am getting a copy of the taxes that Florasota Garden pays, as I know we shouldn't pay any more per dollar than they do. They have special rates, and I want to get the same or better. Mr. Picket and I are good friends at present. He is my political adviser. Mr. Tate and I start next Tuesday to register everyone here we can to vote, and Mr. Picket says that in return he will help me out—which he already has.

I was talking to Vernon last Sunday night, and he says that both the hardware store and Franklin Manor should make more money next year. He was new, and Bob Brady was new; they lost some business that they should have had, but I believe they will make more money next year. We have been trying to sell the hardware store, but can't. There is too much money involved in it. I believe by next March or April we ought to be able to pay everybody off. If not, pretty close to it. Then we won't have any more worries. If these people come down in October, November, and December, as I hear they do, although I don't know, I will assure you that the check you are holding will be good, and the rest of it will have to come after the first of the year.

There is a man who will be over to see me today or tomorrow who wants to build 125 houses on the South Trail in Sarasota, and sell them. So far he has had no luck, although he has tried everybody. We have a clothing dealer on the project who wanted to know whether he could talk to me, and find out whether I could do anything to help him. I told him I didn't know of anything I could do, but I would talk to him. If he wants to retain you, and if you would like to take the case, he could fly to Louisville, or you could fly down here. He has bought the land, cleared it, and is ready to build and can't get to first base.

Wilson, I don't want to take up too much of your time. I wish you could come down for a few days and see this place. We have the prettiest grass and flowers around here.

I had one of the sales managers from the General Plywood stay at my house last night. His wife and family are coming down to stay 2 or 3 weeks with him. He wants some pictures which we have had made, as he is going to put them in several building magazines all over the country, which will be a good ad. We have our street lights in now.

We are paying interest to Sarasota State Bank monthly. Also, because of the new law we will be sending in State and Federal taxes monthly.

George has just become a member of the Rotary Club. I belong to the Exchange Club; and four of us belong to the chamber of commerce. I have taken my Shrine, and am now meeting all the big shots. One of them, from the Rotary Club, last week rented two apartments by the year. I am selling a piece of property for John Deegan to a friend of mine from Louisville—a bar, for \$35,000.

Best regards,

Senator MAYBANK. Mr. Chairman, the only thing I would ask in justice, and I know you would agree, is that if Mr. Wilson Wyatt wants to file any statement in connection with it we will put that in the record.

The CHAIRMAN. Of course.

Senator MAYBANK. I will ask permission to do that.

(The following was later received for the record:)

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
July 26, 1954.

Mr. WILSON WYATT,
Louisville 2, Ky.

DEAR MR. WYATT: This is in further reply to your letter of July 6, 1954, with respect to the Franklin Manor FHA insured project in Sarasota, Fla.

Subsequent to your letter we have heard in executive session under oath the superintendent on the construction job as well as your client, Earl Franklin (who was accompanied by one of your partners).

Our investigation to date does not lead to the conclusion that everything was properly done in this project; nor does it lead to the conclusion that the audit statements furnished to you by the accountants and enclosed with your letter to me can be accepted at face value.

Our investigation does, however, disclose that you had no interest whatsoever in the project other than acting as attorney for the Franklin brothers, and that you received nothing out of the project other than the fees which they paid to you, and that the Franklin brothers were not relatives of yours as reported by a witness in open session.

Under these circumstances it is my understanding that you do not desire to have your letter of July 6, 1954, enclosed in the public record of our hearings.

Sincerely,

HOMER E. CAPEHART.

WYATT, GRAFTON & GRAFTON,
Louisville, Ky., July 28, 1954.

Senator HOMER CAPEHART,
Washington 25, D. C.

DEAR SENATOR CAPEHART: I am glad to have your letter of July 26, 1954, following your telephone call to me on last Friday, July 23.

It is, of course, gratifying that your investigation has now satisfied you of the propriety of my actions in relation to the Franklin Manor project.

Under these circumstances I no longer insist on the inclusion of my letter of July 6, 1954, in the public records of your hearings.

Sincerely yours,

WILSON W. WYATT.

The CHAIRMAN. What we are trying to do here is find out the facts, and anybody who wants to testify may do so. Any time anybody's name is mentioned in any of the hearings, and he wants to personally appear and defend or protect himself, or give his side of the story, we will be delighted to hear him, or they may file statements—Mr. Wyatt or anyone else who wishes to come may do so. What we are trying to find out is the purpose of the correspondence and, frankly, what our staff is trying to find out is whether or not high officials in FHA in the past, or high officials at the present time, are encouraging

builders to mortgage out, whether they were a part and parcel of this business, whether they wrote letters or made speeches in which they encouraged and showed these people how they could mortgage out. Frankly, we have had much testimony in our executive hearings up to this time on the part of builders that high officials did encourage them to go into section 608 projects. They did encourage them to do it. They did tell them and show them how they could go in and build these projects without putting any—or very little—money into it.

Senator MAYBANK. At the same time, Mr. Chairman, these big builders and associations in America testified here there would be no windfalls, as was stated yesterday. I am stating not only what is happening in this committee, but what happened on the Senate floor in which they promised all these things. I think the builders are as guilty as anybody else, in my book.

The CHAIRMAN. The able Senator is correct. We have evidence here in public hearings that high officials of the FHA in the past, builders, mortgage bankers, and others, have assured this committee it was impossible for this sort of thing to happen.

We likewise have documentary proof that these high officials in the past were encouraging builders to get into this sort of thing, and showing them how they could do it without putting any, or very little, of their own money in it.

The letters we placed in the record this morning are documentary proof that that did happen—at least in one instance—and those are the things we are trying to find out. We are trying to find out whether this whole business has been brought about through maladministration, whether it is the weakness of the law, or whether it is a combination of both.

I again want to say that any time any man's name is mentioned in these hearings, adversely, and he wishes to be heard in person or wishes to file a statement, we will be delighted to have him appear, and delighted to have him file a statement. We want that definitely understood on the part of everybody.

I find Mr. Powell is present this morning.

I think we will excuse you for the moment. I want to put Mr. Powell on the stand this morning.

Senator MAYBANK. I notice in a statement filed here that the Savannah Terrace Apartments in North Augusta hired experienced carpenters as apprentices.

I would like to ask you where you got that information. It appears on page 3. Because the A. F. of L. is a pretty strong union in Aiken County, and all that atomic building was done down there. I have never had any personal complaints about it being done.

Who made such a statement on that?

Mr. MCKENNA. We have a full file on that, and I will make it available to you.

Senator MAYBANK. Was it A. F. of L.?

Mr. MCKENNA. I believe there was an investigation. I will submit the full file.

Senator MAYBANK. What did the A. F. of L. do? They have a pretty good union down there, in Savannah, Charleston, and Augusta.

Mr. MCKENNA. In many of these cases the original complaint did come from the union. Whether it did in this particular case I will be able to answer after we have a recess.

Senator LEHMAN. Mr. Chairman?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. I did not attend these executive or private hearings to which you referred, so I am not familiar with what transpired.

The CHAIRMAN. Let me say this to the Senator, because I want the record to be perfectly clear:

In executive session, with all Senators present, I told them that in all our executive sessions, or private sessions, that we were making a transcript of every word that was uttered by everybody present, and that those were available to every Senator.

If the Senator wishes, we will have delivered to his office a copy of the transcript of every executive session we have had, which covers every word that was spoken. We will be delighted if he wishes delivered to his office a copy of everything that was said in each executive session.

Senator LEHMAN. I would like to have that, but I do not want to have the chairman interpret my remarks as any criticism of the manner in which these private sessions were held.

The CHAIRMAN. My point is, naturally, 15 Senators cannot attend these private sessions. They don't have the time.

Senator LEHMAN. I realize that. We wouldn't have the time.

The CHAIRMAN. Senator Lehman, of course, doesn't have the time to do it, but we are making available to each of the 15 Senators a transcript of every word that was said by myself or other Senators, and by all witnesses in each of these executive hearings. That is available to each of the 15 Senators any time they care to see it.

Senator LEHMAN. I was simply trying to address myself, however, to a question.

The CHAIRMAN. Go ahead, please.

Senator LEHMAN. The statement has been made here today that the records indicate that some officials—some high officials in FHA—in correspondence, or otherwise, showed some of the contractors or builders the manner in which they could utilize the provisions of section 608 without putting up any substantial amount of their own capital.

Now, did these letters, however go further and indicate or encourage these people to believe that they could avail themselves of great or of substantial windfalls? In other words, it is one thing to proceed under section 608, without utilizing any substantial amount of personal capital, particularly at a time when we were very anxious to develop as much private building as possible, and it is quite a different thing if these people were encouraged to believe that the amount of the mortgage would be greatly in excess of the cost of the project, and thus allow them not only to mortgage out, but to declare large dividends?

The CHAIRMAN. Will the Senator yield?

Senator LEHMAN. I will be glad to.

The CHAIRMAN. As he, of course, knows, there has been much publicity about so-called windfall profits on the part of many builders. They have taken the position that the Government and the officials of FHA encouraged them to get into the business because housing in apartments was so badly needed. We have had much testimony to that effect.

I think it behooves this committee, then, to find out if the former FHA officials, or present officials, encouraged them to do it and

showed them how they could do it. If they did, I would say that they ought not to be criticized—maybe not at all—at least, not so severely if the Government itself showed them how to do it.

That is the purpose of our introducing into these hearings documentary proof that that sort of thing happened, because I think we owe it to the builders. Many of them have told me that they were encouraged to do it. I think we owe it to them to find out whether or not that was true.

Senator LEHMAN. I agree with you.

There is a vast difference, in my opinion, between an official of the FHA showing a builder how he could avail himself of the provisions of section 608 without utilizing any substantial amount of his own personal capital, or, on the other hand, on the other side, a high official of the FHA encouraging these builders to believe that if they went into it they not only would not have to utilize a substantial part of their personal capital, but could also obtain a windfall which would permit them, as has been done, to declare large dividends to themselves.

I was trying to distinguish between those two things, and particularly as reference has been made.

The CHAIRMAN. We want to find out whether it is the fault of the law, whether it is the fault of the Administration, or whether officials of the Government in the past did encourage them to do these things. I again want to say that any time any man's name is mentioned in these hearings we want him to feel perfectly free to come and testify on his own behalf, or file a statement.

Mr. MCKENNA. Senator, if I may, I have submitted a statement to the Senators here, and I would appreciate it if it could be made a part of the record.

The CHAIRMAN. I am going to call you back in just a few minutes.

Senator MAYBANK. What statement is that?

Mr. MCKENNA. The statement on the labor situation which the Senator just referred to. (See p. 101.)

Senator MAYBANK. Let me finish this point so it will be clear on the record.

Does Wilson Wyatt's letter show he suggested there would be a windfall? I didn't read it.

Mr. MCKENNA. I don't want to generalize.

Senator MAYBANK. Did it or didn't it? You were supposed to be investigating the FHA, your own organization, and you don't know?

Did or did not Wilson Wyatt suggest to his cousin he could get a windfall?

Mr. MCKENNA. Wilson Wyatt suggested to his cousin they could finance the project and make a contracting profit without putting any capital in, and he suggested how he could show that they could state that the land was paid for, when, in fact, it was financed, depending upon the mortgage loan, to pay for the cost of the land.

Senator MAYBANK. Was not that the law?

Mr. MCKENNA. My opinion the way it was done there was not according to the law, but it is a conclusion, and I would rather the Senators drew their own conclusions.

Senator MAYBANK. I understand that, but you cannot draw—I appreciate what you are doing, but we cannot sit up here and draw conclusions without complete facts.

Mr. McKenna. In my opinion, Wilson Wyatt's letter showed a way to evade the law, but I would rather not have made that statement.

Senator MAYBANK. That is all right. You say Wilson Wyatt's letter showed how to evade the law?

Mr. McKenna. That is my opinion.

Senator MAYBANK. Under oath?

Mr. McKenna. That is my opinion.

Senator LEHMAN. Did he make any mention of windfalls?

Mr. McKenna. He did not.

Senator LEHMAN. Did he make any mention that it was his belief and expectation that the contractor could make more than a reasonable profit in undertaking the project?

Mr. McKenna. I have no recollection of these words.

The CHAIRMAN. Mr. McKenna you are temporarily excused. Mr. Powell, will you please come forward?

Mr. Powell. Good morning.

The CHAIRMAN. Good morning.

Mr. Powell, will you be sworn?

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF CLYDE L. POWELL, ACCOMPANIED BY DANIEL B. MAHER, COUNSEL

Mr. Powell. I do, sir.

The CHAIRMAN. Will your counsel please give his name to the reporter?

Mr. MAHER. My name is Daniel B. Maher. I am a member of the bar of the District of Columbia. My appearance has heretofore been entered on behalf of the witness in this case.

May I respectfully request that the record show that the witness is here, pursuant to a subpoena?

The CHAIRMAN. That is correct.

Mr. MAHER. May I also state to the chairman that under the conditions now prevailing, I don't think the witness should be compelled to testify. There are lights flashing in his face, within 3 or 4 feet. There is a microphone in front of the witness, which may be amplified to infinity, and which in effect deprives the witness of his right to consult with counsel.

The CHAIRMAN. Well, would the witness like to have the microphones and the lights removed?

Mr. MAHER. Yes, Mr. Chairman.

The CHAIRMAN. All right.

Will the reporters please get their pictures?

You have no objection to the mike here?

Mr. MAHER. No, Mr. Chairman.

The CHAIRMAN. You are talking about the radio and the television?

Mr. MAHER. And I object to these flashlights.

The CHAIRMAN. I see, just the flashlights.

Mr. MAHER. And also television in the event that they turn it on.

The CHAIRMAN. You object to your client testifying over the television or over the radio?

Mr. MAHER. I do.

The CHAIRMAN. As long as the lights are off I have been informed that there will be no recording of television or radio.

Mr. MAHER. Very well. Thank you.

The CHAIRMAN. If that is the wish of you and Mr. Powell, we certainly will adhere to them.

Mr. Powell, will you please give the reporter your name and present address and present occupation?

Mr. POWELL. My name is Clyde L. Powell. My address is the Sheraton Park Hotel, Washington, D. C.

At the present time I am not engaged in any business activities.

The CHAIRMAN. How long were you connected with the Federal Housing Administration, and what were the positions that you occupied with FHA?

Mr. POWELL. Mr. Chairman, I respectfully refuse to answer. My refusal is based upon my constitutional protection against being compelled to be a witness against myself.

The CHAIRMAN. Will you explain to us the workings and procedure for FHA commitments under section 608 of the National Housing Act?

Mr. POWELL. The answer is the same as heretofore given.

The CHAIRMAN. How did FHA determine the amount of the commitments it would make for mortgages under section 608?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. Were you also connected with the section 213 program?

Mr. POWELL. My answer is as heretofore given.

The CHAIRMAN. Well, I would like to say this for the benefit of the committee:

Here is a gentleman who for 20 years held a high position in our Government, was paid by the American taxpayers, was the head of what was known as the rental housing projects, in which the Federal Government insured some \$6½ billion to \$7 billion worth of mortgages.

He was not a common employee. He was the head of the department, and we only wish to ask him questions concerning the operations of his department. It is not our intention to ask him any questions as to what he did after hours, meaning what he did with his evenings or his Sundays, or his nights.

We need his help in this investigation for the simple reason that he was the head of the department. He, and he only, can answer certain questions that this committee ought to have.

I have asked him 5 or 6 questions that have to do with his responsibilities when he was the head of this agency, and he refuses to answer.

I am going to continue to ask questions along those lines.

Are you acquainted with Dr. Daniel Gevison, a Washington dentist, and, if so, how well are you acquainted with him?

Mr. POWELL. The answer remains the same, sir.

The CHAIRMAN. Did you personally direct the Texas office of FHA to grant a commitment for a project sponsored by Dr. Gevison, which the Texas office had turned down?

Mr. POWELL. My answer remains the same, sir.

The CHAIRMAN. Are you acquainted with Norman K. Winston and David Muss, and, if so, how well acquainted with them are you?

Mr. POWELL. My answer is as heretofore given.

The CHAIRMAN. Did you personally direct the Texas office to grant a commitment to them for a section 608 project in Texas?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. Are you acquainted with Bertram F. Bonner and, if so, how well?

Mr. POWELL. My answer is the same, sir.

The CHAIRMAN. Did you personally direct the Wilmington, Del., office to grant a commitment to Mr. Bonner which it had turned down?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. Are you acquainted with Don A. Loftus and, if so, how well are you acquainted with him?

Mr. POWELL. My answer is the same.

The CHAIRMAN. Have you had any source of income over the last 5 years other than your salary with the Federal Housing Administration?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. Well, there are many, many other questions that I would like to ask this gentleman.

I am addressing this to the committee members. As we get down to the investigation I want to say this: That there is some information that only this gentleman can supply. In our executive hearings already we have developed testimony, and, I might say this; I don't know what this gentleman has in mind, but it would not be harmful to him at all, but would be very, very helpful to the Government, and very helpful to this committee.

Some of it is very important. Witnesses maintain that Mr. Powell gave them instructions, or gave them permission to do certain things, and, frankly, I don't think he did. I do not know, but I do not believe he did, but unless he is willing to testify some of them are going to create some very, very bad situations for the Government.

Mr. MAHER. Mr. Chairman, may I make a brief statement?

The CHAIRMAN. You may; yes, sir.

Senator MAYBANK. Will you talk a little louder?

Mr. MAHER. Yes, sir.

The CHAIRMAN. Let me finish my statement first, will you, please, and then you can make all the statements you want.

Mr. MAHER. Yes, sir.

The CHAIRMAN. Mr. Powell, I hand you the Federal Housing Administration employment application which you signed on September 28, 1934, and ask if that is the application you signed, if that is your photograph, and if that is your signature?

Mr. POWELL. The answer remains the same, Senator.

The CHAIRMAN. In other words, you refuse to say whether it is or is not.

Will you hand me that, somebody?

Mr. Powell, question 19 of that application reads as follows:

"Have you ever been indicted for or found guilty by any court of any crime, either misdemeanor or felony?"

The answer appearing in this application is "No," to that question, and I ask you whether you there answered "No" to the question of whether you have been found guilty of any crime?

Mr. MAHER. The same answer.

Mr. POWELL. My answer remains the same, Senator.

The CHAIRMAN. Your answer remains the same.

Question 19: "Have you ever been indicted for or found guilty by any court of any crime, either misdemeanor or felony?" and your answer to this was "No"?

Mr. POWELL. My answer remains the same as heretofore given.

The CHAIRMAN. I have a letter from the Department of Justice, dated June 25, 1954, which I shall read:

Senator HOMER E. CAPEHART,
*Chairman, Banking and Currency Committee,
United States Senate, Washington, D. C.*

DEAR SENATOR CAPEHART: This will acknowledge receipt of your letter dated June 15, 1954, to the Attorney General, concerning Clyde L. Powell, former Assistant Commissioner of the Federal Housing Administration.

You request advice as to whether the Civil Service Commission ever requested a Federal Bureau of Investigation check on Clyde L. Powell, and if so, the date or dates of such request, or requests, and the manner or extent to which they were complied with.

As is indicated in the enclosed summary, we have been advised that the Civil Service Commission had submitted two fingerprint cards for Clyde Lilbon Powell with the same vital statistics as to birth, residence, and employment as appear in the Federal Housing Administration personnel records of Clyde Lilbon Powell, former Assistant Commissioner. These fingerprint cards were dated August 14, 1941, and January 10, 1948. The Federal Bureau of Investigation furnished the Civil Service Commission with copies of an arrest record for Clyde Lilbon Powell, on October 22, 1941, and again on March 31, 1948. We have not been advised concerning the further disposition of those arrest records by the Commission.

Mr Powell, the identification records reveal that you were arrested on August 19, 1922, by the Dallas (Tex.) Police Department, charged with passing a worthless check. Is that true?

Mr. POWELL. My answer remains as heretofore given, sir.

The CHAIRMAN. The records show, Mr. Powell, that you were arrested on January 12, 1920, for suspicion of passing bogus checks, and were discharged; a notation on the records of the Arkansas Police Department indicates "now wanted Texarkana, Tex., and Dallas, Tex.—bad checks."

Is that true?

Mr. POWELL. The answer remains the same, sir.

The CHAIRMAN. The record also shows that you were arrested on January 12, 1920, by the Little Rock, Ark., Police Department on charges of suspicion. No disposition of this arrest is shown.

Is that true?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. The record further shows you were arrested in Philadelphia, Pa., on October 30, 1917, on a charge of larceny; entered a plea of guilty on November 8, 1917, were given a suspended sentence, and discharged.

Is that true?

Mr. POWELL. The answer remains the same.

The CHAIRMAN. The record further shows that you enlisted in the United States Army, Enlisted Reserve Corps, on June 4, 1917. Is that true?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. The service record also reveals that you were unable to report for duty when called on January 15, 1918, because you were

being held by civil authorities in the county jail at Chicago, Ill., for having passed a worthless check.

Is that correct?

Mr. POWELL. My answer remains the same, sir.

The CHAIRMAN. The record further shows that you entered active service on April 15, 1918. The record indicates that Powell was absent without leave from December 14 to December 18, and received a summary court-martial sentence of confinement at hard labor for 2 months and forfeiture of two-thirds pay.

Is that correct?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. The records of the Jackson County sheriff's office, Kansas City, Mo., for the year 1917 reflected one Clyde Powell, 21, 5 feet 6, chestnut hair, blue eyes, white, male, of Salem, Mo., was arrested on September 18, 1917, on a charge of embezzlement and was released on bond. The record book of Justice of Peace Charles A. Clark, Kaw Township, Jackson County, Mo., Docket No. 3975, reflected that Clyde Powell and Clara George, on September 18, 1917, were charged with embezzlement. The Kansas City Times on September 19, 1917, on page 10, reports as follows:

HOTEL ACCUSES EMPLOYEES—EMBEZZLEMENT OF MUEHLEBACH MONEY CHARGE AGAINST COUPLE

Clyde L. Powell, assistant auditor of Hotel Muehlebach, was arraigned on a charge of embezzlement before Judge Charles H. Clark yesterday afternoon and placed in the county jail in default of \$1,000 bond. He and Miss Clara George, cashier of the Plantation Grill, were charged with having embezzled \$450 of the hotel's money. Powell pleaded not guilty. His hearing was set for September 28. Miss George was ill and unable to appear yesterday. Powell is 25 and Miss George is 38 years old.

Is that correct?

Mr. POWELL. My answer remains the same, sir.

The CHAIRMAN. Without objection, I would like to place in the record the letter from the Attorney General's office of June 25, 1954, together with the complete record of Mr. Powell, showing the FBI report on his arrest over a period of years, and also to place in the record that when he was employed on September 28, 1934, in his application he answered the question "No," whether or not he had ever been arrested.

Without objection, we will place these in the record.

(The material referred to follows:)

DEPARTMENT OF JUSTICE,
Washington, June 25, 1954.

Senator HOMER E. CAPEHART,
Chairman, Banking and Currency Committee,
United States Senate, Washington, D. C.

DEAR SENATOR CAPEHART: This will acknowledge receipt of your letter dated June 15, 1954, to the Attorney General, concerning Clyde L. Powell, former Assistant Commissioner of the Federal Housing Administration.

You request advice as to whether the Civil Service Commission ever requested a Federal Bureau of Investigation check on Clyde L. Powell, and if so, the date or dates of such request, or requests, and the manner or extent to which they were complied with.

As is indicated in the enclosed summary, we have been advised that the Civil Service Commission had submitted two fingerprint cards for Clyde Lilbon Powell, with the same vital statistics as to birth, residence, and employment as appear in the Federal Housing Administration personnel records of Clyde Lilbon Powell.

former Assistant Commissioner. These fingerprint cards were dated August 14, 1941, and January 10, 1948. The Federal Bureau of Investigation furnished the Civil Service Commission with copies of an arrest record for Clyde Lilbon Powell on October 22, 1941, and again on March 31, 1948. We have not been advised concerning the further dispositions of those arrest records by the Commission.

Sincerely,

WARREN OLNEY III, *Assistant Attorney General.*

CLYDE L. POWELL, FORMER ASSISTANT COMMISSIONER, FEDERAL HOUSING
ADMINISTRATION

The following is a summary of some background concerning Clyde L. Powell, former Assistant Commissioner, Rental Housing Division, Federal Housing Administration. Mr. Powell resides at the Sheraton-Park Hotel in Washington, D. C., and maintains a legal residence at 476 North Kingshighway, St. Louis, Mo.

The records of the Federal Housing Administration indicate Clyde L. Powell was born March 2, 1896, at Salem, Mo.; served in World War I, having enlisted in September 1917, and being discharged in May 1919. He claimed 17 months' service in France and claimed attendance at the University of Missouri, engineering department, from 1914 to 1917, without graduation.

Recent inquiry indicates there is no record of Clyde L. Powell attending Missouri University, Columbia, Mo., or the Missouri School of Mines, Rolla, Mo., during the period 1914-17.

The records of the St. Louis, Mo., police department reflect that a Clyde L. Powell, was C. Clyde Powell, and Robert Lane, age 19 years, a bellboy, was arrested on March 29, 1916, for larceny from a dwelling. It is reported that this individual had two pawn tickets in his possession at the time of arrest. The records reflect he admitted these pawn tickets were for a ring and a pair of gold cuff links stolen from two different hotel guests. On May 2, 1916, the above-described Clyde L. Powell was sentenced to 1 year in the workhouse, and was paroled on the same date. The records of the circuit clerk for the criminal cause's court, St. Louis, Mo., reflect that a Clyde L. Powell, on May 2, 1916, upon entering a plea of guilty, was sentenced to 1 year in the workhouse for larceny of a ring valued at \$25 from I. C. McNiece, of the Washington Hotel, St. Louis, Mo. It appears that this Clyde L. Powell was paroled on the same date, and ordered to report by letter to the judge. The circuit clerk's records show an application for pardon dated May 2, 1916 (same day as sentencing, and signed the same date. This application indicates the applicant, Clyde L. Powell, was born March 2, 1897; was employed at the Washington Hotel; and gave his home address as Salem, Mo.

Your attention is invited to the identity of name and home—Salem, Mo.—with that given by Assistant Commissioner, Clyde L. Powell, in his Federal Housing Administration employment record. There is exactly a 1-year difference in the dates of birth and age, at the time of arrest.

The identification record for one Clyde Lilbon Powell, Federal Bureau of Investigation No. 5180, reflected he entered the United States Army on June 4, 1917, at Kansas City, Mo., and was assigned Army Serial No. 805870. The identification record reflects, further, that the same person was arrested by the Philadelphia, Pa., police department, on October 30, 1917, on a charge of larceny; entered a plea of guilty on November 8, 1917; was given a suspended sentence; and was discharged. The identification record shows this same Clyde Lilbon Powell was again arrested on January 12, 1920, by the Little Rock, Ark., police department, on a charge of suspicion. No disposition of this arrest is shown.

A search of the police records of the Little Rock, Ark., police department indicated one Clyde Powell of Salem, Mo., was arrested on January 12, 1920, for suspicion of passing bogus checks and was discharged. A notation on the records of the Arkansas police department indicates now wanted Texarkana, Tex., and Dallas, Tex., bad checks." The identification record reveals this same person was again arrested, this time on August 19, 1922, by the Dallas, Tex., police department, charged with passing a worthless check. It appears he made restitution and was released.

The military service record of Clyde L. Powell, Army Serial No. 805870, shows he enlisted in the United States Army, Enlisted Reserve Corps, on June 4, 1917. It is noted that the serial number and enlistment date, in this military service record, are identical with the number and date set forth in the above-mentioned identification record. The service record reveals Powell was unable to report for duty when called on January 15, 1918, because he was being held

by civil authorities in the County Jail, at Chicago, Ill., for having passed a worthless check, at the Siegel Cooper Co. The Chicago police department records reflect that Clyde L. Powell was arrested in Chicago, Ill., on October 17, 1917, for passing a check for \$85 at Siegel Cooper & Co., Chicago, Ill., drawn on the South West Bank of Kansas City, Mo., payable to Clyde L. Powell, signed George W. Powell, which check was returned. His age was given as 23, residing at Kansas City, Mo. The service record reflects, further, that Clyde L. Powell entered on active duty on April 15, 1918. The record indicates that Powell was absent without leave from December 14, to December 18, 1918, and received a summary court-martial sentence of confinement at hard labor for 2 months, and forfeiture of two-thirds pay. The unexpired portion of Powell's sentence to confinement was remitted on January 28, 1919. The record also reveals Clyde L. Powell received company punishment, March 28, 1918, for missing reveille, and formation. Clyde L. Powell was honorably discharged on May 8, 1919, as a private, first class, by reason of expiration of his term of service.

The booking desk register for the old Jackson County jail, Kansas City, Mo., under registry No. 4692 reveals that one Clyde L. Powell, age 22; height 5 feet 6 inches; hair light; eyes blue; race white; born Salem, Mo., was committed to jail by Justice of the Peace Clark on February 8, 1918. The charge was shown as surrendered by bondsman. The records further reveal that the prisoner was released on March 12, 1918, on bond.

The records of the Jackson County sheriff's office, Kansas City, Mo., for the year 1917 reflected one Clyde Powell; 21; 5 feet 6 inches; chestnut hair; blue eyes; white; male, of Salem, Mo., was arrested on September 18, 1917, on charge of embezzlement and was released on bond. The record book of Justice of Peace Charles A. Clark, Kaw Township, Jackson County, Mo., docket No. 3975, reflected Clyde Powell and Clara George, on September 18, 1917, were charged with embezzlement. The Kansas City Times on September 19, 1917, on page 10 reports as follows:

"HOTEL ACCUSES EMPLOYEES—EMBEZZLEMENT OF MUEHLEBACH MONEY CHARGE
AGAINST COUPLE

"Clyde L. Powell, assistant auditor of Hotel Muehlebach, was arraigned on a charge of embezzlement before Judge Charles H. Clark yesterday afternoon and placed in the county jail in default of \$1,000 bond. He and Miss Clara George, cashier of the Plantation Grill, were charged with having embezzled \$450 of the hotel's money. Powell pleaded not guilty. His hearing was set for September 28. Miss George was ill and unable to appear yesterday. Powell is 25 and Miss George is 38 years old."

The records of the St. Louis, Mo., police department reflect, further, that a Clyde Powell, age 34-35, a broker by profession, residing at 4406 McPherson, St. Louis, Mo., was arrested on March 17, and April 14, 1931, for failure to have a State automobile license. It has been ascertained that Clyde L. Powell, Assistant Commissioner, Federal Housing Administration, was a real-estate broker in St. Louis, Mo., in 1931, and at that time resided at Hamplien Hall Apartments, 4402-4406 McPherson, St. Louis, Mo.

According to the date of birth given in his Federal Housing Administration employment record, Clyde L. Powell, would have been 35 years old on March 2, 1931.

The criminal records of the Metropolitan Police Department, Washington, D. C., reveal that one Clyde Powell, age 45, white, occupation, clerk; marital status, single; address, Wardman Park Hotel; had been arrested at 2:35 a. m., on July 16, 1943, and had been charged with being disorderly. The disposition reflected that Powell elected to forfeit \$5.

The identification record referred to above, also reveals that the Civil Service Commission had submitted two fingerprint cards for the same Clyde Lilbon Powell. One dated August 14, 1941, gives Powell's position as Assistant Administrator, Federal Housing Administration, Washington, D. C., and contains the statement—"I have never been arrested" in response to the inquiry concerning an arrest record. The second fingerprint card submitted by the Civil Service Commission, dated January 10, 1948, shows Powell's position as Assistant Commissioner, Rental Housing Division, Federal Housing Administration, Washington, D. C. On this latter card, in answer to the question—"Have you ever been arrested for any reason whatsoever"—there is a crossmark in the space next to the word "No." The arrest record of Clyde Lilbon Powell, as recorded in the

identification record referred to above, was furnished the Civil Service Commission on October 22, 1941, and, on March 31, 1948, by the Federal Bureau of Investigation.

The fingerprint cards referred to above, describe Clyde Lilbon Powell with the identical full name, date of birth, employment, and residences in 1941, and 1948, as appear in the employment records of the Federal Housing Administration for Clyde L. Powell, Assistant Commissioner, Federal Housing Administration. The fingerprint cards are part of the identification record described above.

F.H.A. Form No. 1

FEDERAL HOUSING ADMINISTRATION
WASHINGTON

LEAVE SPACE BELOW BLANK

<p>CLASSIFICATION AND RATING</p> <p>1.</p> <p>2.</p> <hr/> <p>OTHER QUALIFICATIONS</p> <hr/> <p>EXAMINER _____</p>
--

APPLICATION FOR POSITION

(TO BE FILLED OUT IN APPLICANT'S
HANDWRITING OR TYPEWRITTEN)



Date September 28th, 1954.

1. Name Clyde L. Powell, _____ (Print)
2. Address (local) 714 Chestnut St., St. Louis, Mo. _____ 3. Telephone No. Ch. 5912.
4. Date of birth Mar. 2nd, 1896 _____ 5. Married, single, divorced, or widowed? Single
6. Place of birth Missouri _____ Salem _____
(State or foreign country) (City or town)
- (a) If foreign born, state when and how naturalized _____
7. Legal (voting) residence _____ Missouri 25th District _____ St. Louis _____
(State and Congressional District) (County) (City or town)
8. Height 5' 6" _____ Weight 152 _____ Color of hair Chestnut _____ Color of eyes Gray _____
9. Male Yes _____ Female _____ Race White _____
10. For what position are you making application? State Manager _____
11. Are you willing to travel? Yes _____ 12. Location desired Missouri _____
13. Will you accept temporary employment? Yes _____
14. What is the lowest salary you are willing to accept? _____

15. Education:

NAME AND LOCATION	FROM— (YEAR)	TO— (YEAR)	DID YOU GRADUATE?
Elementary <u>Salem, Missouri</u>	1905	1910	Yes
High school <u>Salem, Missouri</u>	1910	1914	Yes
College <u>Engineering Department, University of Missouri</u>	1914	1917	No
Degrees obtained <u>None</u>			
Business school <u>NONE</u>			
Correspondence course <u>None</u>			
Other training			

16. For what kind of work are you particularly qualified by reason of education, training, and experience? Have spent my entire business experience in the real estate mortgage and real estate business.

17. If in Federal employ, the following questions should be answered in detail:

- (a) Designation _____
- (b) Grade and salary _____
- (c) Department _____
- (d) Bureau or division _____
- (e) Name, title, and address of immediate superior _____
- (f) Brief description of duties _____

18. Have you ever taken any Civil Service examinations? No If so, state titles of all examinations, dates taken, and grades attained _____

19. Have you ever been indicted for, or found guilty by any court of any crime, either misdemeanor or felony? No If so, state the name of the charge and the result of the proceedings _____

FHA INVESTIGATION

20. Have you ever had a bond cancelled, or an application declined by a bonding company? No If so, give full particulars _____

21. Date you can report for duty At once

22. Have you any relatives, including husband or wife, in the Federal service? If so, give names, home addresses, departments in which they are employed, their relationship: None

Name and home address	Government department or institution where employed	Relationship
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

23. Do you receive an annuity under the Civil Service Retirement Act? No

24. Are you the wife of a disabled veteran or widow or orphan of a person who was in the military or naval service? _____
(With, widow, or orphan)

(Name of veteran) (Organization and last year of service)

25. Have you ever served in the military or naval service? Yes If so, state branch of service, organization, rank, and dates of enlistment and discharge Served with Ambulance Division attached to Base Hospital No. 28 - in France 17 months, enlisted Sept. 1917 - discharged May, 1919.

26. References other than relatives:

- (a) Name Frank O. Watts How long acquainted about 8 years
 Address First National Bank, St. Louis, Mo. Occupation Chairman of the Board
- (b) Name Sidney Maestre How long acquainted about 6 years
 Address Mississippi Valley Trust Co., St. Louis, Mo. Occupation President
- (c) Name Samuel W. Fordyce How long acquainted about 8 years
 Address 506 Olive St., St. Louis, Missouri Occupation Corporation lawyer

27. In space below, give a complete statement of your employment history, including names and addresses of employers, dates, salaries, and reasons for leaving each position:

DATE OF EMPLOYMENT		NAME AND ADDRESS OF EMPLOYER	POSITION AND BRIEF DESCRIPTION OF DUTIES	SALARY	REASON FOR LEAVING
From— (month, year)	To— (month, year)				
			Entered the real estate business in 1920 in Kansas City, Missouri and was associated with the W. L. Morrison Investment Co. as a broker on a commission basis.		
			Spent the years of 1925 and 1926 in Florida in the building and real estate business in the City of Miami.		
			Located in St. Louis in 1927 and have been associated with the Laclede Bond and Mortgage Co., who is the loan correspondent for the Metropolitan Life Insurance Company, since that time and I am still associated with said Laclede Bond and Mortgage Co. as a mortgage loan broker on a commission basis.		
			My duties have been handling company real estate and making inspections of various properties submitted for the purpose of a mortgage loan, and making appraisals as to construction costs and the desirability of location.		

28. Other experience My entire business experience has been in the real estate mortgage business and have been actively engaged in making housing loans for the past six years.

I CERTIFY that the foregoing statements are true and complete.

ANY FALSE STATEMENT MADE BY THE APPLICANT OR CONNIVED AT BY HIM IN MAKING APPLICATION IS SUFFICIENT CAUSE FOR THE REJECTION OF THE APPLICANT OR FOR THE DISCHARGE OF THE EMPLOYEE AFTER APPOINTMENT

Clyde L. Powell
(Signature of applicant)

In case of emergency, notify Mrs. James Gill

Relationship Sister Post-office address 850 Weldon St. Latrobe, Pa.

The CHAIRMAN. Mr. Powell, do we understand that under no circumstances will you give this committee any help or any testimony?

Mr. POWELL. My answer remains the same, Senator.

The CHAIRMAN. Regardless of how many times we might call you before this committee?

Mr. POWELL. My answer remains the same.

The CHAIRMAN. Will you do this: Will you give us information pertaining to those things that have to do with your specific work?

Mr. POWELL. My answer is the same as heretofore given.

The CHAIRMAN. You will not cooperate with us in any way whatsoever?

Mr. POWELL. The answer remains the same, sir.

The CHAIRMAN. Senator Lehman, do you see anything to do other than dismiss this witness?

Mr. MAHER. May I make a brief statement for the record, Mr. Chairman?

The CHAIRMAN. Senator Maybank, do you see anything to do other than dismiss this witness?

Senator MAYBANK. No.

Mr. MAHER. May I make this brief statement for the record?

The CHAIRMAN. Yes; you may.

Mr. MAHER. This witness, for the past 4 months, has been subjected to innuendoes and accusations in the public press. He has sought ineffectually before the Federal Housing Administration to learn the nature of the charges against him. He has been unsuccessful. All of the innuendoes, all of the accusations, have been made under the cloak of privilege. If and when anyone is willing to divest themselves of their privilege and make the accusations outside of the privilege, I am certain that they will have an opportunity to prove them in a court, which is capable of giving a final judgment.

Now, Mr. Chairman, I state to you most respectfully that what the chairman has read into this record this morning of alleged charges against Mr. Powell, whatever materiality or relevancy they may have to section 608 or the FHA Act, I don't know, but I do know this, Mr. Chairman: That what has been read into this record this morning is the most eloquent reason that I have ever known for a person clothing himself in the Constitution of the United States.

Thank you very much.

The CHAIRMAN. Let me say this: Your client has a chance right now to clear himself of these charges that you are talking about.

Mr. MAHER. Mr. Powell will clear himself before the proper tribunal. I say that congressional investigating committees have no right to try the guilt or innocence of any man.

The CHAIRMAN. You mean to say that the man can work for the Federal Government for 20 years, and in a high position, and if a committee of the United States Senate wishes to ask him some simple questions about the operation of that department that he has a right to refuse to testify?

Mr. MAHER. I say this to you, Mr. Chairman: That when a man becomes a trusted employee of the United States he is clothed with the Constitution just like every other citizen.

The CHAIRMAN. Mr. Simon.

Mr. SIMON. Mr. Maher, I would like to ask one question, indicating the extent to which your statement applied, and I waive any congressional immunity I may have in asking the question:

In my presence Dr. Gevinson testified under oath——

Mr. MAHER. Are you under oath?

Mr. SIMON. I will be glad to be sworn.

The CHAIRMAN. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SIMON. I do.

In my presence Dr. Gevinson testified, just within the last 10 days, under oath, that Mr. Powell had interceded in Texas to get an application for a section 608 mortgage commitment approved. I do not know whether Dr. Gevinson was telling us the truth, but I would be very happy if you would permit your client to testify here under oath as to whether what Dr. Gevinson told us under oath is true.

Mr. MAHER. I didn't get the name, sir.

Mr. SIMON. Dr. Daniel Gevinson.

Mr. MAHER. No, sir; your name.

Mr. SIMON. William Simon.

The CHAIRMAN. Mr. Simon is the general counsel for this investigating committee.

Mr. MAHER. Mr. Simon, if the testimony was given under oath, pursuant to the work of this investigative committee, then it is clothed with a privilege, as you know.

Mr. SIMON. I waive any privilege I have. Dr. Gevinson committed perjury if what he said isn't true.

Mr. MAHER. Has Dr. Gevinson waived his privilege?

Mr. SIMON. He has no privilege as to perjury.

Mr. MAHER. He has a privilege as a witness before a committee.

Mr. SIMON. He has no privilege as to perjury. If what he said is false, we can ask the Attorney General to indict him for perjury.

Mr. MAHER. I am not here to prosecute Dr. Gevinson or anyone else. That is essentially your function, sir.

Mr. SIMON. We would like to know whether what Dr. Gevinson told us is true.

Mr. MAHER. I would suggest you attempt to prove it from Dr. Gevinson before the proper tribunal.

Mr. SIMON. You had said earlier that if a specific charge was made that your client would disprove it, and I repeat to you a specific allegation or specific answer that Dr. Gevinson made to us, and I would like to know, and I say to you, frankly, I don't know whether it is true, but I would like to know.

Mr. MAHER. Neither do I. However, what I did say was this: That if those people who are making the accusations against Mr. Powell would only divest themselves of their privilege, and make the accusation outside of the privilege, so that Mr. Powell could have the truth or falsity of it tested before an American jury, we would be glad to do so.

Mr. SIMON. Let me say in fairness Dr. Gevinson made no accusation. I asked him the specific questions which compelled him in answering to say what he did. He did testify under oath that Mr. Powell had directed the Texas people to give this section 608 commitment.

Mr. MAHER. Well, then, to ascertain the truth or falsity of the statement I would suggest that you have Dr. Gevinson waive his privilege and make a public statement to that effect, and we very well will give him an opportunity to prove it before an American jury.

Mr. SIMON. But Mr. Powell will not help us find out whether Dr. Gevinson told us the truth?

Mr. MAHER. I don't think that Mr. Powell is under any requirement to help this committee do anything in the light of the accusations which have been made against him. If you have some charges—

The CHAIRMAN. Now, wait a minute. Mr. Powell appeared before this committee, and no man was treated any nicer than he was treated. We asked him some very, very simple questions. We were very anxious to get simple, honest answers. We brought Mr. Powell in here this morning, and we asked him some very, very simple questions, and wanted to get some simple answers out of him. He refused to testify. He hid behind the fifth amendment.

Mr. MAHER. I don't consider—

The CHAIRMAN. Now, don't take the position that Mr. Powell hasn't been treated fairly before this committee, because he has.

Mr. MAHER. Mr. Senator, may I say this: That on the occasion I originally appeared before this committee, and again today, may I state this in simple candor to each member of the committee, that I have appeared before many congressional committees, and never have I been treated with greater courtesy than I have before the Banking and Currency Committee. Nonetheless, sir, I have a duty to this client, which I intend to fulfill. I am unwilling for Mr. Powell to barter away any right which he has as an American citizen, and hiding behind the fifth amendment, Mr. Capehart, is not hiding. It is taking a right which is given to each of us when we are born.

The CHAIRMAN. Mr. Powell testified before this committee on many occasions, when he was chairman or when he was head of the department.

Mr. MAHER. That may very well be, Mr. Senator, but it was not after public accusations were made in the newspaper of misconduct, fraud, and everything else in the criminal book.

The CHAIRMAN. You are dismissed, Mr. Powell, unless there are some further questions.

Do any Senators have any questions?

Mr. MAHER. May I again thank the committee for the courtesy granted me this morning.

The CHAIRMAN. You are welcome.

Mr. McKenna, would you please return to the stand.

TESTIMONY OF WILLIAM F. MCKENNA, DEPUTY ADMINISTRATOR, ACCOMPANIED BY SIMON H. TREVAS, COUNSEL, HOUSING AND HOME FINANCE AGENCY—Resumed

The CHAIRMAN. Mr. McKenna, do the records of FHA, the FHA files, show the receipt of the FBI report that we just placed into the record concerning Mr. Powell, which the civil service or which the FBI maintain they delivered to them in 1948?

Mr. MCKENNA. The investigators report they have been able to find no trace of receipt of that letter. Investigators also checked with

the Civil Service Commission. The report of the Civil Service Commission states it has no record of receipt, but it normally transmits such records directly to the agency concerned, so while they might not have a notice of the receipt, it should be in the agency concerned.

The CHAIRMAN. Your answer is you are unable to find the report that I just placed in the record, which the FBI maintain they delivered to the FHA officials in 1941 and 1948? Your answer is you cannot find it?

Mr. MCKENNA. That is correct, Mr. Chairman.

The CHAIRMAN. What could have happened to it?

Mr. MCKENNA. That, of course, is something that is bothering us considerably. It would appear it would need the assistance of somebody other than Mr. Powell, himself, to have concealed such a record, or to have taken it out of the records of FHA. We have contacted people around the FHA office, but have been able to find no trace of it.

It is possible if there is such a person who assisted Mr. Powell he is still with the organization.

The CHAIRMAN. In other words, if someone lifted it, in your opinion they are still with FHA?

Mr. MCKENNA. They could be. We have eliminated, of course, most of the top officials, but we have no way of knowing who might have assisted Mr. Powell in that.

The CHAIRMAN. Then you may proceed.

Senator MAYBANK. Let me get this straight. As I understand, you put in here a letter from the Attorney General you believe somebody may have lifted out of the FHA. I wonder whether it was in the FHA or not?

Mr. MCKENNA. We cannot prove it reached the FHA.

Senator MAYBANK. Being on the Appropriations Committee, very frankly, I know the difficulty which Civil Service had to make these checks and I think you do, too, since you were with the House, because of lack of funds. The former Congressman from Georgia, Ramspeck came so often to the committee to tell us the troubles he was up against on these investigations because of lack of funds. I think you recall that when you were with the House.

Mr. MCKENNA. That is, of course, true, Senator.

Senator MAYBANK. I don't know. I was curious to know.

Mr. MCKENNA. I might point out, Senator, that in this case the record was transmitted by the FBI.

Senator MAYBANK. I saw the record.

Mr. MCKENNA. It was sent, they say, to the Civil Service Commission. The Civil Service Commission tells us it is quite probable that they would make no record of the receipt of such a document, but that they say they would immediately transmit it to the agency concerned.

Senator MAYBANK. In other words, then, you believe it was transmitted to the agency; FHA?

Mr. MCKENNA. It is only a belief, though, Senator.

Senator MAYBANK. That is right.

The CHAIRMAN. Gentlemen, Mr. Powell, in his application, in 1934, said, of course, that he had never been arrested. In 1941, and again in 1948, the FBI, through the Civil Service, delivered to the FHA offices, or I presume to the FHA Director—I don't know whom, at least

they say they delivered to him—the record of Mr. Powell's arrests that we just now placed into this record.

My question is: Were you able to find that record in the FHA files, and your answer was that you were unable to find it.

Mr. MCKENNA. We have been unable to find any trace of it.

The CHAIRMAN. Which means just one of two things: Either the FBI did not deliver them as they say they did, or if they did deliver them to FHA somebody lifted them out of the files; is that what could have happened or is that what did happen?

Mr. MCKENNA. Yes, except for the possibility the Civil Service Commission might not have forwarded it.

The CHAIRMAN. In other words, the FBI gave them to the Civil Service Commission.

Mr. MCKENNA. Yes.

The CHAIRMAN. The Civil Service Commission should have given them to FHA.

Mr. MCKENNA. They advised our investigators that they would do that automatically.

The CHAIRMAN. They advised your investigators they automatically do that?

Mr. MCKENNA. That is right.

The CHAIRMAN. You have not been able to find what has been placed in the record in the FHA files?

Mr. MCKENNA. We have not been able to find it, Senator.

The CHAIRMAN. Had the records been placed in the FHA files, had the FHA Commission, whoever was immediately over Mr. Powell in authority, seen that record, he would have been obligated, would he not, to have discharged Mr. Powell?

Mr. MCKENNA. Well, of course, there would have been a misrepresentation in the basic employment documents. The statute of limitations might have run.

Senator MAYBANK. Mr. Chairman, for my information, might I ask this question: Who in your judgment should that record have been sent to in the department, Mr. Powell's superior or the personnel director, or how would those things happen?

Mr. MCKENNA. We assume it would have gone to the personnel director at that time.

Senator MAYBANK. That is what I would have guessed.

Mr. MCKENNA. I talked to Mr. Hicks, who was personnel director the second time it was to have come over, and Mr. Hicks said he never heard of it until our investigators first asked him about it.

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Do you know whether the CSC has made any search in its own files to ascertain whether that report still remained in their possession?

Mr. MCKENNA. I have only the oral report of our investigators which is they contacted the Civil Service Commission and the Civil Service Commission reported it was unable to find any trace of the documents.

Senator LEHMAN. On what date was Mr. Powell separated from the service?

Mr. MCKENNA. On April 13 of this year.

Senator LEHMAN. 1954. Had you been suspicious of him prior to that time?

Mr. MCKENNA. The suspicions about Mr. Powell were one of the factors leading to the present investigation, to my understanding.

Senator LEHMAN. But he was not discharged by the Administrator or separated from the service until April of this year?

Mr. MCKENNA. That is correct. He was ordered discharged by the Housing and Home Finance Administrator.

The CHAIRMAN. You may proceed, Mr. McKenna.

Mr. MCKENNA. When I was last here, Senator Maybank asked me about a case in South Carolina. I have the abbreviated record of the case here.

Senator MAYBANK. What case was that?

Mr. MCKENNA. That was Savannah Terrace Apartments.

Senator MAYBANK. I just asked about the labor. I didn't question the case.

Mr. MCKENNA. I have the details here if the Senator wishes.

Senator MAYBANK. May I see it? The committee can proceed. Thank you, sir.

Mr. MCKENNA. May I continue?

The CHAIRMAN. Proceed, yes, sir;

Mr. MCKENNA. We discussed various factors yesterday which might contribute to the amount of the mortgaging out. One of the factors which we didn't discuss was the failure of contractors to comply with the prevailing wage standards that are required by statute in section 608 operations; in fact in other multifamily rental housing operations.

I have submitted a statement in writing here to the members in order to save time so I will run through it very briefly. The statute is explicit. It is a directive in this case, leaving no discretion to the Federal Housing Commissioner. He has to require a certificate from the builders that prevailing wage standards have been complied with.

In my opinion, under this section the Commissioner may not insure in advance, if he knows or if he has reason to know that the certification is false. However, the position taken by Mr. Powell and by the Federal Housing Commission was different. In the letters which are cited and quoted in the statement here, it is clear that the Federal Housing Commission took the position that even though the certification was false, that because the certification had been filed, they nevertheless could ignore the circumstances.

The Department of Labor didn't agree to that, conducted its own investigation, sort of compelled, according to the Department of Labor, compelled the FHA to conduct an investigation of its own.

We have gone through the Federal Housing Administration files in this regard. We have made a particular study of 11 States. There are two reasons for the selection of the 11 States. We wanted to cover the country geographically and in one area, of course, there was a concentration of this alleged offense.

It is clear from these files that the amount of the mortgaging out, these cases where there was such terrific mortgaging out, that mortgaging out increased because labor was not paid as the statute said it had to be paid and the answer of the Federal Housing Administration is set forth in this statement, but in summary it is an answer that it is none of our business.

Senator MAYBANK. Who said it is none of your business?

Mr. MCKENNA. That is my summary of the details that are set forth in here of FHA's—

Senator MAYBANK. Who signed that, if I may ask?

Mr. MCKENNA. Mr. Clyde Powell signed the first one; Mr. B. C. Bovard signed the second one that is listed here.

Certain of the practices which contributed to the failure to comply with the prevailing wage standards are set forth in the memorandum and there is no point in my reading them. The profits, of course, were increased by the amount by which labor was underpaid.

We find that there were no references, except with one possible exception of these cases under the established procedure to the General Accounting Office for failure to comply with the Government prevailing wage statutes.

We found also that in cases where labor was underpaid, construction very often was poor. There seemed to be some relationship between the two, and we found cases, these section 608 cases, where there was a lot of mortgaging out, where labor had been underpaid, and we further found cases where, after it was proved that the prevailing wage standards were not complied with, where the contractor was required to make good the amount that had been discovered; there were also amounts that were not discovered, but when the contractor was required to make good amounts that were discovered, FHA raised the commitment so he could pay that out of the original mortgage commitment. Those cases are specified to—

Senator MAYBANK. Are you going to file that for the record?

Mr. MCKENNA. Yes. They refer to the specific files of FHA. We can give you all the facts you wish.

Senator MAYBANK. I just asked. I had to leave early yesterday to attend an Appropriations Committee meeting.

Mr. MCKENNA. I had one letter from which I wanted to read a part of a paragraph, from Mr. Powell, and I will submit the letter to the committee. The quote which I think is good to read is this. It is a letter to Mr. Schackleford, who is president of the South Carolina State Council for Carpenters. It is dated November 16, 1949. Mr. Powell writes:

I am afraid that you do not quite understand the functions of this Administration in connection with the determination of prevailing wages. The law requires that this Administration should not insure mortgage or advance on a mortgage unless it receives a certification from the general contractor handling the job that he has paid not less than prevailing wages as determined by the Secretary of Labor for that job, subsequent to the filing of the application for mortgage insurance and prior to the beginning of construction.

The CHAIRMAN. May I ask you a question there? How many of these projects have you checked to see whether they did or did not follow that regulation?

Mr. MCKENNA. We made a specific study of 62 projects to 11 States. The next sentence of that letter is the one I did want to read.

The CHAIRMAN. Go ahead.

Mr. MCKENNA. The next sentence, and it is the only one I do want to read, this Mr. Powell again:

When we receive such a certification, there is nothing for this Administration to do except to approve the advance of mortgage money for insurance.

That is the end of the quote and I think it portrays the philosophy of FHA that they didn't have to bother with whether or not it was a false certification to the Government. They were protected if they had the certification.

The CHAIRMAN. In other words, Mr. Powell took the position that even though it was a false certification, that he could not do anything about it?

Mr. MCKENNA. I think that is clearly represented in these letters here, yes.

Senator BRICKER. Mr. Chairman. In those cases wherein the Department of Labor had forced them to an investigation to determine whether or not there had been compliance with the wage rates, they then raised the amount of the mortgage so that they would pay out on the higher level?

Mr. MCKENNA. In certain of the cases, that is true, Senator Bricker, yes.

The CHAIRMAN. How many cases have you checked to date to see whether they did comply with the labor regulation?

Mr. MCKENNA. We have checked 62 cases in 11 States.

The CHAIRMAN. What is the result of your check?

Mr. MCKENNA. The result is set forth here and it shows that FHA didn't particularly care whether or not contractors complied or not, except to the extent that they were forced by the Department of Labor.

The CHAIRMAN. How many contractors did you find that did pay below the specified rate?

Mr. MCKENNA. We checked those 62 cases. Of course, we have had leads on them. I believe in those 62 cases they had all paid below the rate.

The CHAIRMAN. All 62 of them had paid less than the rate?

Mr. MCKENNA. That is what I believe. They were selected because we had leads on them.

The CHAIRMAN. In other words, they were not 62 taken at random?

Mr. MCKENNA. No, we have not checked at random.

The CHAIRMAN. They were 62 you had reason to believe had not paid the rate.

Mr. MCKENNA. That is right. They are set forth in this memorandum.

The CHAIRMAN. Is that in this memorandum?

Mr. MCKENNA. It is, sir.

The CHAIRMAN. You don't name the contractors, do you?

Mr. MCKENNA. We give the identification by file numbers and we can give the committee the full identification if the committee wishes.

The CHAIRMAN. I think we ought to have the names of the 62 contractors, don't you?

Senator BRICKER. Yes.

The CHAIRMAN. Without objection we will ask that you furnish us the names and addresses of the 62 contractors. Do you have them at the moment?

Mr. MCKENNA. We don't have it in that form. We will get it to the committee very quickly.

The CHAIRMAN. We will place it in the record at this point.

(The information referred to follows:)

Section 608 Projects—Prevailing wage violations

Project No.	Name and location	Name of contractor
ALABAMA		
062-42118	Jackson Heights Apartments, Montgomery.....	Mac D. Saxon,
062-42124	Oak Street Apartments, Birmingham.....	Fred Brock.
062-42142	Gault Avenue Apartments, Fort Payne.....	Jack Way.
062-42131	Athens Apartments, Inc., Athens.....	D. D. Colvin.
062-42141	Randolph Apartments, Eufaula.....	Henderson, Black & Green, Troy, Ala.
062-42154	Florence Court Apartments, Talledega.....	Mac D. Saxon.
062-42133	Oneonta Apartments, Oneonta.....	D. D. Colvin.
062-42122	Sheridan Apartments, Decatur.....	Homer B. Hutchinson, Jr.
062-42138	Wheeler Apartments, Selma.....	Charles S. Frazer.
062-42146	Summerfield Heights, Selma.....	C. W. Williams, Marlon, Ala.
062-42151	Clubview Apartments, Monroeville.....	Baldwin Builders, Inc.
062-42148	Avilla Apartments, Montgomery.....	Jack S. Riley.
CALIFORNIA		
138-42009	Riverside Town House, Riverside.....	J. M. Mauser.
DELAWARE		
032-40003	Monroe Park Apartments Corp., Wilmington.....	Monroe Park Construction Corp.
032-40004	Monroe Park Homes, Inc., 2d, New Castle County...	Do.
032-40005	3d Monroe Park Homes, Inc., New Castle County...	Do.
DISTRICT OF COLUMBIA		
000-42231	Carver Hall Apartments, section No. 1, Washington..	Feinstein Construction Co.
000-42232	Carver Hall Apartments, section No. 2, Washington..	Do.
000-42233	Carver Hall Apartments, section No. 3, Washington..	Do.
000-42234	Carver Hall Apartments, section No. 4, Washington..	Do.
000-42266	Davis & Aiken Apartments, Washington.....	Davis & Aiken.
000-42218	Hamilton Courts Apartments, Washington.....	Do.
000-42244	Roland Park Apartments, Washington.....	Banks & Lee, Inc.
GEORGIA		
061-42116	Ormewood Apartments, Inc., Atlanta.....	McDonough Construction Co.
061-42083	Lincoln Street Apartments, Augusta.....	Claussen-Lawrence Construction Co.
061-42085	Lyons Apartments, Athens.....	William A. Mathis Co., Inc.
061-42064	Maxwell Apartments Corp., Augusta.....	Daniel Construction Inc.
061-42053	Wellwood Apartments, section No. 1, Atlanta.....	The Jordan Co.
061-42080	Buena Vista Apartments, Columbus.....	Do.
061-80001	Custer Road Terrace, Fort Benning.....	Do.
061-42076	Wellwood Apartments, section No. 2, Atlanta.....	Do.
061-42077	Wellwood Apartments, section No. 3, Atlanta.....	Do.
MARYLAND		
000-42195	Kentwood Apartments, Corp., Prince Georges County.	Morrison Construction Co., Inc.
000-42208	Wayne Apartments, Inc., section A, Silver Spring....	Donley Construction Co.
000-42209	Wayne Apartments, Inc., section B, Silver Spring....	Do.
000-42210	Wayne Apartments, Inc., section C, Silver Spring....	Do.
000-42154	Blair Portal Apartments, Silver Spring.....	C. A. Snow Co.
000-42215	Addison Chapel Apartments, Nos. 1 and 2, Prince	} Banks & Lee, Inc.
000-42216	Georges County.	
000-40170	Long Branch Apartments, Inc., Silver Spring.....	Hunt Construction Co., Inc.
000-42153	Hillcrest Heights Apartments, Hillcrest Heights.....	Anthony A. Carozza & George W. DeFranceaux.
000-42225	Rockville Terrace, Rockville.....	Berlin Construction Co., Inc.
NORTH CAROLINA		
053-42018	Plaza Terrace Apartments, Charlotte.....	Whetton Bros., also known as South-eastern Construction Co.
053-80001	} Bragg Investment Co., Fort Bragg.....	} Loving-Weaver.
053-80002		
053-80008		
053-80009		
753-42043	Columbia Terrace, Winston-Salem.....	W. B. Delk.
053-42029	Edgewood Knoll Apartments, Asheville.....	Robinson Bros. Contractors, Inc.
053-42041	Beverly Apartments, Inc., Asheville.....	Beverly-Robinson Construction Co.
053-42022	Selwyn Village, Inc., Charlotte.....	Selwyn Construction Co.
053-42044	Weyland Homes, Charlotte.....	} Coleman Construction Co., Inc.
053-42025	Coleman Apartments, Inc., Asheville.....	
053-42037	West Terrace Apartments, Inc., Asheville.....	Do.
053-42048	Newland Road Apartments, Charlotte.....	C. D. Spangler Construction Co.
053-42027	Whitaker Park Apartments, Raleigh.....	Central Construction Co.
053-42020	Forest Grove Homes, Greensboro.....	} C. D. Spangler Construction Co.
053-42055	Westwood Apartments, Charlotte.....	

Section 608 Projects—Prevailing wage violations—Continued

Project No.	Name and location	Name of contractor
NORTH CAROLINA—continued		
053-42033	Country Club Development, Chapel Hill.....	Triangle Construction Co.
053-42062	Brookhill Village, Charlotte.....	Taylor & Fore.
053-42011	Double Oaks Apartments, Charlotte.....	C. D. Spangler Construction Co.
053-42009	Oakcrest Apartments, Charlotte.....	
053-42010	Morningside Apartments, Inc., Charlotte.....	D. L. Phillips.
SOUTH CAROLINA		
054-42067	Crayton Manor, Anderson.....	Taylor Construction Co.
054-42074	Cherokee Heights, Gaffney.....	Sossamon Construction Co.
054-42081	Irene Apartments, Inc., Gaffney.....	Do.
054-42052	Sumter Apartments, Inc., Sumter.....	M. B. Kahn Construction Co.
054-42051	Orangeburg Apartments, Inc., Orangeburg.....	Do.
054-42068	Governor Yeamen's Apartments, North Charleston.....	Ruscon Construction Co.
054-42039	Carlton Arms, Charleston.....	Kelly Shahid Construction Co.
054-42090	Glenhaven Apartments, Greenwood.....	Lyles & Lang Construction Co.
054-42043	Savannah Terrace Apartments, North Augusta.....	Do.
054-42042	Washington Homes, North Augusta.....	Do.
054-42063	Crystal Homes, Inc., Spartanburg.....	Cecill's Inc.
054-42026	Crestview, Greenville.....	Do.
054-42024	Highland Homes, Inc., Spartanburg.....	Do.
054-42013	Schuyler Apartments, Spartanburg.....	Do.
054-42002	Howard-Aden Apartments, Spartanburg.....	Do.
054-42028	Birnie Apartments, Sumter.....	Boyle Construction Co.
054-42010	Sergeant Jasper, Inc., Charleston.....	Skinner & Ruddock, Inc.
054-42033	Roosevelt Village, Columbia.....	Lee J. Baker.
054-42023	Washington-Carver Village, Inc., Columbia.....	Conagree Construction Co.
DELAWARE		
032-42011	Clifton Park Manor, secs. Nos. 1, 2, and 3, New Castle County.	Don A. Loftus & Associates.
032-42012		
032-42013		
NEW JERSEY		
035-42038	Pleasantville Apartments, Pleasantville.....	Pleasantville Construction Corp.
035-42040	Barrington Apartments, Barrington.....	Barrington Manor Construction Corp.
035-42055	Riverview Manor, Inc., Riverside.....	Almar Construction Co.
MARYLAND		
052-80005	Arundeland, Inc., Annapolis.....	The Severn River Construction Co.
VIRGINIA		
051-42069	Nelson Apartments, Inc., Lexington.....	William D. Maxey, Inc.
000-80002	Lewis Heights, Inc., Fort Belvoir.....	Lewis Heights Builders.
TEXAS		
115-42030	Victoria Apartments, Victoria.....	G. L. Christian.
115-80006	Bergstrom Air Force Base, Austin.....	Elliott Construction Co.
PENNSYLVANIA		
034-42065	Mooreland Apartments, Carlisle.....	Carlisle Development Co.
034-80001	Stanwix Apartments, Carlisle.....	Reisinger Bros.
OKLAHOMA		
118-42015	Utica Square Apartments, Tulsa.....	Mr. Leemon W. Nix.
117-90008	Mt. Scott Apartments, Inc., Lawton.....	Charles H. Stanford, Inc.
117-90005	Vogue Apartments, Inc., Groups No. 1, Lawton.....	Acme Construction Co.
117-90006	Vogue Apartments, Inc., Groups No. 5, Lawton.....	Atlas Contracting Co.
117-90001	Blue Ribbon Apartments, Groups No. 2, Lawton.....	Alliance Construction Co. Inc., and Acme Construction Co., Inc.
117-90002	Blue Ribbon Apartments, Groups No. 3, Lawton.....	
117-90003	Blue Ribbon Apartments, Groups No. 4, Lawton.....	

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Mr. McKenna, on the sixth page of this report, you write:

Until recently, the administration of the FHA had not basically changed its evasive attitude as to enforcement of section 212, nor its lack of cooperation with

the Department of Labor under Reorganization Plan No. 14 of 1950, and the Department of Labor Regulations, part 5, issued pursuant thereto, and effective July 1, 1951. The recent change of attitude was not accomplished until Housing and Home Finance Administrator Cole took immediate action to correct the situation after it had been brought to his attention by Mr. Rothman, Solicitor of the Department of Labor. Under regulations, part 5, agencies and the Department of Labor are authorized to submit the names of violators to the Comptroller General for placing on an ineligible list for a period of 3 years. However, up to the time this investigation started, the FHA had not made one single such recommendation, even though the names of several contractors were submitted by FHA to the Department of Justice for criminal prosecution.

May I ask when your investigation started?

Mr. MCKENNA. On April 12, sir.

Senator LEHMAN. April 12, so there was no change until April 12, until some time after April 12, because there must have been time given to you to cause the investigation to be made, and to submit some report. Up to that time apparently there was no change made in the policy of the FHA?

Mr. MCKENNA. I believe there were some representations earlier than that by the Administrator to FHA. How successful they were, I don't know. Of course, at this moment we are making a very intensive investigation of that particular subject.

Senator LEHMAN. That doesn't answer my question. You state here definitely that up to the time this investigation started, which is April 12, 1954:

The FHA had not made one single such recommendation, even though the names of several contractors were submitted by FHA to the Department of Justice for criminal prosecution.

May I ask why there wasn't a change made in the policy?

Mr. MCKENNA. I suppose, sir, that it has taken that long for the facts to become known to the Administrator's office.

Senator LEHMAN. Would it take a year?

Mr. MCKENNA. FHA wasn't very free in telling about its own misdeeds, as the Senator well knows. It has been pretty hard to get the basic facts.

Mr. LEHMAN. No; but there was an Administrator.

Mr. MCKENNA. And the Administrator was not consulted by FHA. In effect, he had no power over FHA until the last week, no real power.

Senator LEHMAN. But some of these cases were apparently, according to your statement, submitted by FHA to the Department of Justice for criminal prosecution. What seems strange to me, that this policy, which has been proven to be or claimed to be contrary to law, was not changed for so long a period of time.

The CHAIRMAN. Mr. McKenna, who was in charge of this policy up until April?

Mr. MCKENNA. The Federal Housing Commissioner, Mr. Hollyday, this year. Before then, Mr. Powell was really the man in charge. Mr. Powell had been in charge so far as rental housing is concerned for many years.

The CHAIRMAN. In other words, Mr. Powell was the man who should have made these changes?

Mr. MCKENNA. That is right.

The CHAIRMAN. Who was Mr. Powell's immediate superior?

Mr. MCKENNA. The Federal Housing Commissioner.

The CHAIRMAN. What was his name?

Mr. McKenna. Up until April 12 it was Mr. Hollyday; before then, I believe it was Mr. Greene.

The CHAIRMAN. Is it a fact that when Mr. Cole, the Administrator, was told about these things, that he immediately dismissed Mr. Hollyday?

Mr. McKenna. Of course, the President dismissed Mr. Hollyday, or asked Mr. Hollyday's resignation according to my understanding, but it is true—

The CHAIRMAN. Is it not a fact that when Mr. Cole, the Administrator, and the President learned of these irregularities, what Mr. Powell had been doing or failed to do, and what Mr. Hollyday had failed to do, that the President and Mr. Cole asked for Mr. Hollyday's resignation?

Mr. McKenna. That is correct, Senator.

The CHAIRMAN. Then there was something done about it the minute it was called to the attention of the President of the United States?

Mr. McKenna. I can't see how there could be any more effective action than was taken when these facts were called to the attention of the administration.

The CHAIRMAN. And Mr. Powell, the man directly responsible for this, had been with the FHA for how many years?

Mr. McKenna. Close to 20 years, if not 20 years, sir.

The CHAIRMAN. And he was the department head over all such matters?

Mr. McKenna. So far as rental housing is concerned; that is correct, sir.

The CHAIRMAN. Therefore, I again ask this question: That as soon as the Administrator, Mr. Cole, and the President of the United States were aware of these situations, they did immediately take action?

Mr. McKenna. I might point, Senator—

The CHAIRMAN. Did they take action?

Mr. McKenna. They did, sir; immediately.

The CHAIRMAN. By discharging Mr. Powell?

Mr. McKenna. And by—

The CHAIRMAN. And by discharging Mr. Hollyday?

Mr. McKenna. And by discharging everybody else who appeared to have any connection with this sort of operation.

The CHAIRMAN. The answer to the question of the Senator from New York is they did take action when they learned of these irregularities?

Mr. McKenna. Yes, sir. The fact is, I think, Mr. Chairman, the only way this can be corrected is by imposing honest administration upon the Federal Housing Administration, by appointing people who are conscientious and efficient and honest, and that is precisely what they are trying to do now in a very energetic way. The complaint, of course, has been made that the administration is too energetic about it, but I think the facts show they demand it.

Senator LEHMAN. Mr. Chairman?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. I merely wish to repeat that it does seem strange to me that so long a time elapsed before there were any steps taken to change a system, the details of which must have been known, it seems

to me, to Mr. Cole, who I believe, if I am not misstating this through ignorance, I believe was a member of the House Banking and Currency Committee in 1950, at a time when amendments to this bill, this law, were proposed, but, of course, were not enacted. So he must have been familiar with this situation, it would appear to me.

The CHAIRMAN. I presume it is pretty hard to catch situations like this. Here you have Mr. Powell, who was the head man, who in 1934 when he was employed signed what evidently was a false statement, and yet remained there for 20 years and was promoted from time to time, until in 1940, I believe it was, he became the head man of this great rental property program, the program of the Government where \$6½ to \$7 billion was involved. So I would say it looks to me like it is rather hard to catch some of these fellows who have been in there for many years.

Mr. MCKENNA. I think this should be expressed. I wasn't in the Government at that time, but it is my understanding that Mr. Cole did make representations to Mr. Hollyday that this situation be corrected, that this precise situation be corrected, but it is also clear that until the last week or so Mr. Cole had no power to effectuate his suggestions. He had no real authority over the Federal Housing Administration, until about the last week, when his authority over the constituent agencies of HHFA was changed. So all he could do was make representations to Mr. Hollyday, which he did, and when Mr. Hollyday didn't carry that out then Mr. Hollyday was removed and all these other figures were removed, too.

Senator LEHMAN. You say he made representations and those were not followed. He had power to remove Mr. Hollyday if it was necessary and proper.

Mr. MCKENNA. He did not have that power; only the President had that power.

Senator LEHMAN. He certainly would have had the authority to go to the President and tell the President of these irregularities.

Mr. MCKENNA. That is what was done and that was why this investigation was ordered, and that is why such a strenuous effort is being made now to clean out the Federal Housing Administration.

Senator BRICKER. Mr. Chairman?

The CHAIRMAN. Senator Bricker.

Senator BRICKER. I am speaking from memory now, from various investigations we have held on this line throughout the years. I remember full well as far back as 1947, when this committee was diligently attempting to get the facts in regard to the operation of this particular department and this particular section of the law, 608, and, as I remember, there was a now apparent very studied effort to prevent this committee from ascertaining what the facts were and the truth and how the department was being operated. I definitely remember the testimony of Mr. Powell to that extent, where he clearly—and I think now apparently from the record—deliberately misled this committee in its attempt to ascertain what the truth was. I think the record will clearly show that.

The CHAIRMAN. The Senator wasn't here when we placed into the record letters that he wrote to a New York concern in which he knew of mortgaging out to the tune of \$2,500,000, and dividends for \$1,300,000, then came up here within either 2 days or 2 weeks after he had

written that letter, which is in the record, and testified to a question by yourself and many other Senators of this committee that such a thing could never happen, and he never heard of such a thing.

Senator BRICKER. I remember the testimony very well, and if his testimony had been truthful, this situation could not have existed.

Mr. MCKENNA. That is unquestionably true.

Senator BRICKER. It was a deliberate attempt to mislead this committee away from its investigation.

Mr. MCKENNA. I might point out, Senator, that the attitude of FHA was no different toward the HHFA than it was toward this committee and to the Congress.

Senator BRICKER. That was the fault of the law.

The CHAIRMAN. I think in all fairness we ought to get the record straight. Mr. Cole is the head of HHFA and has only minor authority over FHA. It is coordinating authority.

Mr. MCKENNA. Until last week.

The CHAIRMAN. He had coordinating authority and no direct authority. FHA has been an independent agency, with a Commissioner who was appointed by the President and confirmed by the Senate. Mr. Cole had no authority to do the things that the Administrator should have done.

Mr. MCKENNA. I think it would be well to repeat here what I said at the opening yesterday, Senator, when I delivered to the then highest official of FHA, on April 12—the evening of April 12—the President's order about the files of FHA. He was advised by the Associate General Counsel, Mr. Murphy then——

The CHAIRMAN. Who was advised?

Mr. MCKENNA. Mr. Greene, who was Deputy Commissioner, and the highest official of FHA at the time, and he was there in my presence advised by Mr. Murphy that the President of the United States probably had no authority over the Federal Housing Administration, except to appoint the Commissioner by and with the advice and consent of the Senate, and that was given as serious advice in my presence and the advice further was that if the Deputy Commissioner went ahead and sent these telegrams according to the direction that accompanied the President's direction, the direction of Mr. Cole, that he might have to pay for the telegrams himself because of that supposed limit on the authority of the President. I think that was the attitude of FHA and that is the reason——

Senator MAYBANK. Was that the attitude of Mr. Greene?

Mr. MCKENNA. Mr. Greene went ahead and sent the telegrams. That was not his attitude.

Senator MAYBANK. In other words, he cooperated?

Mr. MCKENNA. Yes, sir.

Senator MAYBANK. I thoroughly agree with what Senator Bricker said of testimony before this committee. We have sat here together over a period of years. It was not only the HHFA, as you said yesterday, tried not to give us information, but also the other people treated us more or less the same way. In justice to the committee, I was always suspicious and I noted Senator Bricker was also and so far as this committee is concerned, and I think you said yesterday, to keep the record clear, we passed an amendment. We passed it in the Senate, to put a stop to this, but we could never get it through

the conference, and early in the morning as I recall and you recall, with all the row on public housing and other things, we were forced to abandon what he had done in the belief that Senator Bricker had and other members of this committee, that there was something wrong. I certainly thought something was wrong. I know Senator Long did. I know Senator Douglas did. I think Senator Douglas was sponsor of the amendment.

Senator BRICKER. I remember in 1947, and I know it was difficult to write out and Mr. McMurray worked on it for a long time, but it was submitted to conference.

Senator MAYBANK. I supported this amendment. I supported Senator Douglas. We held out for the longest time on it. I want the record to be clear that as far as this committee is concerned, they didn't have too much confidence in what was told to us by individuals as well as by the builders and contractors, and so forth. I know I didn't.

Senator BRICKER. And it was that fact that led up to the final repeal of section 608.

Senator MAYBANK. That is right. As a matter of fact, Senator, you will recall that we repealed section 608—I don't say we were forced, but nevertheless this committee repealed section 608 before the law was repealed by the Congress, because if I recall correctly—and I am only thinking from memory—somebody introduced an amendment, Senator Long I believe, that was a floor amendment after this committee had repealed it—I am not sure—but anyhow we were so suspicious we did repeal it.

Senator BRICKER. 1950.

Senator MAYBANK. But we repealed it, but they did it by law. We left it out and it was extended on the Senate floor.

Senator LEHMAN. Mr. Chairman, I was not on the committee at that time. Of course, both Senator Maybank and Senator Bricker have said they were suspicious of the operations of section 608 as far back as 1947, I believe, but certainly in 1950—

Senator BRICKER. The first effort was made in 1947, Senator Lehman.

Senator LEHMAN. Yes; but certainly in 1950. Now, it is fair to assume that Mr. Cole, who was a Congressman and member of the Banking and Currency Committee of the House, holding similar functions to this committee, would also have been suspicious. He certainly must have had knowledge of what were the things that troubled members of the Senate committee. There is no reason to suppose they didn't trouble the members of the House committee equally. If he had knowledge of that, it would seem to me it would be rather strange that he did not take action as the Administrator on matters of which he had knowledge.

Mr. MCKENNA. I think the record will show and we can offer to the committee a statement of what the sequence was, if the committee will accept it.

Senator MAYBANK. If the Senator doesn't mind my sort of getting this into the record, Mr. McMurray tells me that the way we stopped section 608 was we cut off the \$600 million in this committee and refused to appropriate it, and later on, the Senate insisted upon the appropriation. What happened?

Mr. McMURRAY. There was an amendment increasing it to \$400 million on the floor.

Senator MAYBANK. So they increased it to \$400 million?

Mr. McMURRAY. Yes.

The CHAIRMAN. Let me say this: Senator Lehman seems to think that Mr. Cole should take some responsibility for failure to take action sooner. That is possibly true, but remember this: That when he did take action he was severely criticized by the mortgage bankers; he was severely criticized by the builders; he was severely criticized by many, many organizations for firing Mr. Hollyday and Mr. Powell. They took the position then, and they still take the position, I understand, that there is nothing to this.

Mr. Clark, I believe, who is the head of the Mortgage Bankers Association—I think I am correct in this—was out in my town of Indianapolis a couple of weeks ago and made a speech in which he was very critical of this committee, and very certain of the fact that there was nothing to this whole business.

So I want to say this: That the record ought to show that there has been great pressure brought to bear on this whole matter.

Mr. McKENNA. The record ought to show, Senator—

The CHAIRMAN. As far as I am personally concerned, we are going to expose the whole business and let the chips fall where they may, and whoever is involved are going to be involved, and whoever is responsible we feel ought to be exposed. We are going to proceed on that basis.

You will remember that when they asked Mr. Powell for his resignation they accepted it, and you will remember Mr. Hollyday made the statement that he had been a great public servant. He had been with the Government for 20 years. He regretted having to go. He had done much to help the builders and building industry in America—you remember that press release that he got out.

So I do not think Mr. Cole deserves to be criticized in this instance because he had a lot to contend with, and he still has a lot to contend with. I might say this committee still has a lot to contend with at the moment, and lots of pressure being put upon it, and lots of propaganda.

I cannot believe there is nothing to this whole business, and everything is in fine shape. I do not believe it is.

Senator LEHMAN. I would like to say something to the distinguished chairman. I would like the chips to fall where they may, but I want to make sure they do fall where they may.

The CHAIRMAN. Let me say the Senator is just a hundred percent right, and it is going to be very unpleasant—it is unpleasant to be chairman of a committee that must investigate this sort of thing, and it is very unpleasant, of course, to have to expose prominent people, but we are going to have to do it. We have no other choice. It is our responsibility, and there is going to be many of them exposed in the next 60 days, which is going to be very unpleasant to me because I like good things rather than bad things.

Mr. McKENNA. The fact remains, Senator, that the people who did all of this were appointed in the thirties and in the forties. The fact remains, also, they have been removed in the last 2 months, and they were removed by Mr. Cole over the strongest possible objection from the industry, and he is still severely criticized by the industry because of the energy of his actions.

The CHAIRMAN. I think the record shows that.

Senator BRICKER. He did that as soon as he had the authority under the law and the facts to justify it.

Mr. McKENNA. In fact, he did it before he had the authority, Senator. He took it in his hands and did it. He didn't get the authority until last week, but he did it 2 months ago.

Senator BRICKER. He did it anyhow.

Mr. McKENNA. That is correct.

As to the comment about what has been done since April 12: I requested the FHA to give me a statement of what they have done since April 14. That is a little out of my field. They gave me this statement, and I would like to submit it to the committee for the record, if the committee please.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The material referred to follows:)

ACTIONS TAKEN SINCE APRIL 14, 1954, TO STRENGTHEN THE OPERATIONS OF FHA

1. A few days after taking office Commissioner Mason set up several committees to study the FHA programs in order to find ways to safeguard the public under the title I program as well as under all other programs. A review committee of housing technicians from the staff of the FHA was established. Another committee created was an Industry Housing Committee comprised of nationally recognized leaders of the home building and lending industry. Then there was a Consumer's Interest Housing Committee, comprised of officers of national organizations which are interested in housing from the consumer's point of view.

Through these committees, studies have been made of FHA organization, repair and modernization loan insurance, and the mortgage insurance programs for multifamily, sales and cooperative housing. Based on the work of these committees recommendations for changes in law and procedures designed to eliminate abuses were made to the Senate Banking and Currency Committee. The Senate saw fit to incorporate most of the legislative recommendations in the pending housing bill. Some of the procedural recommendations have already been put into effect. The remainder will be put into effect along with the legislative changes as soon as the law has been passed.

2. A basic reorganization of FHA, which grew out of the studies of the committees mentioned above, has just been announced. This reorganization is designed to streamline FHA's liaison with and control over its 75 field offices. In addition to establishing a more direct line to field offices, the new organization plan establishes a new Examination and Audit Division to provide independent and comprehensive examination of insuring office operations. It is contemplated that each field office will receive a minimum of one complete examination each year which will survey its operations and procedures. The new organization also creates an Assistant Commissioner for Programs to assist the Commissioner in formulating and appraising FHA programs in the light of objectives set by the Congress.

3. In order to increase the integrity of the multifamily housing program, a new administrative practice was put into effect on May 18, 1954. Under this ruling, sponsors' requests for permission to pay dividends from the proceeds of FHA-insured loans and to effect changes in capital structure must receive prior approval by the FHA and must be accompanied by up-to-date financial statements.

4. On June 8, 1954, administrative steps were taken to avoid possible abuse of the FHA section 203 small rental housing program. This program in the past has been exploited to develop large rental projects by promoters seeking to avoid the more restrictive requirements of the multifamily mortgage insurance program. In the future applications for all groups of 12 or more homes that are to be offered for rent must be approved in Washington before they receive the benefit of FHA financing.

5. Several steps have been taken to tighten up the title I program. More will be taken as soon as the pending legislation is passed. On June 4, 1954, Commissioner Mason ruled that barbecue pits, swimming pools, and other luxury items were no longer eligible for FHA home modernization and repair financing. In all

26 items were declared ineligible for title I loans. At the same time Commissioner Mason instructed title I approved lending institutions to review more carefully the accuracy of applications for credit under title I particularly with regard to the eligibility of the items to be financed.

6. Most important of all, perhaps, Commissioner Mason is taking every step possible to implant in FHA's more than 5,000 employees a new concept of responsibility to the public. While FHA will continue to cooperate with lenders and builders, the new emphasis is upon service to the consumer.

The CHAIRMAN. Without objection, the statement that you have prepared with respect to the labor situation that I hold in my hand will be made a part of the record.

(The material referred to follows:)

REPORT OF FEDERAL HOUSING ADMINISTRATION ACTION ON PREVAILING WAGE VIOLATIONS TO THE COMMITTEE ON BANKING AND CURRENCY, UNITED STATES SENATE, BY WILLIAM F. MCKENNA, OFFICE OF THE ADMINISTRATOR, HOUSING AND HOME FINANCE AGENCY

Section 212 of the National Housing Act, applies to the construction of all multirental units, and reads as follows:

"SECTION 212. LABOR STANDARDS.—

"(a) The Commissioner shall not insure under section 207 or section 210 of this title, or under section 608 of title VI, pursuant to any application for insurance filed subsequent to the effective date of this section, or under section 213 of this title, or under title VII pursuant to any application filed subsequent to 60 days after the date of enactment of the Housing Act of 1950, or under title VIII, or under section 908 of title IX, a mortgage or investment which covers property on which there is or is to be located a dwelling or dwellings, or a housing project, the construction of which was or is to be commenced subsequent to such date, unless the principal contractor files a certificate or certificates (at such times, in course of construction or otherwise, as the Commissioner may prescribe) certifying that the laborers and mechanics employed in the construction of the dwelling or dwellings or the housing project involved have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor prior to the beginning of construction and after the date of the filing of the application for insurance.

"(b) The Commissioner is authorized to make such rules and regulations as may be necessary to carry out the provisions of this section."

This section is a mandatory directive to the Commissioner.

In my opinion, the Commissioner cannot, under this section, insure any advances if he knows or has reason to believe that certificates submitted by principal contractors are false. However, the position taken by the FHA Administration, up to at least 1951, was to the effect that as long as a sworn certificate was submitted to it, the FHA would not look behind such certificate. Two letters written by FHA officials set forth this position. The first letter is one written by Clyde L. Powell, Assistant Administrator, to the Department of Labor, dated December 22, 1949. This letter reads in part as follows:

"Since the above-numbered case involves the insurance of advances of mortgage money during construction, the general contractor undoubtedly has been certifying to our local office with each request for an advance that the workmen employed have been paid not less than the prevailing wages as determined by the Secretary of Labor as pertaining to this job. Consequently there does not seem to be any question presented as to possible noncompliance with the provisions of section 212 of the National Housing Act. Nevertheless, we are extremely interested in any evidence which Mr. Durkin may have which would support a charge that the contractor or anyone associated with him had violated the penal provisions of our Act." (See project No. 138-42009, Riverside Town House, Riverside, Calif.)

The second letter was written by B. C. Bovard, General Counsel, FHA, to Mr. Jeter S. Ray, Associate Solicitor, United States Department of Labor, dated September 13, 1950, which reads in part as follows:

"The construction of this project was completed prior to the receipt of the complaints with respect to wage payments, and all the mortgage proceeds had

been disbursed. This administration has made no effort looking toward adjustments by the contractor in the payment of wage rates to conform to the predetermined rates established by the Secretary of Labor." (See project No. 053-42010, Morningside Apartments, Charlotte, N. C.)

In late 1949 and 1950, the Department of Labor carried on a series of conferences with FHA officials, seeking to have the FHA perform the duties with which it was charged under section 212. The Department of Labor reports that it met considerable resistance because the FHA administrative officials continued to adhere to the position outlined above.

The Department of Labor at that time was vested with authority merely to determine prevailing wages and not to enforce them. However, the Department of Labor in 1949 and 1950 embarked upon a series of investigations of FHA projects in order to prove conclusively to the FHA that such violations were rampant and that workers are being mulct out of hundreds of thousands of dollars in wages due them.

As a result of these investigations and submission of the results to FHA by the Department of Labor, the Department of Labor advises that the FHA was forced to follow up with an investigation of its own.

HHFA investigators have, as of this time, analyzed project files in about 11 States (California, New Jersey, Pennsylvania, Texas, Delaware, Washington, D. C., metropolitan area, South Carolina, North Carolina, Alabama, Georgia, and Oklahoma). In these States alone, it was found that on 62 projects, employers were found to have underpaid workers in the amount of \$678,476.98.

Section 212 was originally enacted in 1939. Quite clearly, between the time of its enactment and 1950, with no enforcement whatsoever by FHA, workers lost millions of dollars. The record shows that what happened in 1950-51, did not mean a complete change of FHA policy in this regard. In fact, the only investigations made by FHA were ones where complaints were received and even then no effort was made to check other going projects. Admittedly, this is a large task to perform but practically no great effort was made to check these abuses.

There are certain types of practices engaged in by the contractors with regard to wage violations. The most common practice was to classify skilled workmen as apprentices and pay them at wage rates lower than those determined for the craft. On one project it was found that 4 carpenters were being paid the required rate of \$1.65 per hour and that 80 other carpenters whose experience averaged 8 to 10 years were classified on the payroll as apprentices and were being paid anywhere from \$0.75 to \$1.37 per hour (Savannah Terrace Apartments, North Augusta, S. C., project No. 054-42043). On another project by the same contractor-mortgagor, it was found that 83 experienced carpenters were listed on the payroll as apprentices and instead of being paid \$1.65 per hour, they received anywhere from \$0.75 to \$1.37½ per hour (project No. 054-42090). Then this same contractor had another project, but on that one he designated 152 experienced carpenters as laborers, and paid them from \$0.75 to \$1.25 per hour. The carpenter's rate was \$1.37½ per hour and the laborer's rate \$0.75 per hour (project No. 054-42042).

This is illustrative of the types of misclassifications engaged in and it was done with regard to all trades such as plumbers, sheetmetal workers, etc.

Contractors also submitted false payrolls (project No. 054-42081).

Instances were found where the mortgagor-contractor, having violated the wage provisions, was later given an increase in his commitment to cover such payments.

Illustrative of this is the case in which the mortgagors were also the contractors on three projects. They were found to have committed wage violations in the amount of \$7,757 on 1 project, and their commitment was increased \$12,000 (project No. 054-42042). On another the wage violations found were \$25,947 (project No. 054-42043) and the commitment \$29,100. In the other case the wage violations were \$8,267 and the commitment increased \$8,200 (project No. 054-42090).

Incidentally, the 2 individuals who were the mortgagors-contractors on the 3 projects just described had been former employees of the FHA. One was a construction-cost examiner: the other was a construction examiner.

It has not been possible to date to ascertain, even in the above cases, how much the workers actually received because the disbursement for the most part was left in the hands of local officials and the records at the national office are incomplete. There is evidence, however, that compromises of unpaid wages due employees were approved by FHA officials without employees being consulted. For

instance, in 1 case \$9,374.25 was found due employees. After a conference in Washington between FHA officials and the attorney for the sponsor-contractor, who was the contractor's son, and who also was one of the officers of the mortgagor corporation, a compromise was authorized as payments to be made to eight employees. The investigator found these 8 employees were due \$3,818.98. The compromise authorized payment of \$1,252 (Roosevelt Village, Columbia, S. C. (project No. 054-42033)).

Although contractors were found to be in serious violations on one project, the FHA continued to approve commitments for additional projects. The FHA took the position that it was without authority to do anything about it. This position is reflected by a letter from Clyde Powell, Assistant Administrator, to J. P. McRae, State director for North Carolina. The letter, dated May 16, 1950, said, in part:

"Despite the fact that the insurance of advances of mortgage proceeds has been discontinued on the subject project due to noncompliance with the prevailing wage provisions of the act, and although the the mortgagor of the subject project is the sponsor of another 608 project in Durham, N. C., upon which there is an active outstanding commitment, there is nothing that this administration can do to prevent the initial endorsement of the credit instrument in connection with the Durham project unless the mortgagee voluntarily withdraws the commitment."

The greatest abuses were found where the mortgagor was also the contractor, and in many instances he was merely a broker and subcontracted out the whole project. Our review shows that, although the mortgagor-contractor knew of the prevailing wage provisions in a great number of cases, he did not so inform his subcontractors, with the result that violations were committed unknowingly on the part of the subcontractors. Of course, the obvious purpose of the principal contractor was to obtain the lowest possible bids which would mean greater profit to him, since the contractor had entered into a construction contract with himself as mortgagor for the full amount of the FHA estimate of the replacement cost of the structures and improvements to the land. Thus, any profits, including savings by underpayment of wages arising as a result of the difference between the actual cost and the contract price, accrued to the mortgagor-contractor. As an example, on a project in New Jersey, where the sponsor-mortgagor was also the contractor, we have found that the mortgaging out amounted to \$897,952. The wage violations which were discovered not too long after the project started amount to \$17,262 (Clifton Park Manor, New Castle County, Del., project No. 032-42011). It is reasonable to assume that the wage violations discovered in any one project are but a small fraction of those which occurred.

Even though the FHA did make some investigations of projects after complaints were received, there were a number of cases that they refused to investigate because all the loan proceeds had been disbursed. This was in the face of the fact that the way to criminal prosecution under title 18, United States Code, section 1010, was still open to them. In fact, during the above period, as far as we have been able to ascertain, only two cases were referred to the Department of Justice for criminal prosecution. One case was referred upon the insistence of the Department of Labor. In that case the contractor was found guilty and fined \$500, but the leniency of the fine was the result of the contractor making restitution in the sum of \$36,000 to workers.

Our investigation discloses that, although contractors were found to have committed serious violations of section 212, no effort was made to bar such contractors from receiving additional loan commitments or performing construction work where loan proceeds were used. Under subsection (b) of section 212, the Commissioner had about as wide a grant of authority as Congress could bestow on an administrative official. (See item b, p. 1.) The interpretation put on this subsection by the FHA officials was that it authorized the Commissioner to make rules and regulations as to the manner the Department of Labor was to make wage determinations.

Under this subsection, rules could have been promulgated and made part of the loan and construction agreements whereby parties violating section 212 would be placed upon an ineligible list. Such action would bar these violators from further loan proceeds or construction contracts where loan proceeds were used.

It is also true that on cases where mortgaging out was found, it was also accompanied by underpayment of wages (Clifton Park Manor—032-40003; Edge-wood Knoll Apartments, Asheville, N. C.—053-42029).

We also found that in many cases where the workers were underpaid, the building structure itself was inferior. With respect to one such instance, an inspection report on one of the projects, which inspection was made about 1 year after completion, recites: Drainage—water backs up and seeps through walls and buildings; exterior masonry—Bondex peeling off, showing signs of leaks through walls; exterior painting—peeling off; ventilators—leaks around gas roof vents; refrigerators—many going bad; plumbing and fixtures—not standard equipment, hard to find parts; plaster—peeling off (Project No. 054-42067).

Until recently, the administration of the FHA had not basically changed its evasive attitude as to enforcement of section 212, nor its lack of cooperation with the Department of Labor under Reorganization Plan No. 14 of 1950, and the Department of Labor regulations, part 5, issued pursuant thereto, and effective July 1, 1951. The recent change of attitude was not accomplished until Housing and Home Finance Administrator Cole took immediate action to correct the situation after it had been brought to his attention by Mr. Rothman, Solicitor of the Department of Labor. Under regulations, part 5, agencies and the Department of Labor are authorized to submit the names of violators to the Comptroller General for placing on an ineligible list for a period of 3 years. However, up to the time this investigation started, the FHA had not made one single such recommendation, even though the names of several contractors were submitted by FHA to the Department of Justice for criminal prosecution.

This phase will be completely investigated and recommendations will be submitted for the establishment of an adequately trained staff to do this work so that there is not a repetition of what happened in the past.

The CHAIRMAN. You may proceed, Mr. McKenna.

Mr. MCKENNA. As the committee knows, section 608 of the National Housing Act was used for rental housing more than section 207. Section 207 imposes certain requirements and restrictions. It insists, as we have just reviewed, on certain limitations on the mortgage amounts. After the apartments were built there were rent controls. During the building prevailing wages had to be paid. After it was built families with children could not be excluded. Those are limitations the committee has written into section 207, the present operative multi-housing provision.

One of the things which the investigators have found, which I am not ready to criticize in total, but was surprising to us, is the fact that section 203 of the National Housing Act is used for large-scale multiple-family rental-housing developments. We have found that there are 420 projects across the country which were insured as rental projects, the commitments for insurance for which were issued with the knowledge that they were to be used for rental projects.

There are 24,265 such dwelling units. There is one out here close to Washington, Warwick Village the name of it, in which mortgages amounting to over \$6 million were placed in this one project. They borrowed \$1 million more than they could have gotten under section 207, insured under section 203, individual mortgages being placed on each section of the project.

Senator BRICKER. Yet it was built as a multiple unit?

Mr. MCKENNA. Yes. This was done under section 203, so the limitations which Congress imposed on section 207 do not apply.

Senator BRICKER. Was that with full knowledge of the officials of the FHA?

Mr. MCKENNA. It was. I have the details of one of those cases, and the statistics which we can furnish to the committee.

Of course, it means by using section 203 instead of section 207 the requirement of Congress that families with children not be discriminated against is evaded. The requirement that prevailing wages be honored has been evaded, and the controls of rent have been avoided.

All these things have been done with the knowing use of section 203 instead of section 207.

However, on June 8 of this year, after the investigation started, the Federal Housing Commissioner, the new Federal Housing Commissioner, acted to stop this practice, to put it under control.

The CHAIRMAN. Did you say you had something you wanted to place in the record?

Mr. MCKENNA. I think it would be wise if I put the whole file into the record, Mr. Chairman.

The CHAIRMAN. Let me see it. Yes. I think without objection that this ought to go in the files. I think it will be helpful to the committee.

Mr. MCKENNA. Before I close I would like to touch briefly on the section 213 operations of the Federal Housing Administration. That, of course, is the most intensive aspect of the investigation at this time.

It would be premature to make conclusive statements regarding it. It is true, however, that it appears at this moment as though some of the limitations which the committee placed on section 213 operations for the protection of the veterans and the others, designed to be benefited by that statute, are not given full force and effect.

Most of these projects now are what they term "builder-sponsored projects." The builder originates the project. He submits the papers to the Federal Housing Administration. The Federal Housing Administration, in turn, tells him how much money he can borrow on the particular project. He specifies where the project will be located, where he may at that time have only an option or may actually own the land.

Senator MAYBANK. I notice you have a name in this file you are putting in the record. Is it Warwick Corp.?

Mr. MCKENNA. Warwick Village.

Senator MAYBANK. The chairman asked me if it is all right, and I have no objection to that, but I think that we ought, when we cite one, to cite more than that, rather than just pick one out.

How far have you gotten on this investigation? You say there are one-hundred-and-thirty-or-some-odd?

Mr. MCKENNA. There are more than that, over 420.

Senator MAYBANK. There are over 420, and we only cite 1 name. It has already been mentioned. We cannot do anything about it, but I think when we have 420 to pick 1 fellow out and get his name in the paper, and the other 419 are left out, I might say, Mr. Chairman, I think we ought not do that in the future.

The CHAIRMAN. Where is the name?

Mr. MCKENNA. The name isn't important, Senator.

Senator MAYBANK. It is to them.

Mr. MCKENNA. I assume that is true.

Senator MAYBANK. I am only trying to be fair.

Mr. MCKENNA. We don't intend to say there is anything wrong, as far as the builders of this are concerned.

Senator MAYBANK. I didn't say that. I said you had 420 and picked out 1.

Mr. MCKENNA. We have no indication of any wrongdoings being done by these builders.

Senator MAYBANK. I didn't say that.

The CHAIRMAN. It would help if you submitted the names of the 420.

Mr. McKENNA. I think it would, yes.

The CHAIRMAN. Without objection, then, you furnish us with the names and addresses of the 420 projects, and they will be printed in the record at this point.

(The information referred to follows:)

RENTAL PROJECTS OF 12 OR MORE UNITS WHICH WERE INSURED UNDER SECTION 203 OF THE NATIONAL HOUSING ACT UP TO MAY 15, 1954

NOTE.—This tabulation is a compilation of reports from FHA field offices. To the extent information was available the reports cover all such cases since the beginning of FHA operations. All rental projects with 12 or more units insured under section 203 are reported because section 207 was designed for rental projects containing 12 or more units. As opposed to section 203, under section 207 FHA controls rents, charges, corporate structure, methods of operation, and requires payment of prevailing wage rates to construction workers.

Location of project	Mortgagor	Committed	Insured
Dover, Del.	Collins Housing Corp.	60	
Deer Park Heights, Prince Georges County, Md.	Allen & Rocks, Inc.	124	46
Alexandria, Va., Beverly Park	Regina Corp. Jope, Inc.		30
Washington, D. C., South Capital Terrace	Bellevue Gardens III, Inc.	16	63
Laurel, Md.	Laurel Development Co., Inc.		59
Prince Georges County, Md., New Hampshire Ave.	Sardin Properties		99
Rockville, Md.	Rockcrest Homes, Inc.	53	83
Alexandria, Va.	Albert Abramson, Samuel Selsky, Bernard and William Libby, Henry S. Reich.		115
Bethesda, Md.	Grove Properties, Inc.		22
Washington, D. C., Wheeler Rd. SE	Zuse, Honekman, Hurwitz & Tracy.	35	
Bladensburg, Md., Quincy Manor	Monroe Gardens, Inc.	51	
Alexandria, Va., Warwick Village	Warwick Village I, II, III, and IV	588	
Salisbury, Md., Richmond Ave.	Sunset Heights, Inc.		80
Aberdeen, Md., Old Post Road	Sherwood Homes, Inc.		43
Glen Burnie, Md., Glen Road	The G. G. Corp.	216	106
Dundalk, Baltimore County, Md.	The Grey Haven Co.	160	85
Ridgeleigh, Baltimore County, Md.	Kendall A. and Elizabeth Young		41
Hingman, Mass.	Hingman Park, Inc.		12
Worcester, Mass.	St. Nicholas Trust		141
Buzzards Bay, Mass.	K. V. Wolsey Co., Inc.		63
Deerfield, Cumberland County, N. J.	Seabrook Village, Inc.		80
Buffalo, N. Y., Shashone Court	Wyoming Homes, Inc.	12	28
Niagara Falls, N. Y., 23d St.	Walter S. Johnson		56
Cheektowaga, N. Y., Monfort Dr.	Mayfield Building Corp.		78
Cheektowaga, N. Y., Union Rd.	Stradent Building Corp.		32
Kanmore, N. Y., Colvin Ave.	R. C. Dewey, Inc.		25
Amherst, N. Y.	Herman Allespach	20	
Lackawanna, N. Y.	New K Apartments, Inc.	20	
Tonawanda, N. Y.	Nelson Keem and Dennis Thomas	12	
Philadelphia, Pa.	Andorra Homes, Inc.		100
Norristown, Pa.	Marshall Homes, Inc.		40
Secane, Pa.	Ridley Homes, Inc.		172
Philadelphia, Pa.	Dever & Co., Inc.		46
Morrisville, Pa.	The Presque Isle Realty Co.		12
Pittsburgh, Pa., Millermont	The Stedwood Corp.		13
Mount Lebanon, Pa., Oak Ridge Manor	Dixon Construction Co.		12
Williamsburg, Pa., Princeton Park	Wilco Corp.		28
Jeanette, Pa., Croushore plan	Pleasant Park Homes		20
Port Vue Boro, Pa., Westwood Hills	Sullivan Homes, Inc.		14
Greentree Boro, Pa., Greenbrier No. 2	do.	42	30
Ozark, Ala.	Douglas and Kathryn P. Brown		20
Decatur, Ala.	Chestnut Court Apartments of Decatur, Inc.		24
Montgomery, Ala.	Carr & Rothschild, Inc.	12	
Orlando, Fla.	Valencia, Inc.		20
Miami, Fla.	Children's Variety Hospital		14
Florida City, Fla., Carver Village	Evergreen Homes, Inc.		20
Dania, Fla.	Maurice Seidling		16
Augusta, Ga., Thomas Woods subdivision	Thomas Woods, Inc.		200
Albany, Ga., Rolling Grove subdivision	Pineview Development Co.	100	
Augusta, Ga., Lumpkin Park Subdivision	Knox Georgia Homes, Inc.		80
Augusta, Ga., Fleming Heights Subdivision	do.		40
Do.	Knox Construction Co.		83
Atlanta, Ga. Fairview Terrace Subdivision	Fairview Terrace, Inc. (L. R. and W. H. Aiken).		34

Location of project	Mortgagor	Committed	Insured
Waynesboro, Ga., McBean Road Subdivision	Knox Georgia Homes, Inc		28
Atlanta, Ga., Fairview Terrace Subdivision	Mrs. L. R. Aiken		15
Avondale Estates, Ga., Covington Road Subdivision	Robert H. Farrar		12
Louisville, Ky., Algonquin Place Section	J. A. and Georgia M. Doll		86
Louisville, Ky., Iwanna Subdivision	Federal Homes, Inc		114
Louisville, Ky.	L. Leroy and Leah T. Highbaugh		21
Do	L. Leroy, Jr. and Dorothy L. Highbaugh		39
Do	Louisville Home Realty Co. (Jesse A. Doll)		407
Lexington, Ky., North Broadway	George C. Martin		12
Lexington, Ky.	T. J. and Eliz. M. Morrison		30
Do	Will, Verna, and Charles Parrott and Evangeline and D. Forrest		12
Shively, Ky., Model Subdivision	Peter Construction & Supply Co.		30
Louisville, Ky.	Valley View Apt. Co., Inc.		56
Brandenburg, Ky.	Brandenburg Redevelopment Corp.		40
Louisville, Ky.	Algonquin Village Homes, Inc		16
Lexington, Ky.	George Martin	36	
Charlotte, N. C.	John Crasland Co.		66
Kinston, N. C.	DuBose Real Estate Co.		100
Monroe, N. C.	Harry J. Griffin, Jr. and S. E. Krauss		15
Grifton, N. C.	Grifton Homes, Inc.		41
Charlotte, N. C.	Marsh Realty Co., Inc.		174
Greensboro, N. C.	Scotland Construction Co., Inc.		24
Charlotte, N. C.	Greystone Homes, Inc.		62
Fayetteville, N. C.	Homeland, Inc.		31
Durham, N. C.	Moore Johnson Construction Co.		30
Do	Northwood Housing Corp.		68
Gastonia, N. C.	G. R. Poston		80
Raeford, N. C.	Raeford Betterment, Inc.		125
Do	J. H. Wright		13
Acme, N. C.	Riegel Paper Corp.		36
Charlotte, N. C.	Realty Syndicate, Inc.	158	
Gastonia, N. C.	Superior Properties, Inc.	34	
Charlotte, N. C.	Jacksonville Housing Co., Inc.	24	
Do	John Crasland Co.	16	
Catawba Terrace, Rock Hill, S. C.	Rock Hill Homes, Inc.		52
Pendleton Homes Subdivision, Pendleton, S. C.	Pendleton Homes, Inc.		48
Windsor, near Charleston, S. C.	Oakley Realty Co.		16
Brookgreen Meadow, Mount Pleasant, S. C.	Brookgreen Realty Co.		20
Highland Ave., Sumter, S. C.	City Holding Co.		22
Crasland Park, Aiken, S. C.	Crasland Park, Inc.		100
Fairview Drive, Fountain Inn, S. C.	Blake P. Garrett		14
Bayview Subdivision, Georgetown, S. C.	J. C. Long		33
Dorchester Terrace, Charleston, S. C.	do		120
Brookgreen Meadows, Mount Pleasant, S. C.	do		71
Isle of Palms, near Charleston, S. C.	do		58
Williston Homes, Williston, S. C.	Winchester, C. Smith		20
Wallace, S. C.	Paul A. Wallace		13
Yeamans Park, North Charleston, S. C.	Stevenson Zimmerman & Co.		52
Governor Aiken Park, Aiken, S. C.	Governor Aiken Park, Inc.		50
Green Acres Subdivision, North Augusta, S. C.	Greenacres Homes, Inc.		78
Cuttino-Graham Property, Sumter, S. C.	G. and W. Development Co.		32
Dogwood St., Sumter, S. C.	Hendley-Morris & Co., Inc.		13
Smith Golf Club Tract, near Aiken, S. C.	Hendley-Morris & Co., and R. B. Teal		20
Admiral Apartments subdivision, Naval Base, S. C.	Holcombe & Pinckney, Inc.		38
Highway No. 23, Johnston, S. C.	Johnston Housing Corp.		17
Lawton Park Apartments, Florence, S. C.	Charles Alfred and Isobel Smith Lawton		16
Tract of McCormick Spinning Mills, McCormick, S. C.	McCormick Housing Corp.		13
Excelsior Development, Clemson, S. C.	Clemson Housing Co., Inc.		50
Highland Park, near Charleston, S. C.	Highland Park Corp.		34
Alta Vista, near Columbia, S. C.	Alta Vista Building Co.		100
Do	Economy Builders, Inc.		30
Brown Blatt subdivision, near Blockville, S. C.	Brown Fertilizer Co., Inc.		24
Virginia Acres, Aiken, S. C.	Lyles, Bissett, Carlisle, and Wolfe		50
Barnwell Heights, Barnwell, S. C.	Barnwell Supply Co.		70
Peachtree Gardens, Barwell, S. C.	Barnwell Peanut Co.		40
Hagood Heights Subdivision, Barnwell, S. C.	Sol M. Blatt, Jr., and F. E. Cannon		48
Boland Park, North Charleston, S. C.	Clyde F. Boland		20
Virginia Acres, Aiken, S. C.	T. L. Bonner		78
Barnwell Heights, Barnwell, S. C.	do		50
Dorchester Terrace No. 6, near Charleston, S. C.	J. C. Long	11	5
Memphis, Tenn.	East Cove, Inc.		56
Do	Waynoka Corp.		56
Do	S. H. & Walker Hall, Inc.		30
Do	Okeon & Shankman		16
Do	C. E. McCrory Construction Co.		18
Do	William P. Brennan		16

Location of project	Mortgagor	Committed	Insured
Chattanooga, Tenn.....	Vaughn Construction Co.....		16
Do.....	C. E. Scott.....	36	
Princess Anne County, Va.....	Lakeland Homes, Inc.....	33	
Des Plaines, Ill.....	Des Plaines Villa, Inc.....		60
Indianapolis, Ind.....	Citizen Housing Corp.....	6	14
Do.....	Village Homes, Inc.....		25
Gary, Ind.....	Otto G. Fifield Subdivision, Inc.....		19
Do.....	Saul and Alvina Cohen.....		13
Columbus, Ind.....	Columbus Village, Inc.....	54	
Jeffersonville, Ind.....	Jeffersonville Realty Corp.....		47
Indianapolis, Ind.....	Home Place Realty Co.....	4	28
Bettendorf, Iowa, 23d St. Building Corp.....	Charles Dohrn.....		14
Davenport, Iowa.....	Davenport Garden Homes.....		22
Bettendorf, Iowa.....	Louis F. Cepican.....		24
Oak Park, Mich.....	Field Building Co.....		52
Detroit, Mich.....	Grace Home Builders.....		28
Do.....	Case Building Co.....		18
Do.....	Harry Slatkin Builders, Inc.....		80
Plymouth, Mich.....	Garling Construction Co.....		22
Detroit, Mich.....	Loyal Building Co.....		19
Do.....	The Manor Terraces, Inc.....		150
Do.....	Comfortbilt Homes.....		16
Ann Arbor, Mich.....	do.....		22
Redford Township, Mich.....	Dunning Homes Co.....		66
Berkley, Mich.....	Oakshire Management Co.....		13
Detroit, Mich.....	Gateway Construction Co.....		24
Royal Oak, Mich.....	do.....		14
Detroit, Mich.....	Anchester Homes, Inc.....		12
Detroit, and Royal Oak, Mich.....	Rose Garden Building Corp.....		41
Detroit, Mich.....	James Duplexes, Inc.....		16
Grand Rapids, Mich.....	Stiles Co.....		64
Youngstown, Ohio.....	Colonial Apartments, Inc.....		16
Do.....	Country Apartments, Inc.....		40
Do.....	Towne Apartments, Inc.....		40
Do.....	Gypsy Lane Apartments, Inc.....		40
Do.....	Northview Apartments, Inc.....		18
Cuyahoga Falls, Ohio.....	Heslop Broadway Apartments, Inc.....		106
Fulton Parkway Rd., Cleveland Ohio.....	Parkway Gardens Co.....		48
Lorain, Ohio.....	Greb-Kirby, Corp.....		36
Columbus, Ohio, Racine Ave.....	Racine Builders Corp.....		26
Franklin County, Derrer Street, Ohio.....	Joyful Homes, Inc.....		36
Do.....	Derrer Apartments, Inc.....		36
Columbus, Ohio, Harris Ave.....	Brookshire Park, Inc.....		36
Columbus, Ohio, Beechbank Rd.....	Beech Woods, Inc.....		138
Whitehall, Ohio, Midcliff dr.....	Flowers, Inc.....		44
Whitehall, Ohio, Hamilton Rd.....	Columbus Southern Development Co.....		158
Columbus, Ohio, Hamilton Rd.....	Woodcliff, Inc.....		68
Columbus, Ohio, Beechwood Rd.....	English Village, Inc.....		182
Waverly, Pike County, Ohio.....	Morningside Estates, Inc.....	117	
Whitehall, Franklin County, Ohio.....	Exeter Estates, Inc.....	95	
Waverly, Pike County, Ohio.....	Canal Estates, Inc.....	69	
Do.....	Bristol Homes, Inc.....	325	
Whitehall Estates, Franklin County, Ohio.....	Whitehall Estates, Inc.....	88	
Waverly, Pike County, Ohio.....	Waverly Manor, Inc.....	90	
Grandview Heights, Franklin County, Ohio.....	Quay and Bluff Heights.....	54	
Whitehall, Franklin County, Ohio.....	Beechwood Homes, Inc.....	250	
Do.....	Amhurst Estates, Inc.....	91	
Columbus, Ohio.....	English Village, Inc.....	200	
Huron, S. Dak.....	Raymond and Wanda Hillestead.....		16
Pierre, S. Dak.....	Perre Development Co.....		12
Milwaukee, Wis.....	Corzine & Co.....		12
Camden, Ark.....	Camden Properties, Inc.....		46
Do.....	Camden Rentals, Inc.....		28
Crossett, Ark.....	Trapp & Clippard, Inc.....		16
West Memphis, Ark.....	Associated Realty.....		24
Do.....	do.....		76
Do.....	do.....		28
Do.....	do.....		104
Wichita, Kans.....	Baltzley Building, Inc.....		22
Do.....	Casado, Inc.....		38
Do.....	Builders, Inc.....		974
Do.....	L. E. Gardner, Inc.....		25
Do.....	Good Rentals, Inc.....		12
Do.....	Graham Construction Co., Inc.....		29
Do.....	Francis Harvey, Inc.....		48
Do.....	Jen Rentals, Inc.....		15
Do.....	Ridgewood Development Inc.....		53
Topeka, Kans.....	Likins-Foster Topeka Corp.....		85
Do.....	Blosser Building Co.....		18
Do.....	Highland Crest Homes, Inc.....		42
Great Bend, Kans.....	Allied Builders.....		19
Garden City, Kans.....	D. R. and L. P. Harper.....		57

Location of project	Mortgagor	Committed	Insured
Phillipsburg, Kans	Guy A. Innes		17
Kansas City, Kans	Winn-Rau Corp.		85
Salina, Kans	King Michaelson		24
Wichita, Kans	Ridgewood Development, Inc.	30	
Baton Rouge, La	Daniel V. Rittiner		24
Gretna, La., Rose Park Subdivision	Rose Park Realty Co., Inc.	52	
Alexandria, La	Homewood Development Co., Inc.		38
Do	Carl Soebek		15
Shreveport, La	Shamrock Apartments, Inc.		150
Do	Airline Apartments, Inc.		90
Do	Gilbert Park, Inc.		80
Do	Gilbert Land Co., Inc.		50
Do	Forest Glen Apartments, Inc.		114
Kansas City, Mo	Vineyard Residences, Inc.		38
Do	William's Duplexes, Inc.		34
Lebanon, Mo	Laclede Construction and Development Corp.		16
Kansas City, Mo	A. L. Huber, Jr.		14
Grandview, Mo	Clarence and Georgia Stone		12
Kansas City, Mo	Traditional Homes, Inc.		32
St. Louis, Mo., Chippewa St.	C. E. and Alberta Dalton		16
St. Johns, Mo., Engler Park Ct.	Independent Management Corp.		18
St. Louis, Mo., Foxcraft Dr.	R. M. and Helen S. Berkley		15
Alamogordo, N. Mex.	Alamogordo Housing Corp.		35
Artesia, N. Mex.	Artesia Apartments, Inc.		44
El Paso, Tex.	Biltmore Homes, Inc.		40
Albuquerque, N. Mex.	Coronado Builders, Inc.		34
El Paso, Tex.	El Encanto Apartments, Inc.		39
Roswell, N. Mex.	Mountain View Corp.		38
El Paso, Tex.	Paisano Apartments, Inc.		104
Albuquerque, N. Mex.	Popular Homes, Inc.		16
Do	Ed H., Frances M., and Mary E. Snow.		54
Carlsbad, N. Mex.	Spring Corp.		12
Oklahoma City, Okla.	W. J. and Frances Edwards		28
Dallas, Tex., Southern Terrace Addition No. 3	South Dallas Homes, Inc.		62
Dallas, Tex., Arlington Park Estates	H. L. Hodel		14
Dallas, Tex., Wynnewood Park No. 3	Vernon & James Smith Co.		206
Irving, Tex., Oakwood Addition	McGraw Development Co.		46
Grand Prairie, Tex.	Fishburn Building Corp.		94
Do	Vaught Manor Corp.		84
Killeen, Tex., Fairway Park	Waymar-Killeen Corp.		48
Arlington, Tex.	Arlington East Corp.		70
Fort Worth, Tex.	Frank C. and Anne Bliss		34
Do	R. W. Driskell Rental, Inc.		32
Arlington, Tex.	F. L. Eddins & Associates, Inc.		12
Fort Worth, Tex.	Jarvis Heights, Inc.		16
Do	North Riverside Apartments, Inc.		256
Lake Jackson, Tex.	Glendale Apartments, Inc.		24
Freeport, Tex.	Freeport Development Co.		12
Snyder, Tex., Parkway Addition	Waymar Snyder Apartment, Inc.		72
Odessa, Tex., Brentwood Addition	Brentwood Homes		40
Monahans, Tex., Monahans' No. 4	Fern Street Homes, Inc.		14
Midland, Tex., Lynnside project	Leggett Brothers, Inc.		80
Big Spring, Tex., Wiley Terrace	Big Spring Investment Co.		56
Odessa, Tex., Brentwood Addition	Deanna Apartments, Inc.		68
Midland, Tex., Parklea Addition	Brown Bilt Homes, Inc.		18
Midland, Tex., Westwood Village	Eastwood Village, Inc.		54
Odessa, Tex., Bellaire Addition	J. L. Rhodes & Associates, Inc.		22
Do	White Brothers Rentals, Inc.		64
Odessa, Tex., Crestwood Addition	Whitebase Rentals, Inc.		30
Midland, Tex., Weyman Addition	Shamrock Apartments, Inc.		14
Midland, Tex., Yucca Tan Addition	Midland Northwest Corp.		106
Odessa, Tex., Burnett Heights	Fred T. Jeter		50
Amarillo, Tex., Westview Addition	Reynolds & Ashford, Inc.		16
Amarillo, Tex., West Lawn No. 6	West Lawn Homes, Inc.		48
Amarillo, Tex., Sunrise Addition	Sunrise Apartments, Inc.		524
Amarillo, Tex., West Haven Park	Hi-Plains Housing Co.		118
Amarillo, Tex., South Lawn No. 6	Carney E. Wyrick		14
Amarillo, Tex., University Heights	Hill Top Development Co.		36
Amarillo, Tex., Hamlet Addition	Amarillo Housing Co.		38
Amarillo, Tex., North Hills Addition	North Hills Corp.		66
San Antonio, Tex., Wilshire Village	Wilshire Housing Corp.		12
Victoria, Tex., College Heights, Addition	G. L. Christian		32
San Antonio, Tex., Fenfield Ave	Bremer and Wilhelm		38
Tucson, Ariz.	American Rentals, Inc.		60
Do	National Rentals, Inc.		60
Do	Federal Rentals, Inc.		60
Do	Joan Rentals, Inc.		88
Do	Harold Rentals, Inc.		60
Do	Carole Rentals, Inc.		60
Phoenix, Ariz., Westward Homes	Louis and Celia Himmelstein		170
Sacramento, Calif., Coverdale Village	Jansen Realty		120
Stockton, Calif., Hawthorne Park	Dante J. Nomellini		26

Location of project	Mortgagor	Committed	Insured
Near Sacramento, Calif., Park Hills	Randolph and Audrey Parks		54
Sacramento, Calif., Fruitridge Oaks No. 1	Lawrence, Inc.		20
West Sacramento, Calif., Westfield Village No. 1	James and Velma Jansen		76
Near Sacramento, Calif., Penland Park	Parklane Properties, Inc.		58
Sacramento, Calif., Colonial Village	McKellar & Kelly		42
Near Sacramento, Calif., North Haven	Ellis and Artz Carlson		108
Marysville, Calif., Triplett Park	Kelly-Farrar, Inc.		12
Near Sacramento, Calif., Fulton Manor	James and Velma Jansen		32
North Sacramento, Calif.	Newsom & Netherby Builders		22
Near Sacramento, Calif.	Pierce & Gaber		48
Davis, Calif.	James and Velma Jensen		16
Near Sacramento, Calif.	G. and T. Aussem		16
Sacramento, Calif.	Jacinto Development, Inc.		20
Coronado, Calif.	Eylo B. and Euthelma Young		36
San Diego, Calif.	Severin Construction Co.		14
Do	Earl W. and Florence E. Grey		28
National City, Calif.	Associated Construction Co.		36
Chula Vista, Calif.	L. C. and Mary M. Kuebler		28
El Centro, Calif.	Southwest, Ltd.		40
San Jose, Calif., Spring and Emery Sts.	Perry		16
Oakland, Calif., 4th, 11th, 14th and Stuart Sts.	Jackson Rentals, Inc.		40
Berkeley, Calif., University Ave. and Sacramento	University Rentals, Inc.		52
Oakland, Calif., 54th St. and Grove St.	BR54 Rentals, Inc.		68
Fresno, Calif., San Pablo St.	Bare Homes and Marie Doren		16
Fresno, Calif., Poklar and San Pablo	Harold and Hudson Graves		24
Arcata, Calif., Arcata Court Terrace	Arcata Development Co.		12
San Jose, Calif., Balboa, Wilshire and Beverly	Honore & Lumella		14
San Francisco, Calif., 25th, Auza and Cabrillo	Henry Doelger Builder, Inc.		12
Fresno, Calif., Dakota Ave.	Loren H. McFarland		44
Eden Township, Calif., Hayward Heights	Oaks, Inc.		22
Fresno, Calif., Hampton Way	Beco, Inc.		20
Fresno, Calif., College View	Melro, Inc.		44
Fresno, Calif., Lansing Way	Loren H. McFarland		12
Berkeley, Calif., San Pablo Ave.	W. W. and Margaret Fearnside		16
Fresno, Calif., McKenzie and Nevada Ave.	Burnett & Bergfeld		68
Fresno, Calif., Mariposa St.	Wm. B. and Marlon S. Paris		15
Redwood City, Calif., Stambaugh Addition	R. J. Varsi and D. E. Nelson		12
San Mateo, Calif., Tevis Court	Alum Rock Development Co.		30
Menlo Park, Calif., Waverly and Laurel Sts.	Claud T. Lindsay Co.		24
Antioch, Calif., Sunset Dr.	Midvale Properties, Inc.		78
San Jose, Calif., Bascom Gardens	McKeon and Siegfried		100
Pittsburg, Calif., Madeline Ave. and West Blvd.	North Park Homes		146
Daly City, Calif., Hillside Blvd. and Moltke St.	T. J. and Gladys Callan		16
Fresno, Calif., Blackstone Ave. Ter. No. 3	Rogers, Varsi, Nelson		51
Merced, Calif., Leshar Tract	Midvale Properties, Inc.		24
Ceres, Calif., Sequoia Tract	Richard and Lois Fair		26
Livermore, Calif., Livermore St.	Spivock and Spivock		30
Redwood City, Calif., Redwood Ter. No. 2	Hillside Manor Corp.		22
Richmond, Calif., San Pablo Ave.	John J. and Thelma Kokalis		14
Campbell, Calif., Cambrian Park No. 2	E. B. Standish		18
Palo Alto, Calif., Bartley Subdivision No. 3	Tony D'Amigo & Sons		16
Sunnyvale, Calif., Cherry Chase Tract	Kar Construction Co.		24
Daly City, Calif., 2d and Price Sts.	Ricco and Marie Lagomarsino		12
Pittsburg, Calif., Beverly Addition No. 2	North Park Homes		52
Sunnyvale, Calif., Cherry Chase Ter.	Kar Construction Co.		12
Near Campbell, Calif., Cambrian Park	E. B. Standish and Paul Schaeffer		12
Hayward, Calif., Bay View Tract	Carl C. and Marjorie Lassen		16
San Lorenzo, Calif., Tract 1199	C. H. McEntyre		80
Concord, Calif., West Broadmoor Ave.	Concord Estates Co.		24
Daly City, Calif., S/L of Price St.	Lagomarsino		16
Richmond, Calif., McDonald Ave.	Idamor Court, Inc.		32
Livermore, Calif., Mountain View Tract	Becker and Becker		14
Belmont, Calif., Elmer St.	Fred K. Dupuy		16
Fairfield, Calif., Fairfield Ter. Unit No. 5	C. M. Allen and R. J. O'Connor	12	
Hayward, Calif., Tracts 1172 and 1173	H. and L. Homes, Inc.	16	
Concord, Calif., Broadmoor Ave.	Concord Estates Co.	12	
Concord, Calif., Carlton Manor	Barbuch Estates and Hyatt Development Co.	60	
Oakland, Calif., Hillside St.	Bastrom and Laverro	12	
South San Francisco, Calif., Grand Ave.	Hillside Manor Corp.	24	
Fresno, Calif., Nevada Ave.	Donald S. and Louise Kendall	24	
Denver, Colo.	Sidney Grazi and S. M. Bobrick		12
Colorado Springs, Colo.	Advanced Homes Building Co.		28
Do	L. B. Nelson		16
Denver, Colo.	L. V. Martin		20
Colorado Springs, Colo.	Mark S. Waggener		100
Denver, Colo.	Burns Construction Co.		45
Idaho Falls, Idaho	Robert F. Johnson & Associates		178
Do	Linden Park, Inc.		98
Pocatello, Idaho	Hykes-McAbee Construction Co.		116
Boise, Idaho, 19th, 20th, and Brumback	Brassey, W. C., B. A., and V. K.		14
Reno, Nev., Sterling Village	Sterling Builders, Inc.		44
Do	C. W. and Virginia Baker	20	20
Las Vegas, Nev., El Centro Addition	El Centro, Inc.		64

Location of project	Mortgagor	Committed	Insured
Las Vegas, Nev., Meadows Addition	W. S. and Marjorie L. Robinson		72
Las Vegas, Nev., Paradise Village	R. J. and Eva M. Kaltenborn		32
Las Vegas, Nev., South 5th St. Tract	Nate and Jerome D. Mack		12
Las Vegas, Nev., Charleston Square Tract	Mastercraft Homes, Inc.		64
Las Vegas, Nev., Southridge Tract	Howard & Hassett		23
Las Vegas, Nev., Crestwood Homes	Hammes Enterprises, Inc.		39
Henderson, Nev., Manganese Park	Herbert and Hazel Kronish		81
Las Vegas, Nev., Noblitt Addition	Stewart Ogden Apartments and Morris Kishner.	27	
Las Vegas, Nev., Francisco Park	Pardee-Phillips	320	
Las Vegas, Nev., 14th St. Addition	Harry N. Herzog	18	
Las Vegas, Nev., Paradise Grove	Phillip Yousem	84	
Las Vegas, Nev., Jubilee Tract	Ben L. Bingham	93	
Roseburg, Oreg.	Roseburg Homes, Inc.		174
Portland, Oreg.	Holgate Village, Inc.		104
Albany, Oreg.	do		30
Portland, Oreg.	Sinalo Corp.		27
Seattle, Wash., Empire Way	O. H. Cavness		12
Seattle, Wash., Holman Rd.	McAbee & Shafer, Inc.		26
Do	Parkside, Inc.		76
Tacoma, Wash., Fane Bell Addition	Northwest Properties, Inc.		140
Longview, Wash.	Cypress Courts, Inc.		100
Seattle, Wash., Capital Hill	Dorothy Irving, Inc.		28
Seattle, Wash., 154th St.	Jack C. Mullikin, Inc.		20
Seattle, Wash., North End	Archie Iverson		46
Seattle, Wash., Pleasant Valley	Modern Home Investment Co.		56
Seattle, Wash.	Kebb & Narodick		23
Kennewick, Wash.	L. E. Baldwin, Inc.		23
Kennewick, Wash.	Frank Dunham Co.		34
Pasco, Wash.	Modern Home Builders, Inc.		21
Spokane, Wash.	Bowe, Nevers & Massar		25
Anchorage, Alaska, 3d Addition	Pfell & Hickel, Inc.		40
Anchorage, Alaska, KFQD Rd.	Martin Manor, Inc.		40
Fairbanks, Alaska, Slater Subdivision	Island Homes, Inc.		150
Fairbanks, Alaska	Arctic Park Apartments, Inc.		150
Anchorage, Alaska, City View	Consolidated Western		127
Anchorage, Alaska, Simonson Subdivision	Walter J. and Ermalee Hickel		48
Anchorage, Alaska, Turnagain	Park Homes, Inc.		25
Anchorage, Alaska, Homestead Acres	C. W. Hufelson		50
Anchorage, Alaska, Turnagain	Turnagain Homes, Inc.	142	200
Anchorage, Alaska, City View	Consolidated Western		46
Anchorage, Alaska, Simonson Subdivision	Duplexes, Inc.		46
Anchorage, Alaska, Saxton Subdivision	Knk Homes, Inc.		76
Kodiak, Alaska	Aleutian Homes, Inc.	344	
Anchorage, Alaska, Nunaka Valley	Anchor Park, Inc.	400	
Anchorage, Alaska	Homestead Acres, Inc.	27	
Douglas, Alaska	Harborview Apartments, Inc.	40	
Honolulu, Oahu, T. H., Salt Lake Region	Allamanu Homes, Ltd.	167	244
Honolulu, Oahu, T. H., Wai'alae-Kahola Section	Charles J. Pietsch, Jr.		12
Honolulu, Oahu, T. H., Salt Lake Region	Queens Heights, Ltd.	250	

Total number of projects	425
Number of units:	
Committed	5,486
Insured	19,760
Total	25,246

Mr. McKENNA. Such as we have available. It may be short of 420.

Senator MAYBANK. As I see it, it might not be illegal, but you say they got around the law for children?

Mr. McKENNA. The important consideration, I think, Senator, is that FHA—

Senator MAYBANK. I put that in myself because these apartments kept so many children out of Washington, and I had so many complaints I put that part in myself.

You say they got around and shifted from section 207, did I understand?

Mr. McKENNA. Section 203.

Senator MAYBANK. So as to keep children out?

Mr. McKENNA. I don't know whether that is the reason this particular project did it.

Senator MAYBANK. That is the general thought?

Mr. MCKENNA. That is the net result of it.

Senator MAYBANK. That is outrageous if that happened because that is one thing we had to strive for around here, particularly in the days before the Korean war. People were here with families, and they couldn't get in, Army officers, Navy officers, and so forth. It was pretty rough around, as you know, if you owned a house at that time. I think that is terrible.

Mr. MCKENNA. What we tried to do was make a study of one case, the nearest and largest, and that is the only reason that is singled out.

Senator MAYBANK. I hope you put the other 419 in.

The CHAIRMAN. We will. We want to be absolutely fair with everybody.

I again want to repeat that if any man's name is mentioned, or firm or organization, before this committee, we want them to feel perfectly free to come and testify, and file statements, whichever they care to do.

How long will it take you to finish?

Mr. MCKENNA. I will try to close in 2 minutes.

The CHAIRMAN. They are about to send for us for a quorum.

Mr. MCKENNA. I will give some of the basic documents I have here. I will give it to the committee counsel and he can take it up with the committee to decide whether you want it in the record.

Some questions were asked by Senator Goldwater yesterday about time elements. I want to present the answer to that, if I may.

The CHAIRMAN. It has been made a part of the record. (See p. 6.)

Mr. MCKENNA. I want to thank the committee for your courtesy. That is all I have.

The CHAIRMAN. Thank you very much. Your testimony has been very helpful.

We are about ready to recess now until 10 o'clock tomorrow morning, at which time our witnesses will be Herman W. Hutman, president of the Shirley-Duke projects of Fairfax County, Va., and Earl J. Preston. Mr. Hutman is president of sections 4 and 5 of Shirley-Duke, and Mr. Preston is president of sections 2 and 3, and Mr. Byron Gordon, Jr., is president of sections 1 and 6 of the Shirley-Duke, and Mr. E. M. Bros, and Mr. Carl Budwesky, and Mr. Jay Charles Lewis, and Mr. Don A. Loftus, and Mr. Earl Crabb. He is former president of Investors Diversified Services of Minneapolis.

On Thursday we will have Mr. Burton C. Bovard, who for many, many years was the General Counsel of FHA, and possibly other witnesses, and have hearings on Friday.

If there isn't any objection, we will recess now until 10 o'clock tomorrow morning.

(Whereupon, at 11:35 a. m., the committee recessed.)

FHA INVESTIGATION

WEDNESDAY, JUNE 30, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY.
Washington, D. C.

The committee met, pursuant to recess, at 10:05 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bricker, Bennett, Payne, Maybank, and Robertson.

Also present: William Simon, general counsel, FHA investigation.

The CHAIRMAN. Is Mr. Hutman present?

Mr. HUTMAN. Yes.

The CHAIRMAN. Is Mr. Preston present?

Mr. PRESTON. Present.

The CHAIRMAN. Is Mr. Gordon, Jr., present?

Mr. GORDON. Yes.

The CHAIRMAN. Is Mr. Bros present?

Mr. BROS. Yes.

The CHAIRMAN. Mr. Budwesky present?

Mr. BUDWESKY. Yes.

The CHAIRMAN. Mr. Lewis?

Mr. BUDWESKY. Yes, he is here.

The CHAIRMAN. Is Mr. Loftus present?

Mr. EGAN. No, he isn't, Mr. Chairman. He is sick, under doctor's care in Wilmington.

The CHAIRMAN. And who are you?

Mr. EGAN. I am his attorney. My name is Egan.

The CHAIRMAN. What is your address?

Mr. EGAN. 250 Park Avenue, New York City.

The CHAIRMAN. What is your firm name?

Mr. EGAN. Egan & Weitzner.

The CHAIRMAN. And the address is what?

Mr. EGAN. 250 Park Avenue, New York.

The CHAIRMAN. Mr. Loftus is ill, you say?

Mr. EGAN. Yes, he is, Mr. Chairman.

The CHAIRMAN. When will he be available to testify?

Mr. EGAN. We hope he will be here tomorrow, but when I talked to him last night at 11 o'clock the doctor seemed to think he would be laid up for 2 or 3 days.

The CHAIRMAN. Can you get us a certificate from the doctor?

Mr. EGAN. I certainly will, Mr. Chairman. (See p. 309.)

The CHAIRMAN. You get us a certificate from the doctor, then, and file that he was unable to appear today, and we will hear Mr. Loftus tomorrow.

Mr. EGAN. Tomorrow?

The CHAIRMAN. Yes.

Mr. EGAN. All right. Fine. Thank you. Tomorrow or as soon as he is physically capable of coming here.

The CHAIRMAN. Well, of course, we can't make him testify if he is ill, but we certainly want proof from the doctor that he is ill.

Mr. EGAN. All right. Fine. Thank you.

The CHAIRMAN. Because he is one of our chief witnesses. When will you have the certificate from the doctor?

Mr. EGAN. I will put a call in now and try to get it down here as soon as possible.

The CHAIRMAN. Where is Mr. Loftus today?

Mr. EGAN. Wilmington, Del.

The CHAIRMAN. Is he in the hospital?

Mr. EGAN. I don't think so. He is confined to his hotel.

The CHAIRMAN. Confined to his hotel.

Well, you get a certificate from his doctor, then, showing why he wasn't present today in answer to the subpoena, and tell him we expect him tomorrow.

Mr. EGAN. All right, Mr. Chairman. Thank you.

The CHAIRMAN. Now, Mr. Earl Crabb.

Mr. McCARTIN. Mr. Chairman, Mr. Crabb is here.

The CHAIRMAN. Is present?

Mr. McCARTIN. Yes.

The CHAIRMAN. Who are these gentlemen? And this gentleman here? Let us see if we cannot all get comfortable.

You are Mr. Hutman?

Mr. HUTMAN. Yes, sir.

The CHAIRMAN. Let us see if we cannot be a little more comfortable, kind of spread out and come around a little bit. Someone sit in that chair and maybe you will be a little more comfortable. Push the chair back.

I am going to swear you gentlemen all at the same time, if there is no objection, for the reason that when we start our questioning here today we may want to switch from one to the other. In that way I think we will better be able to bring out the facts and the truth. If there is no objection, then, will Mr. Hutman, Mr. Preston, Mr. Gordon, Mr. Bros, Mr. Budwesky, Mr. Lewis, and Mr. Crabb please stand?

Hold up your right hands, please.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF HERMAN W. HUTMAN, PRESIDENT, SHIRLEY-DUKE, SECTIONS IV AND V; EARL J. PRESTON, PRESIDENT, SHIRLEY-DUKE, SECTIONS II AND III; BRYAN GORDON, JR., PRESIDENT, SHIRLEY-DUKE, SECTIONS I AND VI; F. M. BROS; CARL BUDWESKY; JAY CHARLIE LEWIS; AND EARL E. CRABB, CHAIRMAN, EXECUTIVE COMMITTEE, AND T. S. KENEALY, ACCOUNTANT, INVESTORS DIVERSIFIED SERVICES, ACCOMPANIED BY A. HARDING PAUL, GLEN RICHARD, AND JOHN W. McCARTIN, COUNSEL

Mr. HUTMAN. I do.

Mr. PRESTON. I do.

Mr. GORDON. I do.

Mr. BROS. I do.

Mr. BUDWESKY. I do.

Mr. LEWIS. I do.

Mr. CRABB. I do.

The CHAIRMAN. Thank you, gentlemen.

Now, if you will be seated, and, as I said a moment ago, we are interested in just one thing, and that is the facts. We are not interested in any witch hunts, or anything of the sort. We are just interested in the facts. We have the responsibility of studying and investigating the operations of the FHA, and all of its aspects, and we want the facts. As you gentlemen know, you have all been before us in executive session—I guess except Mr. Crabb.

Mr. Crabb, you have not, have you?

Mr. SIMON. No, sir; but his people have.

The CHAIRMAN. But your people have, a number of the executives of your company and employees have been before us. All we want are the facts and nothing but the facts. We want to get the true picture of what happened. We don't intentionally want to hurt anyone. I am going to ask Mr. Simon, our general counsel, to start the questioning this morning, and then we will—

Mr. PAUL. Mr. Chairman.

The CHAIRMAN. Will you give your name?

Mr. PAUL. My name is A. Harding Paul. I am counsel for Mr. Preston and Mr. Bros and of sections 2 and 3 of the Shirley-Duke corporations.

The CHAIRMAN. Yes.

Mr. PAUL. In view of the fact that this is my first experience either as a spectator, witness, counsel, or in any other way before a congressional investigating committee, and in view of the fact that on Monday, before this committee, Mr. McKenna made many reckless, willful, and false statements concerning my clients, I would like to know from the chairman what the duties and obligations and rights of the witnesses and counsel are in one of these investigations.

The CHAIRMAN. Well, you have many rights, and when we are through questioning you gentlemen today, when we get the information that we want, we will be very happy to have you make any statements that you care to make in respect to anything that Mr. McKenna stated, or any other witness has stated here.

Mr. PAUL. Will we have an opportunity to ask the witnesses questions?

The CHAIRMAN. You will not have an opportunity to ask the witness questions. But you will have an opportunity to make a statement, and you have an opportunity, if you care to, to give me questions you would like to have asked. We will make every effort to ascertain the truth and the facts of these things.

Mr. PAUL. Yes, Mr. Chairman.

Will the witnesses have an opportunity to make statements other than "yes" or "no" answers?

The CHAIRMAN. They will.

Mr. PAUL. There have been very serious charges, as you know. As a matter of fact, the chairman asked Mr. McKenna whether this matter had been referred to the Attorney General, and Mr. McKenna said that it had, for prosecution of criminal and justification of any civil actions.

The CHAIRMAN. Yes.

Mr. PAUL. My associate has suggested that in view of these unspecified charges that have been made that it would probably be a sensible thing for the witnesses to simply stand on their constitutional immunity. I have counseled these businessmen that it would be sensible for them to give the full facts to the committee, and they are here to do it, but they would like to give the full facts and not just those slanted along the lines Mr. McKenna stated.

The CHAIRMAN. Why don't we proceed, then? We have a number of questions we want to ask, and the purpose is to get the truth.

You gentlemen are all sitting there together. You are all involved in the Shirley-Duke project, and between the eight of you, and ourselves, let us try to get the facts, and we certainly will give you every opportunity to develop the facts—

Senator MAYBANK. And make a statement, Mr. Chairman, if you want.

The CHAIRMAN. When we are finished with our questioning, oral or written, and if your charges are warranted, we may well call Mr. McKenna, or any other witness that has appeared, whose statements you take exception to, back before this committee.

Mr. PAUL. Thank you, sir.

The CHAIRMAN. Mr. Simon will proceed.

Mr. SIMON. Mr. Budwesky, you are a stockholder in each of the six Shirley-Duke corporations; is that right?

Mr. BUDWESKY. I am.

Mr. SIMON. I believe you are the only person who is a stockholder in all six corporations; is that right?

Mr. BUDWESKY. That is right.

Mr. SIMON. And you are also the attorney who handled this transaction from its inception?

Mr. BUDWESKY. I should say that from the time that the planning of this project arrived at the point where counsel was necessary or desirable, that I have been in the picture.

Mr. SIMON. When was that, Mr. Budwesky?

Mr. BUDWESKY. I should say about the last part of February, 1949.

Mr. SIMON. Are you acquainted with a contract entered into—

Senator MAYBANK. Mr. Chairman, would you mind me asking the gentleman a question?

The CHAIRMAN. Yes.

Senator MAYBANK. I do not think these gentlemen have given their names and addresses for the record.

The CHAIRMAN. I thought they did.

Give your name and address, then.

Mr. BUDWESKY. My name is Carl Budwesky. My address is Monroe Park, Wilmington, Del.

The CHAIRMAN. Mr. Hutman, what is your address?

Mr. SIMON. You were formerly a resident of Alexandria, Va.?

Mr. BUDWESKY. That is correct.

Mr. SIMON. You were city manager of Alexandria at one time?

Mr. BUDWESKY. I was city attorney and city manager of Alexandria from 1929 to 1947.

The CHAIRMAN. Go ahead.

Mr. SIMON. Are you acquainted with a contract entered into in January 1949, for the sale of the land which the Shirley-Duke project is built on?

Mr. BUDWESKY. I drew that contract.

The CHAIRMAN. In January of 1949?

Mr. BUDWESKY. Was it — if that date is January, then my previous statement should have been the latter part of January rather than the latter part of February.

Mr. SIMON. In that contract who was the purchaser and who was the seller of the land?

Mr. BUDWESKY. The contracts are dated the latter part of February, sir. The seller is Allen Hills Corp., and the purchaser, Jay Charlie Lewis.

Mr. SIMON. The contract provides, does it not, Mr. Budwesky, for \$5,000 to be paid on the signing of the agreement?

Mr. BUDWESKY. That is correct.

Mr. SIMON. Was that \$5,000 paid?

Mr. BUDWESKY. The \$5,000 was placed in escrow with the Davis-Ruffner Title Corp. of Alexandria, Va.

Mr. SIMON. And whose money was it that was placed in that escrow?

Mr. BUDWESKY. Investors Diversified Services, Inc., of Minneapolis, Minn.

Senator ROBERTSON. May I ask right there who owns Investors Diversified Services, Inc., or whatever you said?

Mr. BUDWESKY. I think the majority stock of the Investors at the present time is controlled by the Alleghany Corp., and I understand that comparatively recently a large block of it was bought from Alleghany by Mr. Murchison of Texas.

Senator ROBERTSON. And who did control or now controls Alleghany?

Mr. BUDWESKY. Well, of my own knowledge, I don't know, but Mr. Young is reputed to be the controlling factor of Alleghany Corp. I merely state that as what is accepted as common knowledge, and not of my individual personal knowledge, sir.

Senator ROBERTSON. Well, was Alleghany directly or through control of some other corporation involved in more projects than the Shirley-Duke project?

Mr. BUDWESKY. I know that Investors Diversified Services was interested in financing more projects than the Shirley-Duke project.

Senator ROBERTSON. Is your knowledge of this matter limited to Shirley-Duke or do you know of other instances in which it is alleged that they mortgaged out at big profits?

Mr. BUDWESKY. I only know that at the time the Shirley-Duke matter was in process of being put together, that Investors was also negotiating with other parties in the city of Cleveland for the construction of a similar project, but I should say about half the size of Shirley-Duke.

Senator ROBERTSON. Do you know whether or not Alleghany in various projects of this kind mortgaged out at a profit of either \$27 million or \$30 million—which was it, Mr. Counsel?

Mr. SIMON. He said \$26 million.

Senator ROBERTSON. \$26 million?

The CHAIRMAN. Will you speak into the microphone? The people of the press cannot hear.

Senator ROBERTSON. Do you know whether or not Alleghany Corp. directly, or through subsidiaries like the Investors Diversified Corp., built a number of these apartment houses and mortgaged out at a profit of around \$26 million?

Mr. BUDWESKY. I do not know that, sir. I can only state to you that by reason of association with people, and who are connected with Investors Diversified Services, and hearing conversations between them, but not by reason of having direct contact with various projects, that Investors Diversified Services financed various projects—I don't think so many of them were section 608's. I think perhaps they were, maybe, various housing projects, financed under the GI program, or straight FHA individual house loans, and the money they made, I think, was made by reason of participation contracts between the builders, whereby Investors would put up all the necessary front, or start money, to get the deal going, and finance it until such time as mortgage draws would be available, put up the money to buy the land, and see that there was a free flow of money so the builder wouldn't have any headaches in that regard, and would be able to take advantage of all discounts, and at the end of the program, in addition to the interest on the money, they participated to a certain percentage in a percentage of the profit out of the sale of the house.

Senator ROBERTSON. I have no personal knowledge of the net profit above cost on any of these projects, but I want to ask you this question: If an investment company, taking advantage of Government loans, makes a net profit of \$26 million over and above the actual cost, has anybody been cheated, and, if so, whom?

Mr. BUDWESKY. Well, I don't think anybody has been cheated, sir. I think the problem here is merely a question of who got the money.

Senator ROBERTSON. And who didn't get the building?

Mr. BUDWESKY. No. If I may be permitted to answer the question, sir, in many of these section 608 projects that you are speaking of, some of them were promoted primarily by an architect and a builder, and they would perhaps approach someone who had some investment money to get the front money, and make a proposition to him where they would build the project for the amount of the loan, and then he could own the project when it was through.

The architect would take a full 5-percent commission, which, say, in the Shirley-Duke project, would have amounted to, say, \$650,000.

I should say—and I think it is perfectly true—that in instances where that did happen in these section 608's, everybody thinks that is perfectly all right to have paid the architect \$650,000.

The CHAIRMAN. Mr. Budwesky, let me ask you this question: Did you tell an investigator of the FHA that Investors made \$26 million?

Mr. BUDWESKY. Did I tell investigators?

The CHAIRMAN. Investigators for the FHA, for Mr. McKenna—one of Mr. McKenna's investigators for FHA, that Investors made \$26 million.

Mr. BUDWESKY. I don't know that I talked to the FHA investigator. However, I wouldn't particularly deny that I may have made such a statement, because I have repeatedly heard various people connected with Investors say that they were very fortunate in having picked up in excess of \$20 million out of various housing projects over the last 5 or 6 years.

The CHAIRMAN. Now, Senator Robertson, Mr. Crabb, the president—former president—of Investors will be a witness a little later. And we can ask him how much money they made, if any, and get the testimony from them.

Senator ROBERTSON. Mr. Chairman, I propose to leave the examination for the counsel who has studied the record, and maybe knows more about these witnesses than I do, but I just wanted to ask the preliminary question, based upon newspaper reports that Mr. Robert Young controlled Alleghany, and Alleghany controlled Investors Diversified, and Investors Diversified picked up a windfall of over \$26 million, and if they did I wanted to know who was cheated, and how they did it, and why.

The CHAIRMAN. Well, Investors are going to testify a little later in the day, and we will ask them, and give them an opportunity, to explain whether it is true or whether it isn't.

Mr. McCARTIN. Mr. Chairman?

The CHAIRMAN. Have you been sworn?

Mr. McCARTIN. I am counsel, sir, and I am not going to testify.

I merely want to ask you a question.

The CHAIRMAN. Yes.

Mr. McCARTIN. You indicated earlier that the chairman might ask questions of witnesses, if he were requested to do so?

The CHAIRMAN. Yes.

Mr. McCARTIN. I would like for you, Mr. Chairman, to ask Mr. Budwesky if his testimony is that the Alleghany Corp. had the controlling stock ownership of Investors Diversified Services in February of 1949?

The CHAIRMAN. Well—

Mr. SIMON. I believe your people testified they acquired it in the spring of 1949.

Mr. McCARTIN. That is right.

The CHAIRMAN. The records in executive session show that Alleghany Corp. acquired the control in the spring of 1949, and the contract with the Shirley-Duke people that we are considering at the moment was entered into on June 15.

You may proceed.

Mr. BUDWESKY. I would like to qualify what I have previously said to this extent: Naturally, I do not know of my own knowledge what

Investors Diversified Services made out of their various housing deals. I merely stated what the common conversation was between officials of that company, and my statements refer to Investors Diversified Services, and not Alleghany Corp., because I don't know a thing in the world about Alleghany Corp.

The CHAIRMAN. All right. We will get on now with the questions.

Mr. SIMON. Mr. Budwesky, do you have before you a copy of the contract of sale, dated February 25, 1949, between Allen Hills Corp. and Jay Charlie Lewis?

Mr. BUDWESKY. Yes; there were two contracts. They are both dated on the same date. There is some reason that I don't just recall—they are substantially the same. I think some of the dates as to when the deal was a deal, or when it would not be a deal, were changed.

Yes, I have copies of them right here.

Mr. SIMON. And the contract covers the purchase of the land on which the Shirley-Duke apartments are built; is that right?

Mr. BUDWESKY. The contract covers a tract of land upon a part of which was used for the construction of the Shirley-Duke project.

Mr. SIMON. The contract covered 118 acres, and roughly 96 acres were used for this project; is that right?

Mr. BUDWESKY. That is right.

Mr. SIMON. The contract provided for a sales price of \$178,000; is that correct?

Mr. BUDWESKY. Correct.

Mr. SIMON. Was all of the \$178,000 paid by Investors Diversified Services?

Mr. BUDWESKY. It was.

Mr. SIMON. I have before me photostats of 3 checks, 1 dated March 8, 1949, in the amount of \$5,000, and 2 dated June 24, 1949, in the amounts of \$83,000 and \$90,000. Each of the checks is an Investors Diversified check made out to the Davis-Ruffner Title Corp.

Mr. BUDWESKY. That is right.

Mr. SIMON. Do you know whether those checks were used to pay for the purchase of this land?

Mr. BUDWESKY. I can only say that I assume they were because the Allen Hills Corp. had a contract to sell it for \$178,000, and I don't think they would have signed a deed to convey it unless they got the \$178,000.

Mr. SIMON. The \$178,000 came from Investors Diversified; is that right?

Mr. BUDWESKY. That is right; yes, sir.

Mr. SIMON. Did Jay Charlie Lewis assign this contract of sale to Investors Diversified?

Mr. BUDWESKY. I think at the time of, or very shortly after the original contract of sale that was entered into, that Investors took an assignment of the contract from Jay Charlie Lewis in order to protect itself on the \$5,000 that it had already put up.

Mr. SIMON. After that they were beneficial holder of the contract to purchase this land; is that right?

Mr. BUDWESKY. That is right; either for themselves or for the deal that was being worked up between them and the prospective builders of the project.

Mr. SIMON. I have before me that deed dated March 8, 1949, from the Allen Hills Corp. to Jay Charlie Lewis, conveying this land, and having revenue stamps indicating a purchase price of \$178,000.

It also indicates that when it was recorded the recorder had instructions to deliver it to you after recordation. Are you familiar with the deed?

Mr. BUDWESKY. I should say I am familiar with the deed; yes.

Mr. SIMON. I take it, Mr. Lewis had no personal interest in this property; did he?

Mr. BUDWESKY. He did not.

Mr. SIMON. And when he received this deed he received it in trust for Investors Diversified; is that right?

Mr. BUDWESKY. That deed was in June; wasn't it?

Mr. SIMON. Dated March 8—March 5, excuse me—1949, and it was acknowledged before a notary on the same date, and was recorded with the recorder on June 30, 1949.

Mr. BUDWESKY. I mean the deed might have been dated and executed, but delivery did not take place until June.

Mr. SIMON. But at any rate, Mr. Lewis received the land on behalf of Investors; is that right?

Mr. BUDWESKY. Yes, he did. I think you will find in the sales contract that one of the conditions of the contract is that the seller will immediately execute a deed for the land, and deposit it in escrow with the Davis-Ruffner Title Corp. for future delivery in accordance with the sales contract, because Investors didn't want to have any problem of getting a deed from the purchaser in the event the deal went through.

Mr. SIMON. Is it also true, Mr. Budwesky, that paragraph 4 of this contract provided, and I quote:

That purchaser shall make or cause to be made by a corporation or corporations in connection with a financial sponsor, an application or applications to the Federal Housing Administration for mortgage-loan insurance under section 608 of the presently effective Housing Act, or any extension thereof on approximately 1,800 apartment units.

I am no longer quoting. It provided further that in event FHA did not give such commitment, the deal was off?

Mr. BUDWESKY. That is right.

Mr. SIMON. So the sole purpose of acquiring the land was for an FHA project; is that right?

Mr. BUDWESKY. Exactly right.

Senator MAYBANK. Mr. Chairman, may I ask—I have forgotten whether or not this was in the income-tax returns that you and I saw.

Did they want capital-gains tax on this?

Mr. SIMON. Yes.

Senator MAYBANK. They asked for capital-gains tax of 25 percent on all this?

The CHAIRMAN. Yes.

Mr. SIMON. Mr. Budwesky, when were the Shirley-Duke companies incorporated?

Mr. BUDWESKY. May I see if somebody has the record?

Mr. SIMON. Certainly.

Was it in April or May of 1949?

Mr. BUDWESKY. Well, let me see. I should say it was in June. The date of the certificate of incorporation was acknowledged on the 2d of June 1949.

Mr. SIMON. What was the capital stock of Shirley-Duke No. 1?

Mr. BUDWESKY. There was 100 shares——

The CHAIRMAN. Will you talk into the microphone?

Maybe you had better put something under the microphone.

Mr. SIMON. Wasn't the capital \$1,000, Mr. Budwesky?

Mr. BUDWESKY. The actual stock issue, regardless of what was authorized by the charter, the actual issued stock was \$100 worth of preferred to the Commissioner, and 200 shares of common stock of no par value but which were sold at \$5 a share.

Mr. SIMON. That would be \$1,000 in common stock?

Mr. BUDWESKY. That is right.

Mr. SIMON. And is the only stock ever issued by this corporation the \$1,000 of common stock and the \$100 of preferred stock to the FHA?

Mr. BUDWESKY. That is correct.

Mr. SIMON. Was any other capital ever put into this corporation other than the original \$1,000?

Mr. BUDWESKY. Nothing other than what they borrowed.

Mr. SIMON. They borrowed from Investors?

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. But apart from what they borrowed from Investors the only capital that went into the corporation is \$1,000?

Mr. BUDWESKY. That is correct.

Mr. SIMON. Is the same thing true with each of the other six corporations?

Mr. BUDWESKY. Yes; it is.

Mr. SIMON. Did Mr. Hutman, Mr. Gordon, and Mr. Preston go on the payroll of these corporations immediately upon its incorporation?

Mr. BUDWESKY. I think as soon as they started construction; yes.

Mr. SIMON. And at what salaries?

Mr. BUDWESKY. Twenty thousand dollars per year.

Senator MAYBANK. Each?

Mr. BUDWESKY. Each.

Mr. SIMON. And all that was in the corporation in the way of capital was \$6,000; is that right?

Mr. BUDWESKY. That is right.

Mr. SIMON. Now, on June 15, 1949——

Mr. BUDWESKY. But, pardon me, That is the capital that was provided for the corporations by the payment of subscriptions for common stock.

Mr. SIMON. Yes; for my purposes——

Mr. BUDWESKY. But there was money available that they had borrowed under their construction loan mortgages.

Mr. SIMON. I do not mean when I use the word "capital" to include the borrowings from Investors, which were repaid out of the FHA money.

Mr. BUDWESKY. In my judgment it is still capital.

Mr. SIMON. On June 15, 1949, did each of the Shirley-Duke corporations enter into a contract with Investors Diversified Services?

Mr. BUDWESKY. On the 15th of June 1949!

Mr. SIMON. Yes.

Mr. BUDWESKEY. Yes; that is correct.

Mr. SIMON. Do you have a copy of the contract before you?

Mr. BUDWESKEY. Yes; I do.

Senator ROBERTSON. Mr. Chairman, before you go into the contract, I would like to get a little clearer picture of what the other question was.

Each corporation puts up \$1,000 and there were six of them?

Mr. SIMON. That is correct, Senator.

Senator ROBERTSON. That was a group. One man was president at \$20,000. Was he president of all six?

Mr. SIMON. No. One man was president of two corporations. Each of them was president of two corporations.

Senator ROBERTSON. Each got \$40,000?

Mr. SIMON. No; each got \$20,000, a total of \$60,000 for the three of them, and \$6,000 of capital.

Mr. PAUL. Ten thousand from each corporation.

Senator ROBERTSON. I did not know how much salary they took.

Mr. SIMON. The salary totaled \$60,000.

The CHAIRMAN. For the three of them per year.

Mr. SIMON. Did this contract with Investors provide, and I am reading now from the bottom of the first page, this contract was the contract under which Investors financed the project; is that right?

Mr. BUDWESKY. This contract in connection with the deed of trust and notes executed by the corporations for the principal amount of the loans, constituted the documents under which the advances were made.

Mr. SIMON. It provided at the bottom of page 1, did it not, and I am quoting:

Prior to the beginning of the development work and construction, or the furnishing of materials for the project, there shall be obtained from the Federal Housing Commissioner his commitment to insure upon completion under section 608 of the National Housing Act, a first mortgage permanent loan in an amount not less than the amount of the mortgage loan hereinafter stated to be made upon the project by the commitment mortgagee upon the completion of the project. The commitment to insure shall be issued to lender as mortgagee.

Is that correct?

Mr. BUDWESKY. That is correct.

Mr. SIMON. At the top of the second page, did the contract further provide that in addition—on the second line on the second page. There is an insert between the first and second pages.

Mr. BUDWESKY. All right. Go ahead.

Mr. SIMON (reading):

In addition, there shall be procured prior to any obligation of the lender to proceed further with the making of any loan or disbursement of any funds a commitment from the Federal National Mortgage Association, acceptable to lender, to purchase from lender the permanent loan as insured by the Federal Housing Commissioner.

Is that correct?

Mr. BUDWESKY. That is right.

Mr. SIMON. So that the contract provided that before Investors was to put up a dime they had to get not only a commitment from FHA for a permanent loan in at least the amount of their commit-

ment here, but also a commitment from FNMA to take over the loan if they couldn't otherwise sell it?

Mr. BUDWESKY. They wanted the commitment, and they wanted the take-out.

The CHAIRMAN. Wait a minute. Do you mean to say that they had a commitment from FHA to insure the loan, and also had a commitment with Fannie May to buy it?

Mr. SIMON. That is right.

The CHAIRMAN. Let me ask you this question: Didn't Shirley-Duke Corporation likewise have a commitment from RFC whereby RFC would loan them \$14,412,000?

Mr. BUDWESKY. I never heard of that, sir.

Senator MAYBANK. RFC in those days were buying the FNMA, as I recall.

Mr. BUDWESKY. I don't know anything about that. The Shirley-Duke corporations had nothing to do with the application of the mortgagee here to get a take-out from Fannie May.

The CHAIRMAN. Who handled that, the Investors?

Mr. BUDWESKY. The mortgagee, Investors, would make that application to Fannie May. The provision in the contract provides that they are under no obligation to make any advances.

The CHAIRMAN. In other words, the contract that you entered into, Shirley-Duke, with Investors, not only required that you secure from FHA a commitment to insure the mortgage on completion——

Mr. BUDWESKY. No. You have stated that incorrectly.

The CHAIRMAN. You state it correctly, will you?

Mr. BUDWESKY. The contract provided that they were under no obligations to advance any money under the loan agreement and the deed of trust until they obtained a commitment from FHA.

The CHAIRMAN. Until they, Investors, obtained it themselves?

Mr. BUDWESKY. The FHA issues its commitment to the mortgagee, not to the owner.

The CHAIRMAN. I see. In other words, Investors, in the contract they made with you, wrote into the contract that they were under no obligation to advance any money——

Mr. BUDWESKY. Until they had the commitment out of FHA, and a takeout from Fannie May.

The CHAIRMAN. And also a commitment from Fannie May that Fannie May would buy the mortgage?

Mr. BUDWESKY. After completion of the project. That is a condition they had in there.

The CHAIRMAN. And you have no knowledge or recollection, as the attorney for Shirley-Duke, that a deal was ever made with RFC?

Mr. BUDWESKY. I have no knowledge that Investors ever actually got the takeout from Fannie May. We had nothing to do with that. I assumed that they did, because there came a time when they were ready to begin to make advances and tell us to go ahead with construction.

The CHAIRMAN. Well, the records I think will show that somebody had a commitment from RFC for \$14,412,000.

Mr. BUDWESKY. If they did, it must have been the mortgagee.

The CHAIRMAN. Do any of you gentlemen who are witnesses here know anything about a commitment from RFC?

Mr. RICHARD. No.

The CHAIRMAN. Should it be that since RFC handled Fannie May commitments they were one and the same?

So you were taking no chances whatsoever on this contract?

Mr. BUDWESKY. You mean Investors Diversified Services were taking no chances.

The CHAIRMAN. Investors Diversified Services were taking no chances?

Mr. BUDWESKY. The contract speaks for itself, sir. I was representing the Shirley-Duke corporations and we were going to be the builders and eventual owners of the project, we hoped, but these provisions—

Mr. PAUL. Mr. Chairman?

The CHAIRMAN. What are the facts? Didn't Investors buy the land and pay for it?

Mr. BUDWESKY. Investors put up the money. They advanced the money to the six corporations with which to buy the land. It was advanced under the loan agreement and the deed of trust.

The CHAIRMAN. Did Investors ever take title to the land?

Mr. BUDWESKY. Oh, no. They didn't take title. They took an assignment of the original purchase contract.

The CHAIRMAN. They took it as collateral against their loan?

Mr. BUDWESKY. As against their original \$5,000 advance.

Mr. SIMON. There was no contract prior to June 15, 1949, was there?

Mr. BUDWESKY. Between whom?

Mr. SIMON. Between any of the sponsors or any of the Shirley-Duke corporations and Investors?

Mr. BUDWESKY. There was no contract between—there never was any between the individuals. The only contract that eventually resulted after many weeks of negotiations, was this contract of June 15, of which there are 6, 1 with each corporation.

Mr. SIMON. And between February and June, Jay Charlie Lewis had a contract to buy the land, which he had assigned to Investors; is that right?

Mr. BUDWESKY. That is correct.

Mr. PAUL. Mr. Chairman, will you ask a question of the witness in that connection?

Will you ask the witness whether or not between February and June there were not agreements with Investors Diversified Services?

Mr. SIMON. We are going to get to that in just a moment.

The CHAIRMAN. We will get to that in a moment.

Mr. McCARTIN. Mr. Chairman, may I interrupt again a minute? I don't like to do this, but in view of the fact that we have here now all of the members of the press, and in view of the fact that Mr. Budwesky's testimony has just been that he was the attorney for Shirley-Duke, and not for Investors Diversified Services, and in view of the fact that his testimony has been that everything that he has said with respect to Investors, other than the Shirley-Duke project, has been hearsay on his part—

Mr. BUDWESKY. That is right.

Mr. McCARTIN. That he is only repeating what other people told him, and in view of the fact that the record at this time, Mr. Chair-

man, because of things that were developed in the executive committee hearings indicates that Alleghany Corp. had no stock interest in this company at the time of the negotiations of this contract, that is, that these contracts were negotiated in the very early part of 19—

The CHAIRMAN. Now you are making a statement. We will get to you a little later.

Mr. McCARTIN. If you will bear with me, I would like to get this into the press so that the fellows who are here to write these stories will get the facts as they are.

The CHAIRMAN. Will you be sworn in?

Mr. McCARTIN. Yes.

The CHAIRMAN. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. McCARTIN. I do.

The CHAIRMAN. What date did Alleghany Corp. purchase control of Investors?

Mr. McCARTIN. I think the date, Mr. Chairman, was April 17, 1949.

The CHAIRMAN. April 17, 1949?

Mr. McCARTIN. April 27.

The CHAIRMAN. What is your name for the record, please?

Mr. McCARTIN. My name is John W. McCartin.

The CHAIRMAN. What date did Alleghany Corp. purchase control of Investors?

Mr. McCARTIN. On April 27, 1949.

The CHAIRMAN. What date was the contract with Shirley-Duke dated?

Mr. McCARTIN. June 15, 1949.

The CHAIRMAN. June 15, 1949?

Mr. McCARTIN. Yes, sir.

The CHAIRMAN. What is your position?

Mr. McCARTIN. My position, Mr. Chairman, is this: That Mr. Budwesky's testimony has been that the negotiations of this deal were started in late—late in the year 1948 and early in the spring of 1949. There has been testimony about a contract that was signed in February, and my point merely is this:

That at the time that the negotiations were entered into, and at the time that the first contract that has been the matter of inquiry here was signed, and at the time of the first advance of money, Alleghany Corp. had no interest in Investors Diversified Services, and that is all.

The CHAIRMAN. Thank you, sir.

Mr. SIMON. Mr. Budwesky, is everything that happened prior to June 15, 1949, preliminary to the contract of that date?

Mr. BUDWESKY. Yes. There were many, many things that had to be done.

Mr. SIMON. But the rights of each of the parties is set forth in this agreement?

Mr. BUDWESKY. Well, as far as the Shirley-Duke Corp. and the stockholders of Shirley-Duke corporations are concerned, their interest and rights began as of the 15th day of June, when this contract was signed.

Mr. SIMON. Mr. Budwesky, did this contract provide for 6 percent interest?

Mr. BUDWESKY. On the money as advanced for construction?

Mr. SIMON. Yes,

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. And FHA's interest ceiling was 4 percent, wasn't it?

Mr. BUDWESKY. That is right.

Mr. SIMON. Did the contract provide in paragraph 2 (b), and I quote:

Complete surface drawings, plans, and specifications for the project, both for on-site and off-site work, approved by the lender and the Federal Housing Commissioner for an insurance of the section 608 mortgage loan shall be furnished by the borrower prior to the commencement of the project development.

Mr. BUDWESKY. You are reading from—

Mr. SIMON. Paragraph 2 (b) at the bottom of page 2.

Mr. BUDWESKY. Yes.

Mr. SIMON. The sentence I was reading was the first sentence in paragraph 2 (b), which said that plans had to be accepted.

Mr. BUDWESKY. That is right. We were required under the terms of this contract, which speaks for itself, to get our complete organization all set up—everything that FHA could possibly require in connection with an actual closing of the transaction, where they would insure an obligation, or the loan instrument, before the June 15 contract became effective for the advancement of money.

Mr. SIMON. Right. And under section 3, on page 3, you were required to file all the applications with FHA necessary to get the commitment; is that right?

Mr. BUDWESKY. We had to have everything approved by FHA.

Mr. PAUL. Who do you mean by "you"?

Mr. SIMON. The Shirley-Duke companies.

Mr. PAUL. They didn't have to file the applications. As I understand, the applications were filed by the mortgagee.

Mr. SIMON. I will be glad if Mr. Budwesky would answer because it says here, if I read it correctly—

borrower agrees to complete and qualify the project for FHA insured mortgage.

Mr. BUDWESKY. The borrower, in conjunction with the approved mortgagee.

Mr. SIMON. In paragraph 4, does it provide on the top of page 4:

No work or labor shall be performed upon the project, or any material placed on the land therefor, prior to the issuance of the FHA commitment for the issuance of section 608 mortgage, on the completed project.

Mr. BUDWESKY. That is right.

Mr. SIMON. On page 5, in paragraph 5, the first sentence provides:

Nothing herein contained or in the note and mortgage contained shall be deemed to obligate the lender to loan or advance for costs of construction and other charges herein contemplated which in the aggregate shall exceed an amount in excess of the mortgage loan above stated.

Mr. BUDWESKY. That is right.

Mr. SIMON. That means that in no event could they be required to advance Shirley-Duke more than FHA was going to commit itself for; is that right?

Mr. BUDWESKY. Well, the loan agreement specifies that they will lend us an amount not in excess of what FHA would agree to issue; that is right.

Mr. SIMON. Now, on page 7, paragraph marked "1" starts out: Attached hereto, marked "Exhibit A," is a payment breakdown for each unit of construction.

And exhibit A lists each item going into the building, including painting, plastering, land, and so forth; is that right?

Mr. BUDWESKY. Well, that is a breakdown of the maximum amount that they would advance, as construction went along, but I think it did take into consideration the normal holdback that a mortgagee ordinarily has in advancing money to a mortgagor under a construction loan.

Mr. SIMON. Was that to make certain that the building was completed with an expenditure of less than the FHA commitment?

Mr. BUDWESKY. Well, you see, this was an FHA commitment to insure after completion. There was a very substantial amount of money involved. The mortgagee was putting up its own money on a straight conventional type mortgage during construction. They wanted to be absolutely certain that the project could be completed, because it had to be completed before FHA would insure.

Mr. SIMON. Wasn't exhibit A intended to make sure it was completed for less than the FHA commitment?

Mr. BUDWESKY. No, not necessarily. They were not going to permit—they were not going to permit the owners to draw up to the last dollar, because normally in the construction, a mortgagee does not advance every nickel as you go along, and the owner always has some provision in his contracts with the suppliers or subcontractors, whereby the final payment—he has a holdback from them, and it was figured that they would advance that amount during construction, and that whatever this didn't take care of would be taken care of when the final drawing was made.

Mr. SIMON. Mr. Budwesky, it is a fact that the FHA commitment was on a basis of \$6,600 a unit?

Mr. BUDWESKY. That could be a fact. I am not in a position to state that. I don't know.

Mr. SIMON. And doesn't exhibit A provide for expenditures not to exceed about \$5,500 a unit?

Mr. BUDWESKY. I don't know. The exhibit is attached to the agreement.

Mr. SIMON. The exhibit shows \$59,000 for buildings; is that correct?

Mr. BUDWESKY. The exhibit shows \$59,905 for a flat-roof building, and \$60,499 for a pitch-roof building.

Mr. SIMON. And that was on the basis of 11 units to a building; is that right?

Mr. BUDWESKY. I think they averaged that, 11 apartment units, and then, of course, they had storage rooms—

Senator ROBERTSON. I want to interrupt counsel just to keep this picture before us.

What was the maximum amount that FHA was supposed to insure of the actual cost?

Mr. SIMON. Ninety percent of the replacement value of the property.

Senator ROBERTSON. Ninety percent of the replacement value, and you are bringing out now a contract?

Mr. SIMON. That is right.

Senator ROBERTSON. Which not only was a hundred percent, but which finally wound up by, on all of these projects, being \$26 million above the cost of it?

Mr. SIMON. Not this project.

Senator ROBERTSON. I mean on all six corporations?

Mr. SIMON. No. This project, Senator, is a little over \$3 million.

Senator ROBERTSON. Let us limit it, then, to the Shirley-Duke. About \$3 million above the actual cost?

Mr. SIMON. That is correct, sir.

Senator ROBERTSON. On which the chairman said they took no risk. Of course, they did take a risk, whether that be treated as capital gains or straight income.

Mr. SIMON. It was treated as capital gains, sir.

Mr. PAUL. Mr. Chairman. Mr. Simon just made a statement that in these corporations it was \$3 million. Is he under oath?

Mr. SIMON. If you will just bear with me, we will put in the record, if you want it, your own people's sworn testimony to that effect.

Mr. PAUL. Well, if you will put that in, then I will be quiet.

Senator BRICKER. Is your name in the record?

Mr. PAUL. Yes, sir.

Senator BRICKER. Whom do you represent?

Mr. PAUL. I represent Mr. Preston, Senator, and Mr. Bros, and Shirley-Duke Corp. 2 and 3.

The CHAIRMAN. Have you been sworn in yet?

Mr. PAUL. I would like to be.

The CHAIRMAN. Well, we will swear you in later.

Mr. SIMON. Mr. Budwesky, will you turn to page 10 of the contract, paragraph 11 (b).

This provides, and I quote:

Borrower agrees to pay lender an amount herein sometimes referred to as lender's compensatory charge for this loan in the amount of 6½ percent of the original principal amount of the loan which shall be payable forthwith upon the recordation of the mortgage.

Is that correct?

Mr. BUDWESKY. That is right.

Mr. SIMON. Does that mean that in advance, so to speak, Investors was to get a compensatory charge of 6½ percent of the total amount of the mortgage?

Mr. BUDWESKY. After the land was acquired by the six corporations, and in accordance with the terms of the loan agreement, the deed of trust notes were executed, and the deed of trusts were executed, and admitted to record, and the title insurance policy delivered to the mortgagee, we were entitled to make certain draws to have funds with which to get the project under way, and included in the first draw made by each corporation was this 6½-percent figure, and upon receipt of the money, checks for the 6½ percent were then immediately made to Investors Diversified Services, Inc.

Mr. SIMON. Do I understand correctly, then, that these 6 corporations, with a total capital of \$6,000, were obligated immediately upon the start of this project to pay a fee of 6½ percent of the mortgage to Investors, and that Investors loaned them the money with which to pay the Investors' fee; is that right?

Mr. BUDWESKY. That is right.

Mr. SIMON. And that 6½ percent turned out to be \$899,900, did it?

Mr. BUDWESKY. If that is what you multiplied it out; that is it.

Mr. SIMON. And Investors loaned the \$900,000 to Shirley-Duke, which had \$6,000 of capital, so that Shirley-Duke could pay Investors a \$900,000 fee; is that right?

Mr. BUDWESKY. That is how we had to get the money to pay it.

The CHAIRMAN. But you mean they loaned you the money so that you could pay them back their own fee? Is that what happened?

Mr. BUDWESKY. We executed a deed of trust, and a deed of trust note, upon the land that we owned, and tied in as a part of the loan was this loan agreement, in which we agreed that out of the first draw that we made we would pay them this 6½ percent.

The CHAIRMAN. You mean Investors wouldn't wait until the project was completed and FHA or someone bought the mortgage so that you could pay out of the proceeds of the mortgage? They made you pay out of money you borrowed from them?

Mr. BUDWESKY. That is exactly right, sir.

The CHAIRMAN. Is that an unusual thing?

Mr. BUDWESKY. That was a stipulation of the mortgagee in this instance. We wouldn't have had a deal if we didn't agree to it.

The CHAIRMAN. In other words, you are a \$6,000 corporation. That is all you had?

Mr. BUDWESKY. That is right.

The CHAIRMAN. You enter into this contract of June 15, 1949; you agree to pay 6½ percent, which amounted to what, \$900,000? You agreed to pay it in advance?

Mr. BUDWESKY. Yes, sir.

The CHAIRMAN. And investors agreed to loan you the money to do it?

Mr. BUDWESKY. And they did it.

The CHAIRMAN. And they did loan you the money?

Mr. BUDWESKY. And we paid them.

The CHAIRMAN. And you did pay them?

Mr. BUDWESKY. That is right.

Mr. SIMON. Then, Mr. Budwesky, I take it you had to pay them interest on the money they loaned to pay their fee; is that right?

Mr. BUDWESKY. From the date we made the draw.

Mr. SIMON. And interest was computed monthly; is that right?

Mr. BUDWESKY. That is right.

Mr. SIMON. So that for the entire period of the loan you had to each month pay interest on the prior month's interest; is that right?

Mr. BUDWESKY. That is correct.

Mr. SIMON. And referring now to the rider which was attached to the paragraph we are now talking about, and I think you will find it on the next page, it says:

Section 11, paragraph (b)—

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. It starts out with—

Part of said charge in an amount equal to 5 percent—

and then I am skipping, it is talking about the things Investors did for you—and it says—

and included preliminary estimates.

Do you find that?

Mr. BUDWESKY. Yes, sir.

Mr. SIMON (reading):

Preliminary estimates, calculations and engineering work, arranging for borrower to procure plans and specifications for the project at a minimum cost and at substantial savings to borrowers; negotiating for and aiding borrower in negotiating subcontracts and bids for materials and equipment, in conjunction with other projects of other owners.

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. Now, what is referred to by "other projects of other owners"?

Mr. BUDWESKY. I would like to answer you without being required to stick just exactly to the question. I would include your question in the answer.

I did not have a part in a lot of the various phases that went into this transaction—the question of plans, the question of cost analysis, engineering surveys, etc., were not in my line and I didn't have a part of that.

Originally, as I have told you in my previous statement, it was contemplated that this would be a participation deal.

Mr. SIMON. Explain what you mean by a "participation deal," Mr. Budwesky.

Mr. BUDWESKY. Participation deal, as I understand it, as contemplated here was one in which the mortgagee, Investors Diversified Services, would furnish all the necessary funds that would be required to meet the conditions of FHA, to provide capital that you might have to have in going through with the transaction; that Mr. Hutman, Mr. Gordon, and Mr. Preston, all of whom were builders and all of whom had their building organizations, and were ready to take on the job and proceed with it, would do the building and that each of them—I don't know whether it was strictly a 50-50 percent equity ownership in the corporations, or whether Investors was going to have 51 percent and the boys were going to have 49. I don't recall that, but I know that up until almost the last week or 10 days of our negotiations, of negotiations between Investors and the boys, it was contemplated that it would be a participation deal in which Investors would advance the money, and own 50 percent of the project, and these boys would go ahead and build the project and do the work, and they would own 50 percent. Now, it may be 49-51, or 50-50.

The CHAIRMAN. Why was that changed?

Mr. BUDWESKY. Well, I can only surmise why it was done, sir. I imagine that would probably be best answered by some representative of Investors.

The CHAIRMAN. If all you can do is surmise, then you need not answer the question.

Mr. SIMON. Did anybody in Investors ever tell you why it was changed or give you a reason for it?

Mr. BUDWESKY. Well, I don't think it was anybody in Investors.

The CHAIRMAN. But the idea was changed and this contract of June 15 was entered into?

Mr. BUDWESKY. That is correct, sir.

Now, then, getting back to this paragraph 11 (b) that you specifically asked me about, the proposal was finally made that instead of having—there was never any formal contract even drafted. It was

merely an understanding that when we got everything else worked out to the satisfaction of the mortgagee that a contract would be drawn whereby the stock ownership would be as contemplated.

Then near the end of the negotiations, Investors, or the representative of Investors, came up with this other proposal, that they would not take any of the stock ownership in the corporations; that the builders or proposed owners and builders could have it all, and that in lieu of the many things that Investors had done to bring the project to the point of being ready to go ahead, that they would add this additional 5 percent to the normal $2\frac{1}{2}$ percent finance charge and that was the proposition that was put to us, and that was the proposition that was finally agreed to.

Mr. SIMON. Mr. Budwesky, does the phrase "other projects of other owners" in any way encompass Don A. Loftus?

Mr. Budwesky. I don't think to the extent of any actual financial interest on the part of Don Loftus. Don Loftus was at one time very definitely connected with Investors Diversified Services. He is reputed at one time to have been majority stockholder, but at the time, in 1949 or the latter part of 1949, I think he had already had invested, himself, his major holdings to a fellow by the name of Gamble, who I think in turn is the one who sold to Alleghany.

Mr. SIMON. Mr. Budwesky, I have here 4 checks dated August 1, 1949, of Investors Diversified Services, in the total amount of \$150,000, 3 of which are payable to Cleveland Parkway Gardens Corp., and a fourth to Broadway Gardens, and they are all endorsed by the payees, 3 of them to Mr. Loftus and the fourth to his nephew, Jay Charlie Lewis, and I ask you if there is any connection between these checks and the reference to other projects and other persons in this contract.

Mr. Budwesky. I don't know, sir. I had nothing to do with the Cleveland project. I have no knowledge of the checks. I know that Mr. Loftus was interested in helping his friends in Investors—

(Checks, etc., referred to, will be found in the files of the committee.)

The CHAIRMAN. Just a minute. Before I forget it, all the exhibits that we have here will be made a part of the record. That is, all the checks, the contract, and so forth.

(The material referred to follows:)

JULY 28, 1951.

Re projects Nos. 000-42168/42173, Shirley Duke Apartments, sections 1-6.

Mr. THOMAS C. BARRINGER,

*District Director, Federal Housing Administration,
1625 I Street N. W., Washington 25, D. C.*

DEAR MR. BARRINGER: Reference is made to your letter of July 12, 1951, recommending an increase in rentals for the six Shirley Duke projects based upon the recognition of increased operating costs.

We have reviewed your analyses of this matter and have no objection to your approval of rents averaging \$19.43 per room per month, subject to the condition that the increased rentals be made effective upon the expiration of the existing leases.

The enclosures with your letter are returned herewith.

Very truly yours,

CLYDE L. POWELL, *Assistant Commissioner.*

INVENTORS DIVERSIFIED SERVICES, INC.,
Minneapolis 2, Minn., April 23, 1951.

Re Shirley Duke Apartments, section IV. FHA case No. 000-42171. Our loan No. 98-608801.

FEDERAL HOUSING ADMINISTRATION,
District Insuring Office, Washington 25, D. C.

GENTLEMEN: Attached please find an analysis of the operating costs of this project for a period of 9 months. You will note that the actual costs are set opposite the FHA estimated costs. Following this schedule you will find comments on each of the various items, and following that you will find a breakdown as to the income the project should have shown according to the FHA cost schedule and the income that the project is actually showing.

This data is sent to you at the request of the owner of Shirley Duke Apartments, section IV, with the idea that the actual cost of operating the apartments warrants an increase in the rents. You will note that the difference in the net income per apartment per year between the FHA estimate and the actual income is \$15.65. This figure, divided by 12, would indicate that each apartment should be raised approximately \$3.85 per month.

The owner is acutely conscious of the fact that too large a raise may cause some vacancies. He feels that possibly the figure above noted is somewhat high and suggests that a flat 5 percent raise be allowed. In view of the rising costs of both labor and taxes, the owner feels that 5 percent would be the minimum figure.

We respectfully request that you compare the figures as submitted with your own experience on 608 apartment operations, bearing in mind the comments which accompany this cost schedule. If you feel that the cost figures as submitted are reasonably in line with your figures, we would appreciate it if you would see that the necessary raise is granted.

The owner of this project will be more than willing to cooperate with you in any way. If you find that there is some place that an operating cost could be cut by a change of procedure, I am sure that he would be very pleased to have the benefit of your advice.

The figures as submitted were furnished us by the management office at Shirley Duke, and the accountant for Shirley Duke Apartments, section IV. We believe them to be accurate, but as a servicer, cannot take the responsibility for them.

This submission on section IV of Shirley Duke Apartments, is to be used as a pilot application. Sections I, II, III, V, and VI follow the same pattern of costs and will be submitted for your consideration when a decision has been made upon this case.

Very truly yours,

E. M. Bros, *Manager.*

Operating income and expense schedule on Shirley-Duke Apartments, section IV

[Sec. IV, 350 units, 1,347 rooms]

	FHA	Actual (9 months)
Income.....	\$220. 56	\$220. 54
Renting expense.....		2. 77
Administration.....	10. 28	8. 00
Telephone and telegraph.....	. 50	. 22
Legal and audit.....	1. 00	. 95
Heating.....	10. 00	15. 50
Electricity.....	2. 00	3. 32
Water.....	2. 00	3. 14
Sewer charge.....		4. 82
Payroll (except repairs and decorating).....	7. 05	7. 71
Janitor supplies.....	1. 00	. 50
Exterminating.....	1. 00	. 35
Trash and garbage.....	1. 00	3. 37
Miscellaneous (gas, oil for trucks).....		. 63
Repairs (labor and materials).....	4. 00	3. 98
Decorating.....	5. 28	5. 28
Grounds (material).....	1. 00	. 36
Furniture, material and expense.....	1. 00	
Insurance.....	4. 00	2. 31
Taxes.....	20. 00	20. 04
FHA insurance.....	8. 88	8. 88
Reserve for replacement.....	10. 26	10. 26
Total.....	90. 23	102. 43

NOTE.—The item for FHA insurance in the original commitment was figured in with the principal and interest payment. Thus the commitment will not reflect the total as shown on this page and the existence of that FHA charge.

SHIRLEY-DUKE APARTMENTS, SECTION IV, FHA CASE No. 000-42171**COMMENTS***Renting expense*

This item of \$2.77 represents the extra help that was hired during the renting of the apartments, plus the advertising that was done during the first rental period. This is a nonrecurring item, except that the owner expects to spend approximately 75 cents a room a year for general advertising to keep the waiting list up and also to keep the name of the apartments in front of the public.

Administration expense

The administration expense is running less than the FHA estimate. Over the entire Shirley-Duke project, the administration expense is running approximately \$8.40 a room a year at the present time. This is a little more than the 9 months' picture shown here, but is not too much out of line.

Heating

Heating is running considerably more than was originally estimated. I was told by a heating man that the following schedule would just about fit the heating pattern per month in this area:

Percent of total annual heating cost

January.....	20	July.....	3
February.....	19	August.....	3
March.....	10	September.....	5
April.....	6	October.....	6
May.....	3	November.....	8
June.....	3	December.....	14

The items for heat in the summer represent the cost of heating water.

I determined that the average cost of fuel over the entire 6 sections of Shirley-Duke for the month of January was \$3.10 per room. Thus if January represented 20 percent of the entire fuel cost, then the fuel per year would cost \$15.50. To try to support the figures that I arrived at, I asked the management of Shirley-Duke to obtain a letter from Griffith Consumers, who are furnishing the oil, as to what they thought the cost of operation would be. They advised that they felt there would be a total of 1,600,000 gallons (38,000 barrels of oil used a

year). Using the present price of \$3.55 per barrel, the total cost of heating came to approximately \$135,000. There are a total of 7,902 rooms in the entire 6 sections. Dividing this figure into the total cost would indicate that Griffith Consumers figured the heating costs would be \$17.09 per room per year. I feel that the figure of \$15.50 is probably more accurate, although it might be a shade low.

Electricity

In spite of the fact that the 9-month expense of electricity is running at the rate of \$3.32 a year, the present rate is running approximately \$4.80 a year. The overall figure of \$3.32 must take into consideration the fact that for the first several months of operation the apartments were only partially rented, and hence the electric bills were much less than they normally would be. On the other hand, the \$4.80 figure is high due to two things. First (this cannot be helped) is the fact that the Shirley-Duke Apartments have to pay for their own street lighting and this was not figured in the original estimate. The second item (and something should be deducted for this) is the fact that the electric bills include the running of the washing machines and the dryers for which outside compensation is received. It would be my estimate that a fair charge, including street lighting, would be approximately \$3.75 per room per year.

Water

I believe that the overage here is simply a case of underestimating on the original setup.

Sewer charges

This item was not foreseen at the time the deal was set up and nothing was allowed.

Payroll

You will note that the payroll figure on the schedule runs at the rate of \$7.71 per room per year. In this connection, however, I would like to point out that in the month of December 1950 the payroll ran at the rate of \$10.92 per room per year, and in the months of January and February 1951, the figure was \$9.24 per room per year. The payroll has been given considerable attention and it is believed by all parties connected with Shirley-Duke that the \$9.24 figure cannot be reduced. On the contrary, with the coming of summer and yard work it is entirely possible that the payroll will have to be increased.

Trash and garbage

The present contract (which is one of the best in the area for this work) runs \$3.37 per room per year. It is my understanding that the contract will expire sometime this summer and that a raise of 10 percent may be expected.

Repairs

The figure of \$3.98 per room per year at the present time seems to be a little high. One reason for this is that the management has stocked an inventory of the various items that will be needed in making repairs to the apartments. On the other hand, the labor portion of the repair item is much higher than was originally expected. I expect over a long period that this item will probably not fall much less than \$3.75 per room per year, and probably will remain near the \$4 figure.

Decorating

No money has as yet been spent for decorating. However, there is no doubt that all of the \$5.28 per room per year will be needed to do the decorating as time goes on. In spite of an effort to keep the apartments rented on the basis of 60 percent civilian and 40 percent military, those figures have just about been reversed. This course means that the apartments are experiencing a much greater turnover (almost 10 percent) than they normally would. Turnover indicates decorating, and that is why I say that \$5.28 will certainly not be too much to figure on.

Taxes

The assessed valuation has not as yet been set on Shirley-Duke Apartments. However, advance information has been obtained from the people making the assessments and it appears that the buildings will be assessed at a price which will mean that the taxes will run approximately \$20.04 per room per year. This figure is certainly not too high. In case Alexandria succeeds in taking the

apartments into their boundaries, it is estimated that the taxes will even be higher.

SHIRLEY-DUKE APARTMENTS, SECTION IV

FHA original estimate of income and expense (per room per year)

Income.....	\$220.56
Less: 7 percent vacancy.....	15.44
	<hr/>
	205.12
Less: Operating expense (including FHA insurance).....	90.23
	<hr/>
	114.89
Less: Principal and interest.....	97.59
	<hr/>
Net income per room per year.....	17.30

3.7417 rooms per unit average = $3.7417 \times \$17.30 = \64.73 ¹ income per unit per year.

¹ This varies slightly from the figure on the commitment, but I have gone over it two or three times and believe it to be correct.

Actual experience of income and expense (per room per year)

Income.....	\$220.56
Less: 7 percent vacancy.....	15.44
	<hr/>
	205.12
Less: Operating expense (including FHA insurance).....	102.43
	<hr/>
	102.69
Less: Principal and interest.....	97.59
	<hr/>
Actual net income per room per year.....	5.10

3.7417 rooms per unit average = $3.7417 \times \$5.10 = \19.08 income per unit per year.
 $\$64.73$ less $\$19.08 = \45.65 divided by 12 = $\$3.85$. Then to meet original FHA setup rent should be raised $\$3.85$ per month per unit.

CONTRACT OF SALE

This agreement made this 25th day of February 1949, by and between ALLEN HILLS CORPORATION, a corporation organized under the laws of Virginia, herein called Seller, and Jay Charley Lewis, an individual, of Alexandria, Virginia, herein called purchaser:

WITNESSETH

That the seller hereby agrees to sell, and the purchaser hereby agrees to purchase, at the price and on the terms and conditions hereinafter mentioned, all that tract of land in Fairfax County, Virginia, situated on the Little River Turnpike and adjoining the property of D. G. Watkins, R. D. Catts and others and known as Volusia, bounded as follows:

LEGAL DESCRIPTION DELETED AS PER DON A. LOFTUS

That the price, terms, and conditions of sale are as follows, to-wit:

1. The sales price of said lands is \$178,000.00.
2. The terms of payment are as follows:
 - (a) The sum of Five Thousand Dollars (\$5,000.00) shall be paid at the time of the signing of this agreement. This sum shall be placed in escrow with Davis-Ruffner Title Corporation in Alexandria, Virginia, to be held pending final settlement and subject to all the terms of this contract.
 - (b) The balance of the purchase cost shall be paid in full at the time of closing under this agreement.
3. That seller shall forthwith deliver to said Davis-Ruffner Title Corporation a good and sufficient deed of general warranty covering said lands, which deed

shall be held in escrow by said title company pending final settlement and subject to all of the terms of this contract.

4. That purchaser shall make, or cause to be made, by a corporation or corporations, in connection with the financial sponsor, an application or applications to the Federal Housing Administration (hereafter called FHA), for mortgage-loan insurance under Title 608 of the presently effective housing act, or any extension thereof, on approximately 1,800 apartment units proposed to be erected on said lands and shall diligently prosecute said applications and do all that is reasonably possible to obtain an approval thereof; provided, however, purchaser shall, nevertheless, have forty days from the date hereof in which to elect not to file said application or applications with FHA and in the event purchaser shall so elect not to file said application or applications, he shall, upon demand, be entitled to a return of the said amount of \$5,000.00 deposited under this contract.

5. That purchaser shall be entitled to a cancellation of this contract should he, or the person or corporations making said application or applications, fail to obtain from the FHA a mortgage loan commitment, or offer of such a commitment satisfactory in all respects to purchaser, including a satisfactory schedule of rents. In the event of such cancellation or failure to obtain such commitment, or offer of commitment, purchaser shall be entitled to a return of the said amount of \$5,000.00 deposited with the said Title Company under this contract and the said Davis-Ruffner Title Corporation are hereby authorized and directed to pay over said amount of money to purchaser upon a showing of the contingency described in this paragraph.

6. That title shall be good of record, in fee simple, subject only to covenants, easements, and building restrictions of record, and also subject to a certain contract of purchase now in effect between seller and one Bryan Gordon, Jr., affecting part of the lands herein mentioned, provided however, that, if and when final settlement is made under this contract and the full purchase price shall have been paid, that all monies paid on said contract between Allen Hills Corporation and said Bryan Gordon, Jr., and said contract shall be assigned to the purchaser herein. Seller represents that said lands are now zoned to permit the construction of apartments.

7. That the costs of conveyancing, title search, Federal and State taxes and revenue stamps, recording, and settlement charges, shall be paid by purchaser and taxes shall be apportioned to date of transfer.

8. That, in the event of default by purchaser in the making of an application or applications for mortgage loan insurance, as provided above, or in making settlement under this contract, the full amount of the deposit shall be forfeited to seller and the said Davis-Ruffner Title Corporation shall, under those conditions, be authorized and directed to pay over said amount of \$5,000.00 to seller.

9. Settlement under this contract shall be at the office of Davis-Ruffner Title Corporation in Alexandria, Virginia, and shall be within ten (10) days after FHA shall have indicated its willingness to issue a mortgage loan insurance commitment or commitments satisfactory to purchaser in all respects as hereinabove provided, but in no event later than April 30, 1949, unless on that date the said application or applications are still in the course of active processing by FHA, in which event a reasonable extension of time shall be granted for completion of processing said application or applications; and provided further that settlement in any event shall be dependent upon completion of title and the fixing of a settlement date by the title company.

10. That this agreement shall be binding upon the heirs, executors, administrators, and assigns of the respective parties hereto.

IN WITNESS WHEREOF, said Allen Hills Corporation has caused these presents to be signed in its name by Calvin O. Black, its Vice-President, attested by Riley A. Gwynn, its Secretary, and its corporate seal to be impressed herein, pursuant to a resolution duly adopted by its Board of Directors and ratified by the owners of two-thirds or more of its capital stock, and the purchaser has hereunto set his hand and seal, all on the day and year first above written.

ALLEN HILLS CORPORATION,
By: CALVIN O. BLACK,
Vice President.

Attest:
[SEAL]

RILEY A. GWYNN,
Secretary.
JAY CHARLEY LEWIS. [SEAL]

District of Columbia, to wit:

I hereby certify that on this 8th day of March 1949 before me, a Notary Public, in and for the District of Columbia, that Calvin O. Black, Vice President, and Riley A. Gwynn, Secretary, parties to a certain agreement bearing date on the 25th day of February 1949, and hereto annexed, personally appeared before me, in said District, and acknowledged the same to be the act and deed of Allen Hills Corporation.

Given under my hand and seal this 8th day of March 1949.

HELEN B. WELCH,
Notary Public.

My commission expires on the 1st day of January 1953.

VIRGINIA,

City of Alexandria, to wit:

I, Carl Budwesky, a Notary Public in and for the State and City aforesaid, do hereby certify that on this 7th day of March 1949, Jay Charley Lewis, party to a certain agreement bearing date on the 25th day of February 1949, and hereto annexed, personally appeared before me, in said District, the said Jay Charley Lewis being personally well known to me as the person who executed the said agreement and acknowledged the same to be his act and deed.

Given under my hand and seal this 7th day of March 1949.

CARL BUDWESKY,
Notary Public.

My commission expires on the 15th day of October 1951.

MARCH 8, 1949.

Re Title 608 project
Allen Hills Corp.,
Fairfax County, Va.

Mr. JAMES A. HEWITT,
Director, Federal Housing Administration,
Washington, D. C.

DEAR MR. HEWITT: The Investors Syndicate, as proposed mortgagee in the application submitted herewith for FHA commitment to insure upon completion under section 608 of the National Housing Act, is interested in making a temporary construction loan for the building of the project and, upon the completion of the project in conformity with the FHA commitment to insure upon completion, if issued, is interested in the making of a permanent 608 mortgage loan.

In the event the Federal Housing Commission issues his commitment to insure the 608 mortgage loan to be placed upon the property upon completion, the Investors Syndicate represents to the Commissioner that in the event the 608 mortgage is presented to the Commissioner for insurance Investors Syndicate will, prior to presentation for insurance:

(a) Determine that the instrument securing the 608 mortgage loan is a good and valid first lien on the property therein described and the premises are free and clear of all liens other than that of the mortgage to be insured, except those waived by the Commissioner.

(b) Verify and cause to be paid, and certify to the Commissioner that to the best of its knowledge and belief there are not outstanding any unpaid obligations contracted in connection with the purchase of the property, the construction of the project or the mortgage transaction, except obligations for the payment of which funds are held by the mortgagor or mortgagee and obligations which will be fully paid out of the mortgage funds, or are secured by collateral other than the mortgaged property, and further except second preferred stock of mortgagor, if issued, for additional loan funds if any required for the above purpose and advanced by Investors Syndicate which are not satisfied by the 608 mortgage loan.

Very truly yours,

INVESTORS SYNDICATE,
By E. M. Bros, Manager.

P. S.—It is contemplated that this project will be broken down into six separate and distinct mortgages, approximately equal in amount, which will cover approximately 2,100 units.—E. M. B.

APPLICATION FOR MORTGAGE INSURANCE Under Section 608 of the National Housing Act

(To be Submitted in Duplicate)

Date March 10, 1949

MORTGAGEE'S APPLICATION

No. 000 12168

200-42108

I.

To the Federal Housing Commissioner:

Pursuant to the Provisions of Section 608 of the National Housing Act, and Administrative Rules and Regulations applicable thereto, application is hereby made for the insurance of the mortgage described in Mortgagor's Application below. After examination of the application and the proposed security, the undersigned Proposed Mortgagee considers the project to be desirable and is interested in making the Building and Permanent Loan in the principal amount of \$2,587,200.00 which will bear interest at 4% per annum, payable as to Building Loan monthly and only on disbursements, until 18 months after date of mortgage, and thereafter payable as to Permanent Loan

by 391 equal monthly installments of \$11,747.91 covering principal and interest.

Note - Minimum initial curtailment of principal level annuity payments, 1% per centum (1%); Declining annuity payments, 2% per centum (2%).

by monthly installments of \$... each, of principal plus interest on balances of principal.

This application by the undersigned Proposed Mortgagee is subject to your commitment, its own final action and payment of its charges as set forth under "Financing Expense" at the rate of 1% in the amount of \$38,303.00

Herewith is check for \$3,920.90 which is in payment of the fee required by Section II of Administrative Rules, now effective to be paid at the time of submitting application.

Two types of FHA commitment are available, (a) Commitment for Insurance, under which FHA insures advances of mortgage proceeds during the course of construction, and (b) Commitment to Insure Upon Completion, under which FHA insures total mortgage proceeds at the time of completion of the project. Check below the type of commitment desired.

(Signed) INVESTOR SYNDICATE (Proposed Mortgagee)

B. V. Bros (Name and title of officer) Manager 311 Tower Building Washington, D.C.

MORTGAGOR'S APPLICATION

II.

To the Federal Housing Commissioner:

The undersigned hereby applies for the insurance of a first mortgage in the principal amount of \$2,587,200, under the provisions of Section 608 of the National Housing Act and agrees to pay the examination fee as prescribed by the Administrative Rules now effective. The schedules, estimates, maps, drawings, and other exhibits listed under "Explanatory Notes" below, properly identified and made a part hereof, describe the property which will secure the proposed mortgage.

Sponsors:

1. Name of proposed mortgagor: SHIRLEY DUKE APARTMENTS, INCORPORATED, SECTION I.

(a) Names and addresses of sponsors: Bryan Gordon, Jr., 5707 20th Street, Arlington, Va.; J. J. Sonnenblick - 301 Madison Ave., New York, N.Y.

(b) Name and address to which correspondence should be addressed: Investor Syndicate, 311 Tower Building, Washington 5, D.C.

2. Names and addresses of: (a) Architect: A. D. Lueders - Arlington, Virginia; (b) Attorney: Carl Budweary - Alexandria, Virginia.

RECEIVED - F.H.A. \$13,370 MAR 15, 1949

RECEIVED - FHABY \$5,880 MAR 11 1949 CODE CASH SCH

EXPLANATORY NOTES - NEW (For rehabilitation projects, see explanatory notes at top of page 2)

III.

1. General Information - The following notes should be studied in completing this application form and preparing the supporting exhibits. The examination of the proposed project will be expedited by early and full compliance with the requirements set forth. Discussion with local FHA insurance office prior to making any final construction plans.

(2) Sufficient detail for the preparation of an accurate cost estimate. Information concerning the number and character of required exhibits and applicable requirements is available at all FHA Lending Offices.

SECTION 1 - Be beginning at a point in the approximate center of a branch in the westerly bound ary of the Allen Hills tract, said point bearing S 36° 14' 40" W - 208.18 feet, S 45° 50' 50" W 202.38 feet, and S 12° 54' 50" E. 401.56 to a point in the northerly line of Little River Pike; thence from the point of beginning and with the approximate center of said branch N 50° 46' 10" E 225.07 feet, N 4° 31' 20" W, 140.28 feet, N 26° 11' 10" E 79.22 feet to a maple tree, N 16° 14' 10" E 151.11 feet to a fence post, N 60° 29' W 57.22 feet to a fence post and N 28° 04' 10" E 250.0 feet to a point; thence departing from said westerly boundary through the Allen Hills tract S 77° 21' 00" E 85.0 feet, 86.0 feet along the arc of a curve concave easterly, having a radius of 716.0 feet, 53° 22' 20" N 572.99 feet, 363.12 feet along the arc of a curve concave westerly having a radius of 911.17 feet, 77.0 feet along the arc of a curve concave easterly, having a radius of 550.22 feet, and N 70° 58' 26" W, 862.21 feet to the point of beginning and containing 14.96 acres, more or less.

Handwritten signature/initials.

No. 2018 - These shall be prepared in duplicate and shall provide sufficient information to show the following:

- (1) A complete and definite description of the project design, planning materials, and construction. (2) Compliance with all applicable FHA requirements and governing laws, ordinances, and deed restrictions.

(3) "Tax" information on the completed project shall be obtained in conformity with local rules and assessment practice or by comparison with similar projects on a per acre basis. Both methods should be used, and a statement showing the check should accompany the exhibits.

4. Room count - see allowable room count, page 4

NOTE - Data shown in italics refers to rehabilitation projects and shall not apply to new construction projects

(3)

EXPLANATORY NOTES—REHABILITATION

NOTE.—Data shown in *italics* refers to rehabilitation projects and shall not apply to new construction projects

1. GENERAL INFORMATION—The following notes should be studied in completing this application form and preparing the supporting exhibits. The construction of the proposed project will be required to comply and full compliance with the requirements of Part I. The requirements of the following notes shall be observed carefully in completing this application, and in preparing the exhibits described.

2. REQUIRED EXHIBITS—(a) In order to permit an adequate examination of the project following exhibits shall be submitted in duplicate:

- (1) Legal description by which the site of the proposed project can be identified
- (2) Ownership—A statement as to the ownership of the property comprising the project. If property is to be acquired by the sponsoring group, copies of a valid option shall be submitted
- (3) Photographs of front, rear, sides and typical interiors of buildings to show physical condition, street view of subject and surrounding properties. There should be sufficient descriptive matter typed upon each photograph to make it evident from what point and in what direction they were taken
- (4) City map shall be marked to indicate the subject property, streets, churches, shopping and business districts, industrial, commercial, and recreational centers together with main traffic arteries and available means of transit to and from the property to such centers
- (5) zoning map and copy of zoning ordinance, if existing. Duplicate enclosures shall be submitted that the proposed project will not be contrary to existing zoning regulations or restrictions
- (6) Survey plat by registered surveyor showing size, location and dimensions of buildings including curbs, sidewalks, easements, deed restrictions, if any, and location, and also of public utilities, including depths of sewers, basements, walls, material and condition of adjacent streets and sidewalks, location and height of adjacent walls of adjacent buildings
- (7) Form 711-11a (Department of Labor Form) request for determination of prevailing wages
- (8) Personal financial statement of each sponsor (FHA Form 511)
- (9) Architectural exhibits—This application must be accompanied by preliminary drawings and outline specifications prepared on FHA Form No. 246a. These shall be prepared in duplicate and shall provide sufficient information to show the following:
 - (a) A comprehensive definition of the proper design, planning, materials, and construction of all buildings both before and after alterations
 - (b) Compliance with all applicable FHA requirements and general laws, ordinances, and deed restrictions

(10) Detailed data for the preparation of an accurate cost estimate. Information concerning the quantity and character of required materials and applicable requirements is available at all FHA Insuring Offices

3. SUPPLEMENTARY SCHEDULES (pp. 4 and 5) Schedules A, B, C, D, and E must be completed for all applications, in detail and accurately

4. STATEMENT OF RESOURCES AND ESTIMATED REQUIREMENTS (p. 6)
 (a) Construction—In the estimated construction cost (1) have field cost, or cost of all trade or subcontractors) include the general contractor's public liability, workmen's compensation and other insurance and job overhead

- (b) "Interest"—A amount estimated to cover interest on disbursements from mortgage during an erection only
- (c) "Taxes"—On land, or land and buildings, during construction only
- (d) "Insurance"—An amount sufficient only to cover premiums for fire and extended coverage, and other hazard insurance during construction only
- (e) "Title and recording expense"—Include the actual cost of title search and title insurance, mortgage, mortgage taxes of all kinds, and recording fees
- (f) "Operation expense"—Include only reasonable expenses not otherwise described, and property incurred during the organization of the project

5. ESTIMATED ANNUAL OPERATING STATEMENT (p. 7) (a) "Income"—Construction include \$ on page 4. This must be sufficiently detailed to show the apartment composition and the expected rate by a part and type

- (b) "Vacancies"—The normal vacancy should depend on local conditions but ordinarily should not be taken at less than 7%
- (c) "Operating expense"—These should be estimated on the basis of local experience and must include an allowance for replacement of equipment which depreciates more rapidly than the structure themselves
- (d) "Taxes"—Probable taxes on the completed property should be estimated in conformity with local rates and assessment practice, or by comparison with similar properties on a per room or other basis. Such estimate should show, and a statement showing this data should accompany the exhibit

6. ROOM COUNT—See allowable room count on page 4

IV

SUPPLEMENTARY SCHEDULES

**SCHEDULE A
Sources of Equity**

NOTE—Amounts of equity represented in "Land" and "Cash" will be entered in the respective columns opposite the name and address of the equity participant. Amounts of "Other Equity" will be entered under "Amount" under "Nature" will be indicated the source of the amount such as "Builder's fee," "Architect's fee," "Furniture," etc. "Furniture" the subject as set forth under "Estimated Requirements" on page 3 may be claimed as "Other Equity." In filling out Schedule A, the equity claimed for balance must be specifically designated. This must be in an amount equal to the sum of "Balance" under "Estimated Requirements." The amount set forth in the term "Land" shall correspond to the amount in the "Land" column of the "Resources" column of Schedule B.

NAME AND ADDRESS	LAND	CASH (Estimated value of work completed)	OTHER EQUITY		EQUITY	TOTAL
			Amount	Nature		
Bryan Gordon, Jr.	884,715.	822,000	822,000	822,000	822,000.00	822,000.00
Builder's fee for stock in Sponsor Corporation		60,000	13,500	46,500	Real Estate Equipment	60,000.00 152,051.00
TOTAL (amount which must equal "Total equity" set forth under "Resources" on p. 3)						8218,766.00

SCHEDULE B

Information Concerning Land—Or Property, If Rehabilitation

Parcel or lot	Present owner	Total mortgages now a lien	Interest due and unpaid	Unpaid taxes and assessments	Assessed valuation date.....	Current tax rate

SCHEDULE C

Equipment and Services Included in Rent

Equipment Furnished Tenants		Services Included in Rent	
Ranges (gas or electric).....	Gas	Water (hot and cold).....	Yes
Refrigerators (gas or electric).....	Yes	Space heat.....	Yes
Kitchen exhaust fans.....	No	Janitor service.....	Yes
Attic vent fan.....	No	Grounds maintenance.....	Yes
Laundry facilities.....	Yes	Other (specify).....	
Venetian blinds.....	No		
Other (specify).....			

SCHEDULE D

Estimate of Annual Operating Expense

Administrative expenses:	Gas.....	\$.....	Furniture and furnishings.....	5.....	\$ 1,960.00
Advertising.....	Garbage and ash removal.....	\$2.35.....	Other operating expense.....		
Management.....	Pay roll for (Number) employees.....	10,192.10	Total.....		
Operating expense:	Maintenance expense:		Replacement reserve.....	10,296.00	
Elevator power (if any).....	Decorating.....	11,760.00	Total operating expense.....		82,899.00
Elevator maintenance.....	Repairs.....	3,528.00	Total operating expense per room per annum.....	60.37	
Fuel (heating and domestic hot water).....	Exterminating.....	588.00			
Janitor's supplies.....	Insurance.....	3,295.00			
Lighting and miscellaneous power.....	Grounds expense (materials only).....	1,960.00			
Water.....					

(3)

SHIRLEY-DUKE APARTMENTS, INCORPORATED, PROPOSED SET-UP

Project name **SECTION I** Number of family units **392** Number of rooms **1373**
 Location **Duke Street, Fairfax County, Va.** Average monthly rent: Per family unit, \$66.98; per room, \$19.11
 Type of buildings **Garden type - 2 1/2 stories - fire resistant brick masonry walk-up**
(Apartment, detached, semi-detached or row houses) Number of stories, type of construction with up or elevator, etc.)

RESOURCES

Land..... \$ 84,715.00
 Cash (exclusive of working capital).....
 Other equity at least..... 228,687.00
 Total equity..... \$ 313,402.00
 Mortgage-loan proceeds..... 2,587,200.00
TOTAL RESOURCES (exclusive of working capital)..... \$ 2,900,602.00

Cash working capital..... \$.....

NOTE - WORKING CAPITAL shall be not less than 11 1/2% of the amount of the proposed mortgage. It is not part of the mortgage proceeds. It shall be deposited with the mortgagee or in a depository satisfactory to the mortgagee and under control of the mortgagee for the purpose of meeting the cost of equipping and renting the project subsequent to the completion of construction of the entire project or units thereof and, during construction for allocation by the mortgagee to the arrears for taxes, mortgage insurance premium, hazard insurance premium and assessments required by the terms of the insured mortgage. Any balance not used for the above purposes shall be returned to the mortgagee upon completion of the project to the satisfaction of the Commissioner.

ESTIMATED REQUIREMENTS

LAND IMPROVEMENT: (within property lines only)
 New utilities..... \$ 115,853.00
 Landscape work..... 23,696.00
TOTAL FOR LAND IMPROVEMENTS..... \$ 139,549.00

CONSTRUCTION:

Dwellings..... \$ 2,222,150.00
 Garages.....
 Stores.....
 Salvage* (see below).....
 Taxes (Social Security, sales, etc.)..... 19,600.00

Fees:
 Bld'g, \$..... @ 5%..... 119,053.00
 Arch't, \$..... @ 5%..... 125,005.00
TOTAL..... 244,058.00
TOTAL FOR ALL IMPROVEMENTS..... \$ 2,625,157.00

CARRYING CHARGES AND FINANCING:

Interest 12 mos @ 6%
 on \$ 2,587,200.00..... \$ 103,488.00
 Taxes (on real estate during construction)..... 500.00
 Insurance..... 5,000.00
 FHA mtg. ins. premium (0.5%)..... 12,936.00
 FHA examination fee (0.3%)..... 7,762.00
 Inspection fee..... (0.5%)..... 12,936.00
 Financing expense 1 1/2%..... 38,808.00
 Title and recording expense..... 5,000.00

TOTAL FOR CARRYING CHARGES AND FINANCING..... \$ 186,430.00
TOTAL FOR ALL IMPROVEMENTS, CARRYING CHARGES, AND FINANCING..... \$ 2,811,587.00

LEGAL AND ORGANIZATION EXPENSE:

Legal expense..... \$3,000.00
 Organization expense..... 1,300.00
TOTAL LEGAL AND ORGANIZATION EXPENSE..... \$ 4,300.00

TOTAL ESTIMATED REQUIREMENTS, EXCLUSIVE OF LAND..... \$ 2,815,887.00

LAND:
 651,658 sq. ft. @ 12 1/2¢ per sq. ft. \$ 84,715.00

TOTAL ESTIMATED REQUIREMENTS..... \$ 2,900,602.00
 Cash working capital..... \$.....

*Estimate depreciated reproduction costs of salvageable existing improvements if rehabilitation is involved..... \$.....

TOTAL SALVAGE..... \$.....

Estimated cost of demolition which is not to be included in Estimated Requirements above..... \$.....

ESTIMATED ANNUAL OPERATING STATEMENT

INCOME: (See note No 2, explanatory notes)
 Dwelling rent (from schedule E) \$ 316,658.00 per annum.
 Garage rent (from schedule E)..... per annum.
 Store rent (from schedule E)..... per annum.
 Other income (from schedule E)..... per annum.

TOTAL ESTIMATED GROSS INCOME PER ANNUM..... \$ 316,658.00

Less vacancies assumed:
 (7% on dwellings)..... \$ 22,026.00
 (.....% on garages).....
 (.....% on other income).....
TOTAL VACANCY DEDUCTION..... \$ 22,026.00
GROSS INCOME EXPECTANCY..... \$ 292,632.00
(Effective gross income)

TOTAL OPERATING EXPENSE: (Schedule D)

Number of rooms 1373..... @
 \$ 60.37 per annum..... \$ 82,890.00
REAL-ESTATE TAXES:
 Estimated assessed value:
 \$..... @ \$.....
 PER \$1,000..... 35,698.00
SOCIAL SECURITY AND OTHER SPECIAL TAXES..... 900.00
TOTAL..... \$ 119,491.00
CASH AVAILABLE FOR DEBT SERVICE..... \$ 173,162.00

ANNUAL FIXED CHARGES:

Interest (1st year)..... % 103,488.00
 Amortization @ 1 1/2%.....
 during first year..... 38,808.00
 Mortgage insurance (0.5%)..... 12,936.00
 Other fixed charges.....
(Special assessments, etc.)
TOTAL ANNUAL FIXED CHARGES..... \$ 155,232.00

CASH AVAILABLE FOR INCOME TAXES, CORPORATE TAXES, DIVIDENDS, AND SURPLUS..... \$ 17,930.00

LIST OF EXHIBITS

- Veterans statements.....
- Financial statement.....
- See letter of Investors Syndicate 3/21/49.....
- Legal description.....
- Plans - 3 sets each building.....
- Outline specifications.....
- Prevailing wage scale.....
- Zoning letter.....
- Outline surveys.....
- Plot plan.....
- Topo survey.....

(4)

VI

SCHEDULE E Estimate of Rentals

Table with 7 columns: Number of each unit type, Percent of total units, Rooms per unit, Composition of units, Estimated unit rent per month, Total monthly rent for each unit type, Total annual rent for each unit type. Includes rows for various unit types like LR-DS Comb, LR-K-DA, etc., and a total summary row.

Total number of family units 392 @ average rental of \$ 66.88 per unit per month. Total number of dwelling rooms 1373 @ average rental of \$ 19.11 per room per month.

Note: If the total estimate of accessory houses, such as that from porches, stores, offices, and any source other than from dwellings, amounts to percent of the total estimated gross income of the project, 10%, computed, the amount of such source above 10 percent will not be considered in project rental estimate.

ALLOWABLE ROOM COUNT

For purposes of uniformity the Administration has established the following method of counting the number of rooms which must be followed: (1) All rooms (except kitchens and dining alcoves under conditions shown below) shall be located on exterior walls and have their own direct natural light and ventilation as required for habitable rooms...

Table with 3 columns: Room Description, Minimum Sq. Ft., Count. Lists room types like LR, DR, DA, BR, K, DS, etc. with their respective minimum square footages and counts.

*NOTE: This counts as 3 rooms ONLY when other features in item 3 are provided in ADDITION to the area shown.

LR=Living Room. DR=Dining Room. DA=Dining Alcove. BR=Bedroom. LU=Living Unit. DS=Dining Space. K=Kitchen. Comb=Combined.

No-revenue Producing Dwelling Space

Table with 4 columns: Type of employee, Number of rooms, Composition of unit, Location of unit in project. A mostly empty table for recording non-revenue producing space.

It is hereby represented by the undersigned that, to the best of his knowledge and belief, the foregoing statements, schedules, and exhibits are in no way false or incorrect and that they are truly descriptive of the project or property, which is intended as the security for the proposed mortgage, and that the proposed construction does not violate existing zoning ordinances and requirements or existing deed restrictions.

The undersigned proposes to furnish assurance of completion of the project construction in the form of See letter from Investors Syndicate, dated March 9, 1949.

Note: (1) and (2) below, to be completed only when rehabilitation is involved. The undersigned certifies: (1) That the subject property was acquired on (or that an agreement for its purchase dated is in effect) whereby title was (or will be) acquired from who is not related to, employed by, or connected with any of the sponsors.

Note: The following paragraph is to be completed only if property was initially acquired within 1 year prior to date of this application. (2) That the entire consideration was \$ which includes expenditures to clear all liens and encumbrances, if any, as follows:

Date March 10, 1949

Date March 10, 1949

Attest: H. J. Fredericks, Secretary

(Signed) SHIRLEY DUKE APARTMENTS, INCORPORATED, SECTION I.

On behalf of Bryan Gordon, President Proposed Mortgagee.

THIS LOAN AGREEMENT made and executed in triplicate this 15th day of June 1949, by and between SHIRLEY-DUKE APARTMENTS, SECTION V, INCORPORATED, a corporation of the State of Virginia, having its principal place of business at Alexandria, the borrower (hereinafter referred to as "Borrower"), and INVESTORS DIVERSIFIED SERVICES, INC., a Minnesota corporation, the lender (hereinafter referred to as "Lender"), to aid Borrower in the construction of a rental housing project and the development required therefor (hereinafter referred to as "Project"), to be constructed upon the following described land, to-wit:

A certain parcel of land situate in Fairfax County, Virginia, being part of the Allen tract and more particularly described as follows:

From a corner of Lot 2, Strawberry Hill in the easterly boundary of the Allen tract S. 12 deg. 59' 30'' W. 871.30' to its intersection with the centerline of a proposed 60' street; thence departing from said easterly boundary and with said centerline N. 67 deg. 56' 20'' W. 853.19' to its intersection with the centerline of another proposed 60' street; thence continuing with said centerline N. 79 deg. 00' 00'' W. 70.00' to a point; thence departing from said centerline N. 11 deg. 00' 00'' E. 30.00' to the point of beginning in the northerly line of said 60' street; thence departing from said northerly line N. 11 deg. 00' 00'' E. 60.00' to a point; thence N. 41 deg. 15' 00'' W. 258.00' to a point; thence N. 01 deg. 45' 00'' W. 414.00' to a point; thence N. 20 deg. 15' 00'' E. 288.78' to a point in the southerly line of a proposed 60' street; thence with said southerly line N. 79 deg. 30' 00'' E. 124.45' to its intersection with the centerline of an 80' parking street; thence departing from said southerly line and with said centerline S. 14 deg. 00' 00'' E. 420.00' to a point; thence 237.80' along the arc of a curve concave easterly with a radius of 717.10' the long chord of which bears S. 23 deg. 30' 00'' E. 236.71' to a point; thence S. 33 deg. 00' 00'' E. 41.83' to its intersection with the northwesterly line of a proposed 60' street; thence departing from said centerline and with said northwesterly line 343.95' along the arc of a curve concave southeasterly with a radius of 605.98' the long chord of which bears S. 38 deg. 00' 48'' W. 339.47' to a point; thence S. 21 deg. 44' 50'' W. 45.15' to its intersection with the northerly line of another 60' street; thence departing from said northwesterly line and with said northerly line N. 79 deg. 00' 00'' W. 45.15' to the point of beginning containing 5.702 acres, more or less; and also

A certain parcel of land situate in Fairfax County, Virginia, being part of the Allen tract and more particularly described as follows:

From a corner of Lot 2, Strawberry Hill, in the easterly boundary of the Allen tract S. 12 deg. 59' 30'' W. 30.13' to the point of beginning in the southerly line of a proposed 60' street; thence with said easterly boundary S. 12 deg. 59' 30'' W. 810.79' to its intersection with the northerly line of a proposed 60' street; thence departing from said easterly boundary line and with said northerly line N. 67 deg. 56' 20'' W. 818.56' to its intersection with the southeasterly line of another proposed 60' street; thence departing from said northerly line and with said southeasterly line N. 21 deg. 44' 50'' E. 40.16' to a point; thence 439.98' along the arc of a curve concave southeasterly with a radius of 545.98' the long chord of which bears N. 44 deg. 47' 25'' E. 427.41' to a point; thence N. 67 deg. 50' 00'' E. 372.63' to a point; thence 265.81' along the arc of a curve concave southerly with a radius of 372.98' the long chord of which bears N. 88 deg. 15' 00'' E. 260.22' to a point; thence S. 71 deg. 20' 00'' E. 20.66' to the point of beginning containing 10.499 acres, more or less.

Together with a perpetual right of way and/or easement over private driveways, also referred to as proposed streets, subject to co-equal rights of others entitled thereto, said Private Driveways as a whole being more particularly described according to survey as follows:

A certain parcel of land situate in Fairfax County, Virginia, being a part of the Allen Hills tract and more particularly described as follows:

From a point at the southwest corner of the Allen Hills tract in the northerly line of Little River Turnpike, N. 82 deg. 00' 55'' E. 221.90' to a point; thence S. 89 deg. 46' 20'' E. 50.45' to a point; thence N. 83 deg. 22' 20'' E. 682.21' to a point in the westerly line of a proposed 70' right of way, the point of beginning; thence departing from said northerly line and with said westerly line N. 06 deg. 37' 30'' W. 30.00' to a point; thence 365.42' along the arc of a curve concave easterly with a radius of 883.02' the long chord of which bears N. 05 deg. 13' 45'' E. 362.78' to a point; thence N. 17 deg. 05' 00'' E. 132.00' to a point; thence 89.18' along the arc of a curve concave westerly with a radius of 1593.36' the long chord of which bears N. 15 deg. 28' 47'' E. 89.16' to a point in the southerly line of a proposed 60' right of way; then departing from said westerly line and

with said southerly line N. 77 deg. 40' 00'' W. 702.88' to a point in the westerly boundary of said Allen Hills tract; thence departing from said southerly line and with said westerly boundary N. 04 deg. 31' 20'' W. 62.70' to a point in the northerly line of said proposed 60' right of way; thence departing from said westerly boundary and with said northerly line S. 77 deg. 40' 00'' E. 721.30' to a point in the westerly line of a proposed 70' right of way; thence departing from said northerly line and with said westerly line 159.13' along the arc of a curve concave westerly with a radius of 1593.36' the long chord of which bears N. 08 deg. 51' 40'' E. 159.07' to a point; thence N. 06 deg. 00' 00'' E. 203.00' to a point; thence 223.82' along the arc of a curve concave easterly with a radius of 1295.42' the long chord of which bears N. 10 deg. 56' 58'' E. 223.56' to a point in the southerly line of a proposed 60' private driveway; thence departing from said westerly line and with said southerly line N. 79 deg. 00' 00'' W. 650.88' to a point in the westerly boundary of said tract; thence departing from said southerly line and with said westerly line N. 28 deg. 04' 10'' E. 62.76' to a point in the northerly line of said proposed 60' private driveway; thence departing from said westerly line and with said northerly line S. 79 deg. 00' 00'' E. 639.05' to a point in the westerly line of a proposed 70' private driveway; thence departing from said northerly line and with said westerly line 213.24' along the arc of a curve concave easterly with a radius of 1295.42' the long chord of which bears N. 23 deg. 17' 03'' E. 213.02' to a point; thence N. 28 deg. 00' 00'' E. 201.00' to a point; thence 756.47' along the arc of a curve concave westerly with a radius of 767.14' the long chord of which bears N. 00 deg. 14' 57'' W. 726.19' to a point; thence N. 28 deg. 29' 55'' W. 17.62' to a point in the northerly boundary of said tract; thence departing from said westerly line and with said northerly line N. 86 deg. 38' 30'' E. 77.12' to a point in the easterly line of a proposed 70' private driveway; thence departing from said northerly line and with said easterly line 294.26' along the arc of a curve concave westerly with a radius of 837.14' the long chord of which bears S. 17 deg. 23' 36'' E. 292.77' to a point in the northerly line of a proposed 60' private driveway; thence departing from said easterly line and with said northerly line N. 79 deg. 30' 00'' E. 395.73' to a point; thence 197.86' along the arc of a curve concave northerly with a radius of 291.53' the long chord of which bears N. 60 deg. 03' 25'' E. 194.08' to a point; thence N. 40 deg. 36' 50'' E. 370.30' to a point in the north easterly boundary of the tract; thence departing from said northerly line and with said north easterly boundary S. 49 deg. 23' 10'' E. 60.00' to a point in the southerly line of a proposed 60' private driveway; thence departing from said north easterly boundary and with said southerly line S. 40 deg. 36' 50'' W. 370.30' to a point; thence 238.58' along the arc of a curve concave northerly with a radius of 351.53' the long chord of which bears S. 60 deg. 03' 25'' W. 234.03' to a point; S. 79 deg. 30' 00'' W. 401.24' to a point in the easterly line of a proposed 70' private driveway; thence departing from said southerly line and with said easterly line 455.80' along the arc of a curve concave westerly with a radius 837.14' the long chord of which bears S. 12 deg. 24' 08'' W. 450.20' to a point; thence S. 28 deg. 00' 00'' W. 201.00' to a point; thence 192.41' along the arc of a curve concave easterly with a radius of 1225.42' the long chord of which bears S. 23 deg. 30' 07'' W. 192.22' to a point in the northerly line of a proposed 60' private driveway; thence departing from said easterly line and with said northerly line S. 79 deg. 00' 00'' E. 600.58' to a point in the northwesterly line of a proposed 60' private driveway; thence departing from said northerly line and with said northwesterly line N. 21 deg. 44' 50'' E. 45.15' to a point; thence 487.42' along the arc of a curve concave southeasterly with a radius of 605.98' the long chord of which bears N. 44 deg. 47' 25'' E. 474.39' to a point; thence N. 67 deg. 50' 00'' E. 372.63' to a point; thence 308.57' along the arc of a curve concave southerly with a radius of 432.98' the long chord of which bears N. 88 deg. 15' 00'' E. 302.08' to a point; thence S. 71 deg. 20' 00'' E. 27.50' to a point in the easterly boundary of said tract; thence departing from said northwesterly line and with said easterly boundary S. 36 deg. 47' 30'' W. 31.57' to a point, corner of Lot 2, Strawberry Hill; thence with the line of said Lot 2 S. 12 deg. 59' 30'' W. 30.13' to a point in the southeasterly line of a proposed 60' private driveway; thence departing from said easterly boundary and the line of said Lot 2 and with said southeasterly line N. 71 deg. 20' 00'' W. 20.66' to a point; thence 265.81' along the arc of a curve concave southeasterly with a radius of 372.98' the long chord of which bears S. 88 deg. 15' 00'' W. 260.22' to a point; thence S. 67 deg. 50' 00'' W. 372.63' to a point; thence 439.08' along the arc of a curve concave south-easterly with a radius of 545.98' the long chord of which bears S. 44 deg. 47' 25''

W. 427.41' to a point; thence S. 21 deg. 44' 50'' W. 40.16' to a point in the northerly line of a proposed 60' private driveway; thence departing from said southeasterly line and with said northerly line S. 67 deg. 56' 20'' E. 818.56' to a point in the easterly boundary of said tract and the line of said Lot 2, Strawberry Hill; thence departing from said northerly line and with said easterly boundary and said line of Lot 2 S. 12 deg. 59' 30'' W. 60.76' to a point in the southerly boundary of said proposed 60' private driveway; thence departing from said easterly boundary and said line of Lot 2 and with said southerly line N. 67 deg. 56' 20'' W. 857.82' to a point; thence N. 79 deg. 00' 00'' W. 626.85' to a point in the easterly line of a proposed 70' private driveway; thence departing from said southerly line and with said easterly line 217.70' along the arc of a curve concave easterly with a radius 1225.42' the long chord of which bears S. 11 deg. 05' 22'' W. 217.39' to a point; thence S. 06 deg. 00' 00'' W. 203.00' to a point; thence 321.76' along the arc of a curve concave westerly with a radius of 1663.36' the long chord of which bears S. 11 deg. 32' 30'' W. 321.26' to a point; thence S. 17 deg. 05' 00'' W. 132.00' to a point; thence 336.41' along the arc of a curve concave easterly with a radius of 813.02' the long chord of which bears S. 05 deg. 13' 45'' W. 334.02' to a point; thence S. 06 deg. 37' 30'' E. 30.00' to a point in the northly line of said Little River Turnpike; thence departing from said easterly line and with said northerly line S. 83 deg. 22' 20'' W. 70.00' to the point of beginning, containing 10.793 acres more or less.

WITNESSETH :

WHEREAS, Lender is willing under the terms and conditions hereinafter set forth to furnish financing to Borrower in connection with its development of the above premises;

NOW THEREFORE, this agreement between Borrower and Lender is executed as a part of the loan transaction and preliminary to the execution of the note and security instruments, all of which instruments shall be construed together, and the terms and provisions of said agreement herein shall be considered to be covenants and agreements as though contained in the security instruments in full and incorporated therein.

BORROWER AGREES TO TAKE AND LENDER AGREES TO MAKE A MORTGAGE LOAN UPON AND SUBJECT TO THE TERMS, CONDITIONS, AND PROVISIONS IN THIS AGREEMENT CONTAINED.

Prior to the beginning of the development work and construction or the furnishing of materials for the Project, there shall be obtained from the Federal Housing Commissioner his commitment to insure upon completion under Section 608 of the National Housing Act, a first mortgage permanent loan in an amount not less than the mortgage loan amount hereafter stated, to be made upon the Project by the commitment mortgagee upon the completion of said Project. The commitment to insure shall be issued to Lender as Mortgagee or as Lender may elect to a mortgagee approved by Lender, and the holder of the commitment is hereinafter referred to as "Commitment Mortgagee." The commitment to insure may be transferred by the holder upon approval of the Commission and Lender first obtained. In addition there shall be procured prior to any obligation of Lender to proceed further with the making of any loan or disbursement of any funds a commitment from the Federal National Mortgage Association acceptable to Lender to purchase from Lender the permanent loan as insured by the Federal Housing Commissioner. Upon the issuance of both such commitments in amount and upon terms acceptable to Lender this loan shall be consummated in accordance with and subject to the following provisions:

1. AMOUNT OF LOAN. The principal amount of the loan shall be **SEVENTY-TWO THOUSAND SIX HUNDRED AND NO/100 DOLLARS (\$72,600.00)** per building unit (as hereinafter defined) multiplied by the number of such units to be constructed upon the land above described, or the amount of the commitment for FHA mortgage insurance whichever is the smaller amount, and shall bear interest at the rate of six percentum (6%) per annum. Interest shall be payable once each calendar month and shall be calculated upon each advance from the date of such advance. The loan shall be evidenced by a Note and secured by a Deed of Trust (hereinafter sometimes referred to as a mortgage) containing provisions approved by Lender and shall be executed by Borrower. The note shall be in the mortgage loan amount and shall be due and payable on or before two months prior to the date of the expiration of the commitment for FHA mortgage insurance. The mortgage shall be a first lien upon the premises above described and all improvements placed thereon subject only to the rights of the public in the streets and alleys dedicated,

if any, and to current general real-estate taxes not yet due and payable and such other exceptions as are acceptable to Lender. Borrower shall execute and deliver unto Lender a Chattel Mortgage or other security instrument as the Lender may require for its protection as to any chattels on account of which the loan funds are disbursed. The term "building unit" as used in this section is defined to be a building containing eleven complete residential apartments and containing a laundry and storage room; since some of the buildings to be constructed contain more and some less than eleven complete residential apartments in each such case the amount specified per building unit shall be increased or decreased as the case may be by 1/11th for each residential apartment more or less than eleven.

2. (a) MORTGAGE INSURANCE—CORPORATE AUTHORITY; (b) SURVEYS, DRAWINGS AND SPECIFICATIONS; (c) PLEDGE OF STOCK.

(a) Prior to the advance of any portion of the loan, Borrower shall furnish to Lender a mortgagee's title insurance policy (or preliminary binder therefor if approved by Lender) issued through and by such title insurance company (and companies) as Lender shall select, approve and require, for the amount of the loan which is at any time advanced, in form and substance and division of liability between insuring title companies satisfactory to Lender. The insurance shall be extended to cover each and every advance of the loan at the time of payment thereof if required by Lender and shall insure the mortgage as a first lien on the property described therein for the amount of advances. Borrower shall furnish as and when required by Lender title insurance or evidence to the satisfaction of Lender establishing the continued existence of the mortgage as a first lien for the amounts disbursed and that the title record does not disclose the existence of any condition contrary to the conditions on which this loan is made or contrary to the requirements of the Federal Housing Commissioner for insurance, pursuant to the commitment issued, of the 608 mortgage loan to be made upon the completion of the Project. Borrower shall furnish such corporate evidence and authority for the making of the loan and the execution of all agreements in connection therewith, as the Lender may require and approve.

(b) Complete surveys, drawings, plans, and specifications for the Project, both for on-site and off-site work, approved by Lender and the Federal Housing Commissioner for the insurance of the 608 mortgage loan, shall be furnished by Borrower prior to the commencement of the Project development. Said drawings and specifications shall not be deemed to be complete unless they shall include provisions for improvement of a convenient way of access by foot and vehicle to all proposed buildings on the mortgaged premises and all necessary paving of private ways, and for curbs, sidewalks, gutters, landscaping, easements and utility connections, and all essential equipment as required by the Federal Housing Commissioner necessary for the operation of a rental housing project as a completed project. Borrower shall furnish duplicate sets of surveys, drawings, plans, and specifications, and mortgage title evidence as may be required, for deposit with the Commissioner and the 608 mortgagee. There shall also be furnished evidence to the satisfaction of Lender that the contemplated project development and construction, as evidenced by the approved drawings, plans, and specifications, comply with all restrictions, building regulations and requirements, zoning ordinances, and platting requirements applicable thereto; that such project development has been duly approved and accepted by the proper governmental agencies and authorities having supervision and that the various construction permits as may be required have or can be obtained.

(c) As additional security for the payment of the indebtedness and compliance with the terms and conditions of the mortgage and this agreement and as a condition precedent to the making of loan advances by Lender, Borrower shall procure from all of the shareholders and such shareholders shall deliver to Lender all of the issued stock of Borrower corporation duly endorsed to Lender as Pledgee, together with a Pledge Agreement as approved by Lender. In the event of default on the mortgage or loan agreement and at the option of Lender, Lender or its designated attorney shall be empowered to sell any or all of the shares of the stock and apply the proceeds thereof, all as provided in the pledge agreement. Borrower agrees not to issue any certificate of stock after the said delivery of the then outstanding certificates of stock unto Lender, during the continuance of any liability under any agreement in connection with the loan. Borrower will enact proper resolutions and amendments to its corporate Bylaws or Charter and such other further and additional assurances, covenants and agreements as may be required by Lender to effectuate the terms and conditions of the pledge of said stock. The provisions of this paragraph as to the pledge

of stock, and the pledge of stock, shall continue in full force and effect until the 608 mortgage loan is consummated.

(d) As a material consideration for the execution of this agreement by Lender the pledge and pledge agreement described in paragraph "(c)" above shall also secure to Lender the payment of the indebtedness described in and compliance with the terms and conditions of five additional mortgages and loan agreements each of which is of even date herewith, and has been or will be executed by one of the five additional Borrowers hereinafter named and relates to property contiguous or adjacent to the land hereinabove described. The other Borrowers mentioned above are as follows, namely:

Shirley-Duke Apartments, Section I, Incorporated
 Shirley-Duke Apartments, Section II, Incorporated
 Shirley-Duke Apartments, Section III, Incorporated
 Shirley-Duke Apartments, Section IV, Incorporated
 Shirley-Duke Apartments, Section VI, Incorporated

3. 608 INSURED LOAN ON COMPLETION.

(a) Borrower agrees to complete and qualify the Project for the FHA 608 insured mortgage loan to be placed thereon by the approved Commitment Mortgagee, or its assigns, and to comply with all requirements of the Commitment Mortgagee and the Commissioner for the obtaining and confirmation of said loan and insurance thereof under Section 608 of the National Housing Act pursuant to the commitment of the Commissioner for such insurance, and the Federal Housing Administration Rules and Regulations appertaining thereto. The printed and special conditions of the commitment to insure upon completion, FHA form 2453-W, issued by the Commissioner for the insurance of the 608 mortgage, are by this reference made a part of this agreement and agreed to by Borrower.

(b) Borrower shall execute and deliver its note and mortgage, 608 form, in the amount of the 608 mortgage loan commitment acceptable to Lender and said mortgage shall be filed for record, all as and when required by Lender. Borrower shall execute and deliver such other instruments and furnish mortgage title insurance for the 608 mortgage loan as Lender requires and in conformity with the Rules and Regulations of the FHA. Upon the conditions of this loan agreement having been complied with Lender agrees to make the 608 insured mortgage loan to Borrower; provided, that such mortgage loan may be consummated by the Commitment Mortgagee assignee. It is understood that the 608 loan shall be consummated promptly upon the completion of the Project and the proceeds thereof applied to the payment of the mortgage loan of Lender herein provided for.

4. DEVELOPMENT AND CONSTRUCTION—TIME OF COMPLETION.

(a) No work or labor shall be performed upon the Project or any material placed on the land therefor prior to the issuance of the FHA commitment for the insurance of the 608 mortgage loan on the completed Project or prior to the recording of the mortgage for the loan herein provided for and the consent of Lender to the commencement of work and furnishing of materials. Borrower and Contractor shall furnish evidence to Lender's satisfaction that the provisions of this paragraph have not been violated prior to Lender's consent.

(b) Upon compliance with the conditions preliminary to the advancement of loan funds and commencement of work, Borrower agrees to forthwith commence and to continuously and vigorously expedite to completion within the period required under the FHA commitment for obtaining insurance of the 608 loan, the development and construction of the rental housing project in accordance with drawings and specifications designated Section 5, Shirley-Duke Apartments Rental Housing Project 000-42172 Drawings numbered _____ dated the ____ day of _____, 19____, including the "general conditions of the contract and supplemental general conditions," and identified by the following parties or their duly authorized agents, Federal Housing Commissioner (608 mortgage insurer), owner (Borrower), mortgagee herein (Lender), Architect Albert D. Lueders. A master set of said drawings and specifications is to be deposited with and held by the Federal Housing Administration and when so filed shall govern on all the matters that may arise with respect thereto. Provided that the time for completion will be extended if required on account of delay for cause beyond the control of Borrower to a maximum period for completion not to exceed two years from date of this agreement, subject, however, to the consent of the Commissioner under the commitment to insure and the Commitment Mortgagee. It shall be optional with Lender to grant further extension upon such conditions as it may fix. In addition to the improvements

described in the said plans and specifications there shall be installed and completed such incineration facilities as Lender may require and the Federal Housing Commissioner may approve.

(c) All requests for changes in the drawings and specifications must be in writing, signed by the Lender and the Borrower, and by the Commitment Mortgagee and Contractor if required by Lender, and shall be conditioned upon the approval of the Commissioner, which approval may be subject to such conditions and qualifications as the Commissioner in his discretion may prescribe, it being understood that the Commissioner at all times has the right to require compliance with the original drawings and specifications. All fixtures and chattels used in any construction and installed for use therein shall constitute and become a part of the realty and be paid for in full, and not purchased under lease, chattel mortgage, or conditional sales contract. Borrower agrees to furnish Lender upon request therefor the names of contractors, subcontractors, and materialmen at any time having any contract or performing any work or furnishing any material in connection with the development and construction and shall also furnish Lender upon request copies of construction and development contracts between Borrower and Contractor and between Contractor and its subcontractors.

(d) Borrower agrees: That the Project shall be constructed strictly in accordance with all applicable ordinances and statutes and in accordance with the requirements of all regulatory authorities having jurisdiction and in conformity with the requirements of the Board of Fire Underwriters or similar bodies; that the Project shall be constructed entirely on the mortgaged land and will not encroach upon or overhang any easement or right-of-way nor upon the land of others, and that the buildings when erected shall be wholly within the building restriction line however established and will not violate applicable use or other restrictions contained in prior conveyances, zoning ordinances or regulations; that it will furnish from time to time satisfactory evidence with respect thereto, together with a survey identified by a registered surveyor or engineer if required by the Lender or the Commissioner showing the Project to be entirely on said land and free from violation of the foregoing requirements; that it will save Lender harmless from any mechanics or materialmen's liens against the Project and promptly will procure the discharge of any such lien or liens which may be filed for any reason; that it will complete the Project as herein contemplated and in accordance with the provisions of this agreement.

5. DISBURSEMENT OF LOAN FUNDS BY LENDER.

(a) Nothing herein contained, or in the note and mortgage contained, shall be deemed to obligate the Lender to loan or advance for costs of construction and other charges herein contemplated which in the aggregate will exceed an amount in excess of the mortgage loan amount above stated. Lender reserves the right, irrespective of the provisions of the note and mortgage, to withhold an advance or discontinue the making of advances at any time during the failure of Borrower to comply with this agreement, and the mortgage shall be and remain valid and binding as security for the aggregate amount advanced at any time with interest thereon, whether the full amount of the loan is advanced or not.

(b) Borrower shall cause to be set up and maintained construction costs and accounting records for the development to the extent and in a manner acceptable to the Accounting Department of Lender. The following records shall be maintained when and if required by Lender:

Purchase Orders: Purchase Orders shall be used for the procurement of all materials, services and sub-contracts. They shall be numbered consecutively and shall carry the exact description of the material purchased, the vendor's name and address, and the allotment symbol corresponding to that item of the cost breakdown for which the material is purchased. Each Purchase Order shall be signed by a duly authorized representative of the Contractor and countersigned by Borrower.

Receiving and Inspection Reports: All materials delivered to and received on the job, shall be evidenced by a Receiving and Inspection Report signed by a receiving clerk as approved by Borrower. All delivery slips from the vendor must show the Purchase Order number, and the Receiving and Inspection Report will also show the Purchase Order number. The Receiving and Inspection Report shall be delivered to the representative of the Lender who shall satisfy himself that such materials as shown on the Receiving and Inspection Report have been actually received and retained on the job.

Invoices: All vendors shall render invoices in triplicate for all materials shipped, services rendered, and contracts and subcontracts completed as ordered

on Purchase Orders. The invoices shall carry the vendor's name and address, a clear description of the material corresponding to the order covering the material, and shall also carry the Purchase Order number. All such invoices shall be checked against the corresponding Receiving and Inspection Report and so identified.

(c) Lender may, at its option, require as a condition precedent to the making of a construction or improvement disbursement any or all of the following: (1) satisfactory survey showing the location of construction with relation to property and building lines; (2) partial or full compliance with building plans and specifications as they apply to the stage of completed construction at the time of disbursement; (3) partial or full compliance with all requirements and conditions made at any time by the Federal Housing Commissioner for the insuring of the 608 mortgage loan on completion; (4) Compliance Report by the Federal Housing Commissioner without exception as to stage of construction; (5) satisfactory showing by affidavits, lien waivers, receipts or other evidence as required of the payment of all bills for labor performed and materials furnished for the Project to the commencement of the period for which the application for disbursement of loan funds is made and inclusive of the period covered by the last advance; (6) evidence of completion cost establishing to the satisfaction of Lender that the undisbursed or available loan moneys for construction purposes are sufficient to complete the construction as approved, free and clear of all liens and encumbrances. Borrower may deposit with Lender or advance such additional moneys, which, together with such undisbursed loan moneys, will complete the construction, in which event this condition for advance will be deemed satisfied. In the event Lender shall determine at any time or from time to time that the undisbursed loan proceeds are insufficient to fully complete and pay for all improvements constructed and to be constructed and to permit the payment of any other disbursements required or authorized by this agreement, Lender may make written demand upon Borrower to deposit with Lender such amount as Lender may estimate to be required for such purposes and within ten (10) days after such demand Borrower shall deposit with Lender the amount of any such estimate. All moneys so deposited shall be disbursed by the Lender in the same manner and for the same purpose as provided for the disbursement of the loan proceeds. Any failure of Borrower to make such deposits strictly within the time provided shall be a breach or default under the terms of this agreement and of the security instruments.

(d) *In addition to construction advances* to be made on request as hereafter provided, Lender will advance to Borrower from the loan funds subject to this agreement being in good standing at the time of the advance the following amounts and charges:

(1) Subject to mortgage loan funds being available and in an amount sufficient therefor, the following items: (a) FHA fees; (b) legal, title and recording expenses; (c) interest during construction on the mortgage indebtedness; (d) taxes upon the real estate during construction; (e) hazard insurance during construction; (f) Lender's compensatory charge; (g) inspection fees; (h) architect and engineer's fees; (i) FHA mortgage insurance premium; (j) other miscellaneous and incidental costs, and charges required to be paid in connection with the loans herein provided as may be approved by Lender.

(2) Upon all conditions precedent to the making of a loan advance having been complied with, an amount then to be approved by Lender, to be applied by Lender to the payment (a) of Lender's compensatory charge; (b) to the repayment to Lender of cost and expenses heretofore incurred and advanced in connection with and preliminary to the undertaking of the Project and making the loan, and to the payment of such remaining costs and expenses unpaid or incurred as are approved for payment by Lender:

(3) When the Project has been completed, the 608 mortgage loan is ready for closing and the Project and 608 mortgages have been approved for insurance under the FHA commitment, the undisbursed balance of the mortgage loan funds provided for in Section "1" shall be paid over to Borrower or as it may authorize. Provided, however, that the Project shall not be consumed complete for purposes of final payment unless and until, (a) the work requiring inspection by municipal or other governmental authorities having jurisdiction has been inspected and approved by such authorities and by the applicable Board of Fire Underwriters, if any, and all requisite certificates of occupancy and other approvals have been duly issued; and provided further, that the Lender may withhold approval of final payment until after the expiration of any period which laborers, sub-

contractors and materialmen may have for filing notice of mechanics' liens, and until after satisfactory completion of all off-site utilities and streets as required by Lender and Federal Housing Commissioner; (b) all obligations contracted in connection with the mortgage transaction, the purchase of the mortgaged property or the construction of the improvements have been paid except non-payment approved by Lender and FHA; (c) reserve for replacements as required by FHA has been provided for; (d) guarantee and bond or indemnity agreements required under paragraph "13" of the commitment and as designated and approved by Lender has been furnished; (e) certificates as required under paragraph "12" of this agreement duly furnished. Said project shall not be deemed to be complete until Borrowers shall have constructed and surfaced or there shall have been constructed and surfaced and dedicated to public use a public street or highway having and furnishing access to and agrees from said premises and connecting the present existing public street or highway in Fairfax County known as Seminary Road at some point northerly of the most northerly point of said premises.

(e) Disbursements for construction costs:

(1) Loan advances for construction costs shall be made to Borrower (or on its order, direct to any contractor) at such periodic intervals as Lender shall approve, it being contemplated that unpaid obligations of Borrower and Contractor for labor performed and materials furnished in the development of the Project will not be permitted to accumulate but will be fully and promptly satisfied at customary and regular intervals. Borrower shall present to Lender at its Mortgage Loan Office in the City of Washington, D. C., or as Lender shall direct, a "Request for Loan Funds" setting forth, in form approved by Lender, a detailed statement of all obligations incurred by Borrower, including contractor receiving payment, upon the Project during the period subsequent to the period covered by the Request for Loan Funds last made, and also including therein a full statement as to any unpaid obligations incurred during any preceding period. Such statements shall be prepared so as to show labor performed, and materials furnished, and shall be broken down in a manner readily comparable with the payment breakdown for the construction and stage of completion. All materials shall be itemized and invoices for material included in such request shall be listed showing the Purchase Order number, the vendor and the amount to be paid therefor. The request shall be signed by a representative of Borrower and contractor receiving payment and shall be verified or certified and accompanied by invoices and such certificates, affidavits, and waivers of lien as Lender may require. Request for payment shall be filed at least three (3) days before the date upon which an advance is desired. Borrower shall furnish the title company with such lien waivers, receipts, or other evidences as it may require for the inclusion of the advance under its mortgagee's title insurance policy. (It is understood that lien waivers shall not be required for loan funds disbursed on the current request, but prior to the making of loan disbursements pursuant to any subsequent request waivers must be furnished, if requested, for all items on account of which a disbursement was made on the previous loan request).

(2) Attached hereto marked Exhibit "A" is a payment breakdown for each unit of construction with estimated cost amounts assigned to the several construction items for which advances and construction moneys are to be expended: said payment breakdown shall constitute a guide in the determination and the allocation and disbursement of loan funds available for construction costs. Advances on account of material and equipment which are not required for immediate installation in the construction shall be limited to an amount and to material and equipment as Lender may approve, and all such material and equipment shall be stored and maintained as Lender may require. The stage of any development and construction, and the materials on hand, for which advances are requested, shall at all times equal or exceed the advance available therefor on the basis of the payment breakdown, as determined by Lender's construction engineer or such other examiner as approved by Lender. The work and construction included for payment in any request shall have been acceptably completed, to be evidenced by such certificate and inspection as Lender may require from time to time.

(3) Lender may at its option make disbursements prior to, or without requiring, compliance with all the conditions of this agreement, and a disbursement so made shall not constitute approval of noncompliance as to any condition or requirement, or a waiver of the right to require compliance, or exercise any right or privilege by reason of such noncompliance unless such noncompliance

is specifically waived by Lender in writing. Lender shall use its best efforts to pass upon the request for payment and make payment on the date payment is desired, but failure so to do shall not subject Lender to any liability or prejudice. Borrower shall be entitled to payment only in the amount approved by Lender with respect to each request for loan funds. Loan funds delivered to or disbursed for Borrower shall be deemed advanced by Lender as of the date of check or draft therefor. Upon default of Borrower in any of its obligations, or by any contractor in the performance of such obligations, advances from the loan may be paid directly by Lender to any subcontractor, materialman or laborer for the account of Borrower, but Lender shall not be obligated so to do.

6. **CONTRACTORS—SUPERINTENDENTS—INSPECTORS.** It is understood that Borrower will enter into various contracts for materials and the construction of the development or contract with general contractors as it may elect. All such contracts shall be made with responsible suppliers and contractors and on terms that will meet the requirements of this agreement. Borrower shall furnish Lender with full information regarding any contract to be made prior to the consummation thereof, and it shall be optional with Lender to disapprove the contractor or, without obligation to do so, the contract as not being in conformity herewith, in which event Borrower shall not consummate said contract unless the objection of Lender is eliminated in a manner satisfactory to Lender.

The general superintendent employed by Borrower shall at all times be acceptable to Lender. Lender shall be represented on the Project by its own construction superintendent, inspector, engineer, and other representatives as required and designated by Lender who will inspect construction, materials purchased and furnished to the Project and generally will assist Lender in determining whether the conditions for the disbursement of loan funds have been complied with. The salary and cost for the maintenance of such representatives of Lender shall constitute a cost of the development and shall be paid by Borrower through the application of loan funds therefor. Said salary and cost to be borne by Borrower is hereby settled and agreed to be \$100.00 per building unit (as building unit is defined and adjusted as provided in Section one hereof).

7. **INSPECTION—RECORDS.** Lender and Federal Housing Commissioner by their representatives shall have the option at any time to inspect the progress of construction and for this purpose shall have the right of entry and free access to the property at all times with the right to inspect all work done, labor performed or being performed and materials furnished to and for the Project. Borrower and its contractors shall keep accurate and complete book accounts and records pertaining to the Project in a manner acceptable to Lender's Accounting Department. Lender shall have the privilege to inspect and examine from time to time as it may request all books and records of Borrower and of contractors relating to the construction and development, and Borrower and contractors shall at Lender's request furnish such information as Lender may demand.

8. **HAZARD INSURANCE.** Borrower shall furnish to Lender hazard insurance on the buildings, construction and construction material, chattels and equipment supplied for inclusion in the construction and placed upon the premises during construction, against loss by such hazards, casualties and contingencies (including theft and vandalism) and for such amounts, as required from time to time by Lender. All such insurance shall be written without contribution in companies and in form, with loss-payable provisions, as approved by Lender. The policies therefor, together with receipted premium statements, shall be deposited with Lender and the policies of insurance shall cover the entire period of construction. Borrower agrees to provide or cause to be provided workmen's compensation insurance and public liability and other insurance required by applicable action by the general conditions contained in the specifications. And Borrower shall furnish Workmen's Compensation, Public Liability, Property Damage and Contingent Liability policies in such forms and in such amounts and with such loss-payable provisions as Lender may require from time to time. Such policies and renewals and all other policies issued and hereafter to be issued pursuant to the provisions of this Agreement shall be written in companies approved by Lender and it shall be optional with Lender to select the company or companies and the agency or agencies in and through which the insurance shall be written including any renewals and to refuse acceptance of any policy offered, and to surrender and to cause to be cancelled any policy which may be received or accepted, and to place the insurance or cause the policy to be written, all at the cost, charge and expenses of the Borrower; but in no

event shall the Lender be responsible for failure to pay for any insurance written or for any loss or damage growing out of a defect in any policy or growing out of any failure of any insurance company to pay for any loss or damage insured against.

9. OPTION OF LENDER TO TAKE OVER. In the event of abandonment, or cessation of work for more than fifteen days in the aggregate, or failure of Borrower or Contractor, unless promptly corrected, to carry on to completion the development and construction of the Project strictly in accordance with the approved drawings and specifications, or if Borrower or Contractor fails to comply with the terms hereof or if it appears to Lender that the work of improvement remaining to be completed is of such nature or extent that it cannot or will not be completed within the required time, or that completion within such time cannot or will not be made without excessive overtime or extraordinary costs not provided for in the cost and payment breakdown above Lender may at any time thereafter, at its option, without prejudice or limitation of any other right and with or without any declaration of default, enter into possession of the premises and perform any and all work and labor necessary to complete the improvements substantially according to the drawings and specifications and employ watchmen to protect the premises from injury; all sums expended therefor by Lender shall be deemed paid to Borrower and secured by the mortgage and other security instruments. For the purposes aforesaid, Borrower hereby constitutes and appoints Lender its true and lawful attorney-in-fact with full power of substitution in the premises, to complete the Project in the name of the Borrower, and, hereby empowers said attorney or attorneys as follows: To use any funds of Borrower, including any balance which may be held in escrow and any funds which may remain unadvanced on the mortgage loan for the purpose of completing the Project in accordance with the plans and specifications; to make such additions and changes and corrections in the drawings and specifications which shall be necessary or appear desirable to Lender, to complete the Project in substantially the manner contemplated by the drawings and specifications and this agreement, to employ such contractors, sub-contractors and agents, architects and inspectors as shall be required for said purposes, to pay, contest or compromise all existing bills and claims which may be liens against the Project, or as may be necessary or desirable for the completion of the development and construction, or for the clearance of title; to execute all applications and certificates in the name of Borrower which may be required by any of the contract documents and to do any and every act which Borrower might do in its own behalf. It is further understood and agreed that this power of attorney shall be deemed to be a power coupled with an interest and cannot be revoked. The above mentioned attorney shall also have power to prosecute and defend all actions or proceedings in connection with the construction of the Project or mortgaged premises and to take such action and require such performance under any surety bond or to execute in the name of Borrower any further surety bonds as may be reasonably required in connection with the construction work.

(a) It shall be optional with Lender to do any or all of the foregoing in its own name and to advance its own funds for completion of the Project in excess of the undisbursed maximum loan amount. Any indebtedness incurred therefor and in connection therewith whether in the name of Borrower or in the name of Lender, Borrower hereby expressly covenants and agrees to repay to Lender on demand, with interest from the date of advancement at the same rate as borne by the principal indebtedness. All such moneys so paid or advanced by Lender in excess of the amount advanced on the loan shall be added to the mortgage indebtedness and payment thereof shall be secured by the security given for said principal indebtedness. Nothing done by Lender pursuant to the power and authority vested in it by this paragraph shall be deemed to relieve Borrower from the performance of any covenants or agreements or to excuse or relieve it from any breach of any such covenants or agreements.

10. IN THE EVENT OF ANY DEFAULT OR FAILURE TO COMPLY WITH THE PROVISIONS OF THIS AGREEMENT or in the event Borrower shall be adjudicated a bankrupt or a petition in bankruptcy or for reorganization, compromise or for relief under any of the provisions of the Bankruptcy Act of the United States, or petition of insolvency be filed, by or against Borrower or if Borrower shall make a general assignment for the benefit of its creditors, any such default or acts shall be deemed to constitute a default under the terms of the security instrument, and the entire loan shall thereupon become due and payable at the election of

Lender with full power to exercise any and all rights and powers granted it as in any other default under the terms of its security instrument.

(a) In the event of any default under the provisions of this agreement or the mortgage Lender may, and without prejudice to any other right: (1) apply any balance of the undisbursed loan proceeds to the reduction of the loan, or (2) at Lender's sole option pay for and on account of the Borrower all or any part of such balance to any person or persons who shall have furnished labor or material or both in the construction of said improvements and who have not been paid therefor in full, and any such payment shall be deemed a payment by Lender to Borrower. If any balance of undisbursed proceeds shall remain Lender may apply such balance upon the loan as provided in "(1)" above. All rights and options afforded Lender under the provisions of this agreement in the event of default shall be deemed cumulative and not in limitation of any other right.

11. COSTS AND EXPENSES—INITIAL SERVICE CHARGE:

(a) The costs of closing loan including, but not limited to, escrow fees, if any, title examination and title policy expense, legal expense and fees, surveys, insurance premiums, recording charges, FHA charges and all other costs, charges and expenses incident to the performance of all of the terms and conditions of this agreement on the part of Borrower to be performed and the expenses preliminary or incident to the construction of the Project, the execution of this agreement and the making of this loan, or the GOS loan, including, but not limited to, Borrower's incorporation expense, legal services in connection therewith, and other general expenses of Lender shall be paid by Borrower. Lender shall have the right and option to pay any such sums from the loan funds and to advance any part thereof before the conditions of this agreement precedent to a loan advance have been complied with. Any such payment by Lender shall be deemed a disbursement of the loan to the extent thereof and any payment made prior to the conditions for loan advances having been complied with may be retained by Lender from the first or subsequent loan advances.

"The other general expenses of Lender" to date which are not included in Lender's compensatory charge referred to in Section 11 (b) are hereby settled and agreed to to be none.

(b) Borrower agrees to pay to Lender an amount herein sometimes referred to as "Lender's compensatory charge" for this loan in the amount of six and one-half per centum (6½%) of the original principal amount of the loan which shall be payable forthwith upon the recordation of the mortgage. Said charge shall be in addition to the other charges to be paid by Borrower and shall be additional consideration for the loan and to compensate Lender for its standby during the period of preparation and negotiation by Borrower, Lender's extraordinary costs of project analysis and other direct and indirect costs of Lender not otherwise provided for.

A part of said charge in an amount equal to 5% of the principal of the loan shall liquidate, and payment thereof shall discharge, Borrower's present obligation to pay to Lender for services rendered by Lender and its representatives to Borrower to the date of this Agreement. Said services, rendered at the instance and request and for the benefit of Borrower, were services performed in addition to and distinct from any service or obligation of a mortgagee or prospective mortgagee to a mortgagor or prospective mortgagor, and included preliminary estimates, calculations and engineering work; arranging for Borrower to procure plans and specifications for the project at a minimum of cost and at substantial saving to Borrower; negotiating for and aiding Borrower in negotiating subcontracts and bids for materials and equipment in conjunction with other projects of other owners at costs and prices advantageous to Borrower and in such manner as to minimize Borrower's architectural services, supervision, builders fees and other direct and indirect costs of construction.

Lender shall have no obligation to furnish Borrower any further or additional services of the nature described in this paragraph.

Balance of said Lender's compensatory charge in the amount of 1½% of the principal amount of the loan will constitute Lender's initial service charge for the closing of the transaction.

12. WAGE CERTIFICATES. The Borrower (1) understands that the wages to be paid laborers and mechanics employed in the construction of the Project are required by the provisions of Section 212 (a) of the National Housing Act, as

amended, to be not less than the wages prevailing in the locality in which the work was performed for corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor with respect to this Project.

Borrower agrees as a condition precedent to the advance to it of any money hereunder to submit to Lender, if required by Lender, (1) with each application for advance prior to the final application, a certificate or certificates in form approved by the Federal Housing Commissioner, certifying that all laborers and mechanics employed in the construction of the Project have been paid at a rate not less than the rate of wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed in construction of a similar character, as determined by the Secretary of Labor with respect to this Project, and (2) with the final application for advance, a certificate or certificates in form satisfactory to the Federal Housing Commissioner, certifying that the Project has been constructed in accordance with the provisions of this agreement and that all laborers and mechanics employed in the construction of the completed Project have been paid not less than the wages prevailing in the locality in which the work was performed for the corresponding classes of laborers and mechanics employed on construction of a similar character, as determined by the Secretary of Labor with respect to this Project. Borrower agrees to make and cause to be made such other certificate or certificates in accordance with the foregoing if required at the time of the insuring of the 608 mortgage loan. Certificates to be furnished pursuant to this section shall be given by Borrower and by contractors as Lender shall require.

13. As a material consideration for this agreement Borrower shall appoint Lender as agent for Borrower to manage the entire premises and to attend to the rental and collection of rental therefrom for the account of Borrower for the period of six years, beginning upon a date of first occupancy of any building upon the Project. Such appointment shall be in the form of a written management agreement containing provisions to be approved by Lender and providing for compensation to Lender equal to four per centum (4%) of the gross rentals. Said agreement may provide that the net proceeds of rentals shall be available to Lender to apply upon any obligation of the Borrower to Lender until such time as the permanent mortgage loan shall have been executed and insured by the Federal Housing Commissioner.

14. Notwithstanding any other provisions of this agreement Lender reserves the right to withhold the advance of any sum or sums in excess of \$63,000.00 per building unit (determined and adjusted in accordance with the provisions of Section "1" of this agreement) until such time as FHA mortgage insurance shall become effective as to the permanent mortgage. Until such time as such mortgage insurance shall become effective Borrower shall not be or become entitled to receive and without the express written consent of Lender will not receive or use any of the loan proceeds for the purpose of directly or indirectly paying any dividends, retiring or purchasing any of its shares or the shares of any other corporation, making any loans, paying any compensation to itself or any of its officers, directors or shareholders, or the officers, directors, or shareholders of any corporation named in Section "2 (d)" of this agreement except that Borrower may pay to Herman W. Hutman for services rendered and to be rendered in the improvement of said premises, such amount as it may determine to be proper not exceeding an aggregate of \$13,336.00, and not exceeding \$835.00 in any one month.

15. In the event that the commitment of Federal Housing Commissioner to insure the permanent loan under the provisions of Section 608 of the National Housing Act shall not be received by Lender on or before June 30, 1949 in an amount equal to or exceeding \$70,600.00 per building unit (determined and adjusted in accordance with the provisions of Section "1" of this agreement) Lender, at its option, may terminate this agreement and Lender's obligation hereunder by notice to Borrower. Thereupon Borrower shall repay to Lender forthwith all sums advanced by Lender with interest thereon at six per centum per annum from the date of advance, together with the costs and expenses incurred by Lender in connection with this agreement.

The rights and interest of the Borrower under this loan agreement are not subject to assignment without consent of Lender. This agreement is subject

to change or modification as the parties hereto may subsequently agree in writing. It is intended that this loan agreement is made with reference to and shall be construed as a Virginia contract and governed by the laws of Virginia. Nothing herein contained shall be deemed to establish any trust fund for the benefit of any person or persons not a party to this agreement, nor to impose any liability upon Lender to pay or be chargeable with any claims for labor or material.

In witness whereof, Borrower and Lender have caused this agreement to be executed by their respective duly authorized officers.

BORROWER: SHIRLEY-DUKE APARTMENTS, SECTION V, Inc.,

By HERMAN W. HUTMAN, *President,*

E. J. PRESTON, *Secretary.*

Attest:

LENDER: INVESTORS DIVERSIFIED SERVICES, Inc.,

By _____, *Vice President,*

_____, *Assistant Secretary.*

Attest:

STATE OF VIRGINIA,

County of _____, ss:

I, _____, a Notary Public in and for the State and County aforesaid, do certify that Herman W. Hutman whose name as President of Shirley-Duke Apartments, Section V, Inc., a corporation, is signed to the writing above, bearing date on the 15th day of June, 1949 has acknowledged the same before me in my County aforesaid.

Given under my hand this _____ day of June 1949.

_____, *Notary Public.*

My commission expires on the _____ day of _____, 19_____.

STATE OF MINNESOTA,

County of Hennepin, ss:

I, _____, a Notary Public in and for the State and County aforesaid, do certify that _____ whose name as Vice President of Investors Diversified Services, Inc., a corporation, is signed to the writing above, bearing date on the _____ day of June 1949, has acknowledged the same before me in my County aforesaid.

Given under my hand this _____ day of June 1949.

_____, *Notary Public.*

My commission expires on the _____ day of _____, 19_____.

Shirley-Duke Apartments, sec. V—Schedule A

Item	Flat roof building	Pitch roof building
Land	\$890	\$890
Abstract and title policy	153	153
Recording land and mortgage	107	107
Land taxes	8	8
Clear site	90	90
Grading (cut and fill)	509	509
Building excavation	371	371
Curb and gutter	267	267
Roads and parking	891	891
Public sidewalks	173	173
Private sidewalks	157	157
Sanitary sewer	420	420
Storm sewer	291	291
Concrete slabs	1,850	1,850
Concrete footings	350	350
Brickwork	7,950	8,025
Gravel and drain tile	390	390
Structural steel and erection	2,730	2,914
Reinforcing steel and lintels	561	561
Steel sash, glaze, screen and erect	1,400	1,400
Millwork	1,010	1,070
Lumber	548	698
Clothes and linen closets	1,500	1,500
Rough carpentry labor	460	500
Finish carpentry labor	945	989
Rough hardware	65	75
Finish hardware	320	320
Roofing and sheetmetal	650	691
Plaster	6,300	6,300
Paint	1,640	1,640
Plumbing and heating	9,801	9,801
Electrical wire and fixtures	1,500	1,500
Tile	1,232	1,232
Steel stairs erected	460	460
Steel doors and bucks	860	860
Waterproofing	127	127
Floor covering	1,100	1,100
Insulation	205	205
Caulking	93	93
Shades	320	320
Weatherstrip	16	16
Landscaping	554	554
Ranges	440	440
Refrigerators	1,618	1,618
Medicine cabinets and bath fixtures	107	107
Kitchen cabinets	1,188	1,188
Set kitchen cabinets	270	270
Washing machines	185	185
Clothes dryer	185	185
Small tools and equipment	40	40
Cleaning	175	175
Hauling	85	85
Handling	90	90
Blueprinting	15	15
Temporary roads	130	130
Temporary buildings	75	75
Superintendent, engineer, watchman, accountant, etc.	464	464
Entrances	31	31
Engineering	140	140
FHA fee	580	580
Legal fee	44	44
Power temporary	35	35
Temporary heat	75	75
Signs	25	25
Architect	330	330
Phone	25	25
Office equipment and miscellaneous supplies	50	50
Insurance	356	356
Permits	30	30
Temporary water	45	45
Entertaining	11	11
Interest on loan	2,080	2,080
Contingencies	500	500
Incinerator	195	195
Total	58,906	59,500

Mr. BUDWESKY. If he had any financial interest in the Cleveland projects, it is news to me. I never knew it before.

Mr. SIMON. Mr. Budwesky, turning now to paragraph 14—

The CHAIRMAN. Let me ask one more question.

You were the attorney, were you not, for this corporation?

Mr. BUDWESKY. Which corporation?

The CHAIRMAN. Shirley-Duke.

Mr. BUDWESKY. Yes, sir.

The CHAIRMAN. Did you draw this contract?

Mr. BUDWESKY. I participated in the drafting of it on behalf of my clients and—

The CHAIRMAN. If you participated in the drafting of it, you haven't the slightest idea of what is meant here by "other projects of other owners"? You haven't the slightest idea what that means?

Mr. BUDWESKY. Oh, certainly. If you want to get into that—

The CHAIRMAN. Just tell us frankly who the other or what the other projects were and who the other owners were.

Mr. BUDWESKY. Well, the only explanation I can make about that is that there were other—there was another project in Cleveland contemplated at the same time in which the proposed builders and Investors were getting bids for various classes of work; and I think what was meant that by Shirley-Duke and the Cleveland project joining their—

The CHAIRMAN. In other words, your best understanding is that the words "other projects of other owners" means the Cleveland projects that Investors and Mr. Loftus were interested in; is that right?

Mr. BUDWESKY. I can conceive of it referring to nothing else. I don't know of anything else.

The CHAIRMAN. We want just the facts.

Mr. BUDWESKY. So far as I know, that is all that could possibly be referred to.

The CHAIRMAN. In other words, as the attorney for Shirley-Duke who drew this contract that is your best judgment?

Mr. BUDWESKY. Well, let me say this to you: The Investors Diversified Services were represented by Mr. Daniel E. Farr, who was their lawyer.

The CHAIRMAN. Daniel what?

Mr. BUDWESKY. Daniel E. Farr. He is now presently engaged in the practice of law in Los Angeles.

The CHAIRMAN. I see.

Mr. BUDWESKY. I say I participated in this contract. I did to the extent of trying to hold down the burdens that the mortgagee was placing upon the Shirley-Duke corporations as much as I could; insofar as to naming the conditions and terms and what these boys would have to live up to, they were dictated by the mortgagee.

Mr. SIMON. Mr. Budwesky, turning to paragraph 14 of the contract, does it provide for the salary of Mr. Gordon of not to exceed \$835 a month?

Mr. BUDWESKY. It did.

Mr. SIMON. I take it there were two such contracts as to Mr. Gordon?

Mr. BUDWESKY. That is right.

Mr. SIMON. So that would be \$1,670 a month as to Mr. Gordon?

Mr. BUDWESKY. That is right.

Mr. SIMON. There were two such contracts as to Mr. Hutman?

Mr. BUDWESKY. That is right.

Mr. SIMON. And there were two such contracts as to Mr. Preston?

Mr. BUDWESKY. That is right.

Mr. SIMON. When was construction of this building started? I don't mean the exact date, but as near as you can give it.

Mr. BUDWESKY. I should say some time in July of 1949.

Mr. SIMON. And when was it completed?

Mr. BUDWESKY. Well, that is one of the things that made Shirley-Duke what it was. It was a very efficiently run job, and we were renting apartments 9 or 10 months after we started construction.

Mr. SIMON. It was finally completed in August of 1950; is that right?

Mr. BUDWESKY. I should say not later than that.

Mr. SIMON. Now, by the end of 1950, by December 31, 1950, what dividend had been paid on this \$6,000 of stock?

Mr. BUDWESKY. Well, you may call them dividends and perhaps—

Mr. SIMON. Well, what distribution was made to the people who owned the \$6,000 of stock?

Mr. BUDWESKY. After the project was terminated, and the final draws were paid over to the corporations on the mortgage loans that they had executed—

Mr. SIMON. By that you mean after Investors had been reimbursed out of the mortgage for everything they advanced?

Mr. BUDWESKY. I am not in a position to tell you when Investors was reimbursed. The only manner in which Investors could be reimbursed would be by the payment of the amounts due by the mortgagor or in the event they sold their mortgage. Now, what really happened, I think to get the thing straight in your mind, is that they had a conventional mortgage on there originally, and when the project was entirely completed, and FHA had completed its inspection and was ready to insure the mortgages in conformance with its original commitments, new FHA mortgages were drawn and the original conventional mortgage was canceled, and then Investors paid over to these corporations the balance of the money that had not been advanced to the corporations out of the amount of the loan up to that time.

It was at that time it developed that by reason of saving a very substantial amount in interest during construction, because these projects normally ran anywhere from 18 months to 2 years to build, and interest here was running almost \$2,000 a day, we saved a lot of money there. We paid the architect some \$63,000 instead of \$650,000 which would have been certainly a most foolish thing to do to pay a man \$650,000 to design one building.

Mr. SIMON. We intend to get into the application, but at the moment I was trying to get the distribution prior to December 31, 1950, and I have been furnished by the companies material which shows that prior to December 31, 1950, there was distribution made to these owners of the \$6,000 of stock, \$1,964,197.20. Is that correct?

Mr. BUDWESKY. I should say that would be correct, sir.

Mr. SIMON. And I have information also furnished me by the companies that in 1951, and following December 31, 1950, they received by way of distribution from the corporations an additional \$260,626.54. Is that correct?

Mr. BUDWESKY. I have no reason to question it.

Mr. PAUL. Mr. Chairman?

Mr. SIMON. If my mathematics is correct, that means that the total distribution to the stockholders who invested \$6,000 in this corporation has been \$2,224,823.54; is that correct?

Mr. BUDWESKY. Yes, sir. Now then may I—

Mr. SIMON. May I finish?

Mr. BUDWESKY. All right, go ahead.

Mr. SIMON. In addition to that in the cost of construction, as shown by the books of these corporations, there is included as a cost of construction \$899,990, made to Investors as a compensatory fee; is that correct?

Mr. BUDWESKY. I believe that is correct, sir.

Mr. SIMON. And, in addition, there is included in the cost, 6 percent on the money which from time to time was outstanding and owing to Investors; is that right?

Mr. BUDWESKY. I think that is correct, sir.

Mr. SIMON. In addition, do you know that Investors received a premium on these mortgages of \$173,075?

Mr. BUDWESKY. I have understood that they sold their mortgages after they were insured by FHA to a New York mortgagee at a premium. I don't know what it was.

Mr. SIMON. We have been advised by Investors that the premium was \$173,075.

In addition, do you know that Investors was given a 6-year management contract on this building, which after 4 months was canceled and they provided for the remainder of the 6 years they would get 11½ percent of the rents?

Mr. BUDWESKY. I know that one of the conditions they imposed, in conjunction with this transaction, the owners would give them a management contract for a period of 6 years, and I also know that after that, the boys felt that they probably could do a better job themselves, and they bought out the contract.

The CHAIRMAN. You say they insisted upon this, Investors?

Mr. BUDWESKY. Sure. They set up all the terms of this agreement. We wouldn't have given them a rental contract if we didn't have to.

Mr. SIMON. And after 4 months they stopped doing the management and were to get 11½ percent for the remainder of the 6 years without doing any additional work, is that correct?

Mr. BUDWESKY. I think that is correct.

The CHAIRMAN. What was the 11½ percent for if they were going to do no work?

Mr. BUDWESKY. Well, they had a contract that had quite a number of years to run yet at a much higher rate, and they felt that they had a contract out of which they could operate the project at a profit, and they weren't willing to give up the contract without some consideration moving to them.

Mr. SIMON. Do you know whether to this date they have received \$121,619 on that so-called management contract?

Mr. BUDWESKY. I assume they did. I don't know the figures, sir.

Mr. SIMON. If I may say for Mr. Paul's benefit that I have added these figures and Investors got \$1,194,684, not including 6 percent interest, and if that is added to the dividends that were made to

stockholders, the total is \$3,419,407, which is the figure I referred to when I said to Senator Robertson it was more than \$3 million.

Mr. PAUL. Mr. Chairman, I apologize to Mr. Simon for interrupting him and to you, but I understood him to say that there was \$3 million paid out of the mortgage money, and I have been advised that that is not true; that a lot of these payments were paid out of the operations.

The CHAIRMAN. Do you mean part of it has been as a result of a profit that you have made since you have been renting the apartments?

Mr. PAUL. Part of the operation.

Mr. BUDWESKY. I would like an opportunity to explain that. I wanted to a moment ago.

The CHAIRMAN. We are going to get into that a little later because you asked for a rent increase and received one, so why did you ask for a rent increase if you were making a profit?

Mr. PAUL. It wasn't a profit, sir. It was capital.

Mr. SIMON. Can we defer that until later? That is all part of the record.

Mr. BUDWESKY. I would like to amplify one portion of the testimony that has been developed here, largely by your making statements and getting me to say "yes" or "no," and that is that after the projects were completed, and we found the substantial sums of money available in each corporation, there was a considerable problem as to just how the corporations would handle, or what they were going to do about this money.

The CHAIRMAN. It never occurred to them to reduce it or pay off the mortgage, did it?

Mr. BUDWESKY. I think I can explain that, sir.

The CHAIRMAN. Wouldn't the proper thing to have been to have reduced the mortgage by that amount?

Mr. BUDWESKY. After I finish my statement, then you will see what you would have done under like circumstances.

The CHAIRMAN. I am sorry.

Mr. BUDWESKY. The mortgage had been executed and was in the hands of not Investors—it had been sold to somebody else. The terms of the mortgage were fixed. It was payable at a fixed amount per month. You couldn't prepay that mortgage without paying a penalty. You were not permitted to pay more than a certain amount on the principal in any one year.

The CHAIRMAN. Wait a minute. I want to get into that, because we are developing a new pattern here that is very, very interesting.

Mr. BUDWESKY. I think it is time we got to that part of it.

The CHAIRMAN. I want to ask a few questions about that because we want to be absolutely fair and we are going to get all of the facts.

You say the mortgage precluded you from making payments in advance?

Mr. BUDWESKY. In excess of a certain amount per year.

Mr. SIMON. Did you ever ask for permission to pay greater payments on the principal?

Mr. BUDWESKY. We have undertaken to —

The CHAIRMAN. Who owns this mortgage now?

Mr. BUDWESKY. This mortgage, the last I knew, was owned by Institutional Securities of New York.

The CHAIRMAN. Who was responsible for writing this mortgage

originally saying that you could not anticipate your payments and make them?

Mr. BUDWESKY. That is in the FHA regulations, sir. They permit the mortgagee to set up his prepayment penalty clause and they approve it, and the mortgagor has got to accept it.

Now, let me say something further to you, sir—

The CHAIRMAN. You mean FHA, the management of FHA have insisted and permitted these mortgages to be written on the basis that the borrower could not anticipate and pay the mortgage off before they came due?

Mr. BUDWESKY. Not unless you pay a penalty.

The CHAIRMAN. For example, how large was the penalty in your case?

Mr. BUDWESKY. Well, I think the penalty in this case is 1 percent to FHA and 3 or 4 percent to the mortgagee, which is a lot of money.

Mr. SIMON. Incidentally, on that I take it that all of these dividends we spoke of were treated by the stockholders as long-term capital gains?

Mr. BUDWESKY. They were treated by the stockholders as long-term capital gains after I got an advance ruling from the Internal Revenue Service that they could be and would be distributed on a long-term capital gain basis.

Mr. SIMON. May we put the opinion in the record?

Mr. BUDWESKY. Yes, sir.

The CHAIRMAN. Without objection, this document from the United States Treasury Department to the Shirley Duke Apartments will be made a part of the record.

(The information referred to follows:)

UNITED STATES TREASURY DEPARTMENT,
INTERNAL REVENUE SERVICE,
Washington, D. C., November 30, 1950.

SHIRLEY-DUKE APARTMENTS, SECTION III, INC.,

Alexandria, Va.

(Attention Mr. Carl Budwesky, secretary.)

GENTLEMEN: Reference is made to your letter dated October 18, 1950, requesting a ruling as to the status, for Federal income tax purposes, of a proposed distribution to your stockholders.

It is stated that the corporation was organized under the laws of the State of Virginia for the construction and operation of an apartment development. It began construction in June 1949, which was financed by a mortgage loan of \$1,840,000. There are issued and outstanding 100 shares of first preferred stock of a par value of \$1 per share and 200 shares of common stock of no par value issued on a basis of \$5 per share.

The project was constructed by the corporation through its employees, who supervised the operations and let contracts for the various types of work to numerous contractors. Four of the stockholders were employed in this connection, and the compensation paid to them is set forth in your letter.

The construction has been completed, all costs have been paid, and there is remaining \$100,000 of the proceeds of the mortgage loan which the board of directors has transferred to capital account. It is proposed to distribute this sum to the shareholders in proportion to their holdings of stock. All such shareholders have held their respective shares for more than 6 months.

Based upon the representations in your letter it is held that upon distribution the amount distributed shall be applied against and reduce the basis of the stock held by the receiving shareholder and shall be taxable to the recipient if, and to the extent that, the amount distributed exceeds such basis. The gain, if any, will constitute long-term capital gain in accordance with the provisions of section 117 (b) of the Internal Revenue Code.

Very truly yours,

E. D. McLARNEY, Deputy Commissioner.

Mr. SIMON. Referring to the application for mortgage insurance under section 608 of the Housing Act, and I have before me the application on section 1—do you have a copy?

Mr. BUDWESKY. Of the application?

Mr. SIMON. Yes.

Mr. BUDWESKY. I have never seen and the corporations have never had a copy of the applications.

Mr. SIMON. The document I have before me purports to bear the signature of B. Gordon, Jr., as sponsor of Shirley-Duke Apartments, Inc., Section 1.

Mr. BUDWESKY. That is right.

Mr. SIMON. Do you know whether Mr. Gordon did sign it?

Mr. BUDWESKY. May I see it?

Mr. SIMON. Yes.

Mr. BUDWESKY. I haven't had a chance to look at this for a long time.

This is dated in March 1949, and naturally when it refers to Shirley-Duke Apartments, Inc., Section 1, that refers merely to a contemplated corporation that FHA required you to have before you could get an insured loan.

Mr. SIMON. May I ask Mr. Gordon if that is his signature?

Mr. GORDON. It appears to be a copy of it.

Mr. BUDWESKY. It is a photostatic copy of the original of his signature; yes.

Mr. SIMON. You still say the corporations never saw the applications before they were filed?

Mr. BUDWESKY. I mean we don't have copies of them available. I don't mean to say that Mr. Gordon didn't see the application, no. But we don't have them in our files.

Mr. SIMON. Who prepared these applications?

Mr. BUDWESKY. Now I don't know. They were prepared in the offices of Investors Syndicate in the Tower Building at 14th and K. Now, I say that is a part of it that I don't know anything about. I didn't have anything to do with it and somebody else will have a much better answer.

Mr. SIMON. Do you know who furnished Investors Syndicate with the information to put in these applications?

Mr. BUDWESKY. Well, I imagine that information was finally assembled by consultation, negotiation by various people there on behalf of Investors Syndicate; there was Mr. Loftus participated, Mr. Ridgeway was in here from Minneapolis, Mr. Don Ryan was in here from Minneapolis, Mr. Daniel E. Farr was in here from Los Angeles—just who was responsible for each thing in the applications, I am not in position to say because I didn't write them, I didn't have anything to do with them. It is not part of the legal work.

Mr. SIMON. What you are saying is this entire group participated in assembling the information that went into the application?

Mr. BUDWESKY. I don't know. I will have to ask them.

Mr. SIMON. May I ask Mr. Bros: Was this document physically typed in the office of Investors Syndicate?

Mr. BROS. My memory says it was; yes.

Mr. SIMON. Did you supervise the typing of it?

Mr. BROS. My secretary and the other girls there typed it; yes, sir.

Mr. SIMON. Who gave them the information to put in the application?

Mr. BROS. Well, I believe there were applications written in longhand that they copied.

Mr. SIMON. By whom were they written in longhand?

Mr. BROS. I would have to see those longhand applications.

Mr. SIMON. Where are they?

Mr. BROS. I don't know, except possibly the files of investors.

Mr. SIMON. Mr. Crabb, could you make the longhand applications available to us?

Mr. McCARTIN. Yes, Mr. Simon. We have them here if you would like to see them at this time.

Mr. SIMON. I would be grateful for the application on section 1.

Mr. Budwesky, going back to the application, you will note it is dated March 8, 1949, or is it March 10? What is the date of that application?

Mr. BUDWESKY. The one I have here is——

Mr. SIMON. In the upper left-hand corner.

Mr. BUDWESKY. Section 1, March 10.

Mr. SIMON. And there is an FHA filing stamp indicating it was filed March 11, 1949; is that right?

Mr. BUDWESKY. "Received \$3,880, March 11, 1949."

Mr. SIMON. On March 11, 1949, who is the owner of the real estate on which the Shirley-Duke projects were built?

Mr. BUDWESKY. Allen Hills Corp.

Mr. SIMON. And who had a contract to buy the real estate?

Mr. BUDWESKY. There was a contract negotiated with Jay Charlie Lewis, which he had assigned to Investors Diversified Services.

Mr. SIMON. I call your attention to page 2 of the document, schedule A.

Mr. BUDWESKY. Before we go over on page 2, Senator Capehart indicated certain interest in some observation I made about penalties awhile ago when we were discussing and he asked me why we didn't pay it on the loan. May I complete that thought?

I wasn't permitted to do it before and I would like to, if I may.

The CHAIRMAN. Will you answer this other question first and then I want you to answer that. Answer this question first.

Mr. SIMON. Referring to sources of equity, and underneath that it says "Bryan Gordon, Jr., land," and then the figure is \$84,725; is that correct?

Mr. BUDWESKY. Let me see, "Bryan Gordon, Jr.," the one I have shows on top "\$22,000." And then below that, "notes receivable," or something, "\$84,715."

Mr. SIMON. Isn't the \$22,000 under a column headed "Cash"?

Mr. BUDWESKY. That is right. I am sorry. I was only looking over in the total column. I didn't see this over here because the stamp is over it.

Mr. SIMON. Under where it says "land," doesn't it say "\$84,725"?

Mr. BUDWESKY. That is right.

Mr. SIMON. What do you understand was meant by "Sources of equity, Bryan Gordon, Jr., land, \$84,000"?

Mr. BUDWESKY. Well, I will tell you: This original application was filed with FHA to obtain, at that time it was contemplated that we

would have the normal FHA commitment to insure advances made on the loan during construction.

Mr. SIMON. What I am trying to find out—

Mr. BUDWESKY. I know what you are trying to find out, but I want to get the thing straight in your head because you have a different idea about it than the actual facts are, and I would like to be permitted to tell them.

The CHAIRMAN. You go ahead and tell them.

Mr. BUDWESKY. We, as I say, filed this application, and the idea of everybody was that we would have the normal FHA commitment to insure the advances on the loan and to insure the mortgage instrument, note or bond, after the completion of the project.

In that type of situation, the FHA required certain equity be shown because they were going to only insure for 90 percent—not of the cost of the project—cost never entered into the picture—90 percent of FHA's estimate as to the replacement cost of that property, if you had to do it over again after it was once built.

So they required, before they would issue their commitment under those circumstances, that certain equity be shown. If there were any offset improvements that were not on the property, covered by the mortgage, you had to put up cash for it. You had to put up your inspection fee, and you had to provide that 10 percent differential in one way or another.

Now, if you were not going to pay the full amount to the architect, you could list how much you were going to pay him in cash and you could take credit as against that 10 percent for what you were not going to pay him in cash of that 5 percent fee.

The CHAIRMAN. In other words, you could take credit for something you didn't actually pay out?

Mr. BUDWESKY. That is right, and you could do the same thing on the builder's fee.

Now, if we had not changed from the normal FHA commitment to insure the advances during construction to a commitment for insurance after completion, then these equity requirements set up in this application would have to have been met before the commitment would have been issued, but, when the application was changed from one for insurance during construction, to one for insurance after completion, the equity features of FHA requirements went out the window; they were not required, and they are not stipulated as a requirement in the condition of FHA in their commitment in these cases.

Mr. SIMON. I say to you again, Mr. Budwesky, what is the meaning of "Bryan Gordon, Jr., Land, \$84,725", in this application?

Mr. BUDWESKY. I should say that what is meant by that is that in the applications a certain valuation was put upon the land that was going to be a part of this project.

Mr. SIMON. And in this particular one the value was \$84,725, is that right?

Mr. BUDWESKY. I think so.

Mr. SIMON. Isn't that what it says?

Mr. BUDWESKY. Yes, that is what it says.

Mr. SIMON. Doesn't it also say that Bryan Gordon, Jr., owns that land that is valued at \$84,725?

Mr. BUDWESKY. I don't think it says that. It merely says that Bryan Gordon would own that land, or he would have to show that he owned it before the commitment to insure was issued.

Mr. SIMON. Where does it say that he would get it before the commitment was issued?

Mr. BUDWESKY. I mean he would have to show it. You would have to show that. You would have to deposit cash, or you would have to establish definitely all of the things that are shown before the commitment was issued, if you were going to have a loan where the advances were insured during construction.

All we had to do was to meet what we represented here before the commitment would be issued. It doesn't necessarily mean that it had to be in being on the day you filed your application. That might be a very foolish things to do in many instances.

Mr. SIMON. In these 6 applications, Mr. Budwesky, is it a fact that the total valuation put on the land was \$505,499?

Mr. BUDWESKY. It could. I don't know. I have made no computation.

The CHAIRMAN. What did the land cost originally?

Mr. BUDWESKY. The land was bought at acreage.

The CHAIRMAN. How much did you pay for it?

Mr. BUDWESKY. The land—I think it has been testified to—cost \$178,000, but that hasn't anything to do with it. Land has a value for its use. This land was going to be used for apartment houses, not for cornfields.

Mr. SIMON. But not only did you not pay \$178,000 for it, but you hadn't even completed the transaction at the time of these applications, isn't that true?

Mr. BUDWESKY. No. I don't think it is contemplated—that representation wasn't made to the FHA at the time the application was made that we owned the land.

Mr. SIMON. But you signed the application in February to purchase the land and finally paid for the purchase price in June?

Mr. BUDWESKY. That is right.

Mr. SIMON. And yet in March FHA was told that land which you were going to buy for \$178,000 had a value of \$505,499; is that right?

Mr. BUDWESKY. That is exactly right, and there isn't anything wrong about that either.

Mr. SIMON. What I still want to know is the basis on which Bryan Gordon says he was going to put up land of \$84,000 value and cash of \$22,000.

Mr. BUDWESKY. Well, if we had gone through with the original plan, that would have to be——

The CHAIRMAN. Let's have our time here. You didn't go through with it.

Mr. BUDWESKY. So I don't understand why we bother with it at all.

The CHAIRMAN. You filed an application with FHA in which they made a commitment to insure a mortgage; isn't that correct?

Mr. BUDWESKY. They didn't make it on that representation.

Mr. SIMON. On what representations did they make it?

Mr. BUDWESKY. They made it on the basis of the application, but the question of equity, etc., was not a part of the consideration when they issued the commitment. If it had been, those things would have been part of the conditions.

The CHAIRMAN. What good was that document? If they didn't issue it on that document, what good was the document? Why did you file it?

Mr. BUDWESKY. We had to file it in order to get them to consider the application.

The CHAIRMAN. When you filed it, why didn't you file it truthfully?

Mr. BUDWESKY. We did.

The CHAIRMAN. Do you mean to tell me that Gordon owned \$94,000 of that land?

Mr. BUDWESKY. No; but I mean to tell you that Gordon, what is represented there, would have had to have been shown to be true before the commitment was issued.

Mr. SIMON. You never filed an amended application, did you?

Mr. BUDWESKY. I don't know what was filed, but something must have been filed to switch from a normal insurance during construction commitment to a commitment after completion.

The CHAIRMAN. We want to be absolutely fair here. I hold in my hand an application that Shirley-Duke made to FHA.

Mr. BUDWESKY. Yes, sir.

The CHAIRMAN. Rather Investors Syndicate, I guess; both of them made it—they made it as the mortgagee's application, and you show here that Bryan Gordon, Jr., owned \$94,952 worth of land. Did he own \$94,952 worth of land?

Mr. PAUL. Mr. Chairman?

The CHAIRMAN. Mr. Gordon is here for himself. I want to ask Mr. Gordon: Mr. Gordon, did you own \$94,953 worth of land when that application was filed?

Mr. GORDON. I had a verbal agreement that I would have that land; in other words, a verbal contract.

The CHAIRMAN. Who was the verbal contract with?

Mr. GORDON. The verbal contract was with the group that was operating here.

The CHAIRMAN. The group? What were the names of the group?

Mr. GORDON. Investors Diversified Services.

The CHAIRMAN. Who did you understand at that time that this application—who did you understand owned the land at that time?

Mr. GORDON. At that time it was under contract ownership in the name of Jay Charlie Lewis.

The CHAIRMAN. Under contract in the name of Lewis, and who held the option to it?

Mr. GORDON. And the contract was assigned to Investors Diversified Services; Investors Diversified Services were to be a half interest owner in this project.

The CHAIRMAN. But you filed an application that you owned it.

Mr. GORDON. And I had an agreement that I would own it.

The CHAIRMAN. A verbal agreement?

Mr. GORDON. That is right.

The CHAIRMAN. Did you so state that in your application to FHA?

Mr. GORDON. There is no place to state that that I know of.

The CHAIRMAN. No place to state it?

Mr. GORDON. That is right.

Mr. SIMON. Mr. Gordon, you say at the time this application was filed, Investors was to have a 50-percent interest in this project?

Mr. GORDON. I believe that is correct.

Mr. SIMON. Is that stated anywhere in the application?

Mr. GORDON. Not to my knowledge.

Mr. SIMON. It says here that you were going to put up \$22,000 in cash. Did you contemplate putting up \$22,000 in cash?

Mr. GORDON. I probably put up that much, and much more.

Mr. SIMON. You did?

Mr. GORDON. Yes.

Mr. SIMON. Of your own money?

Mr. GORDON. Of my own money.

Mr. SIMON. When and where?

Mr. GORDON. If you want a lesson in building one of these things, we can sit down and go into it, but it took many months to put that together and it took a lot of people to put it together, and it took a lot of money to pay those people to put it together.

Mr. SIMON. But you did contemplate on March 10, 1949, that you were going to put \$22,000 in cash into this project?

Mr. GORDON. I contemplated putting more than that.

Mr. SIMON. On March 10, 1949?

Mr. GORDON. If the project went through, I would have to put a great deal more than that in.

The CHAIRMAN. Are you talking about investment capital or loan?

Mr. GORDON. He asked me if I would have to put the money in. I would have to spend the money.

The CHAIRMAN. You would spend it and get it back later. It would be returned to you later?

Mr. GORDON. Provided the thing went through. If it didn't go through it was lost.

Mr. SIMON. Mr. Gordon, is the testimony we have had this morning wrong that Investors was to put up all the money?

Mr. GORDON. Investors had agreed to put up all of the money on certain parts of the transaction, but there were other things that had to be done that required time and money. Between February 25 and the time this project started, we worked almost continuously on that.

Mr. SIMON. After March 10, when this application was filed, what sums did you contemplate spending that Investors would not finance?

Mr. GORDON. Whatever my costs happened to be.

Mr. SIMON. What costs?

Mr. GORDON. Cost of doing the work necessary to get this project in shape to go ahead.

Mr. SIMON. Wasn't Investors to finance that?

Mr. GORDON. They were to advance portions of it, but they never agreed to pay us for any of our expenses or any of our work unless the project carried on to completion.

Mr. SIMON. Following March 10, 1949, did you put up a dime on this project, other than the \$1,000 of stock in each of these companies?

Mr. GORDON. Yes.

Mr. SIMON. And was that money reimbursed to you by Investors?

Mr. GORDON. No.

Mr. SIMON. What was that money?

Mr. GORDON. It was all of the expenses which I had in connection with this.

Mr. SIMON. What were those expenses?

Mr. GORDON. I can't give you exact expenses from memory.

Mr. SIMON. Do you have any records that show what they are?

Mr. GORDON. I probably have some records to show the cost of a lot of this work that was done in connection with this application, because the majority of that work was done by men in the employment of Mr. Preston, Mr. Hutman, and myself. We had to pay those men.

Mr. SIMON. Can you furnish us with the records of expenditures that you made following March 10, 1949, that Investors didn't finance?

Mr. GORDON. It would be very difficult for me to pick them out as exact expenditures, but I could show you my books for what they are worth. They show every expenditure which I had and we could probably establish that a great deal of that was done purely and simply for this project.

The CHAIRMAN. Were you ever reimbursed for it?

Mr. GORDON. No.

The CHAIRMAN. You never were reimbursed for it?

Mr. GORDON. To my knowledge, I was not.

The CHAIRMAN. You just did it out of the goodness of your heart?

Mr. GORDON. No. I did it because I wanted to see this project go ahead.

The CHAIRMAN. Why weren't you reimbursed?

Mr. GORDON. That was just part of my job in getting this thing together.

The CHAIRMAN. Did you—you answered that question—you say you did not own the land that you so designated you did own in this application?

Mr. GORDON. I said I owned the land under a verbal contract.

Mr. SIMON. You owned it or you thought you had a verbal contract to buy it?

Mr. GORDON. I said I owned it under a verbal contract.

Mr. SIMON. Did you own it under a verbal contract?

Mr. GORDON. That is right.

Mr. SIMON. Had you paid for it?

Mr. GORDON. No.

The CHAIRMAN. How much did you agree to pay for it?

Mr. GORDON. I agreed to pay a proper percentage of the original cost.

The CHAIRMAN. Of \$173,000?

Mr. GORDON. That is right.

The CHAIRMAN. Why did you put it in at \$94,000?

Mr. GORDON. Because that is what we valued the land at. I never bought a piece of ground yet that I didn't think I bought it for less than it was worth.

Mr. SIMON. As a matter of fact, the six corporations paid the total purchase price of this land; isn't that right?

Mr. GORDON. That is correct.

Mr. SIMON. And they only got roughly 96 of the 118 acres; is that right?

Mr. GORDON. I wouldn't say that is correct. That is all probably in their name now.

Mr. SIMON. And some 5 or 6 acres went to a school district, but 12 acres was sold; is that right?

Mr. GORDON. Twelve acres was sold?

Mr. SIMON. Yes. Aren't 12 acres of this tract now used for a shopping center?

Mr. GORDON. Approximately 11 acres, I believe.

Mr. SIMON. Who owns that 11 acres now?

Mr. GORDON. I own a 50 percent interest in it.

Mr. SIMON. Who owns the other 50 percent?

Mr. GORDON. Mr. Calvin O. Black.

Mr. SIMON. From whom did you acquire that 11 acres?

Mr. GORDON. That was acquired from—the deed came from Jay Charles Lewis.

Mr. SIMON. Who did you pay for that land?

The CHAIRMAN. Will you speak up a little, please?

Mr. GORDON. The deed was acquired from Jay Charlie Lewis.

Mr. SIMON. Who did you pay for the land?

Mr. GORDON. Who did we pay for it?

Mr. SIMON. Yes.

Mr. GORDON. There was no payment made.

The CHAIRMAN. You mean it was given to you free?

Mr. GORDON. It was given to us for services rendered and services to be rendered.

Mr. SIMON. Who were those services to?

Mr. GORDON. The Shirley Duke Apartment project.

Mr. SIMON. Investors advances the total purchase price of this land; is that right?

Mr. GORDON. For the apartment project, that is right.

Mr. SIMON. And the total purchase price was charged against the six corporations; is that right?

Mr. GORDON. That is correct, I believe.

Mr. SIMON. And Investors was reimbursed for the total purchase price out of the loan which was paid by the FHA-insured loan; is that right?

Mr. GORDON. They were repaid their entire construction loan; yes.

Mr. SIMON. That included the \$178,000 that went for the land; isn't that right?

Mr. GORDON. That is right.

Mr. SIMON. And you and Mr. Black ended up owning the 11 acres on which there is a shopping center; is that right?

Mr. GORDON. That is right.

Mr. SIMON. Is that shopping center held by a corporation?

Mr. GORDON. No.

Mr. SIMON. You and he individually own it?

Mr. GORDON. I believe that is correct. I think it is in the name of a trustee, I believe, and leased for 99 years.

Mr. SIMON. The trustee leased it to whom?

Mr. GORDON. Gordon-Hutman Corp.

Mr. SIMON. To the Gordon-Hutman Corp.

Mr. GORDON. Yes.

Mr. SIMON. And who are the stockholders of the Gordon-Hutman Corp.?

Mr. GORDON. Just a minute; that land is in Black's and Gordon's names.

Mr. SIMON. The land is in the name of Black and Gordon?

Mr. GORDON. That is right.

Mr. SIMON. And it is leased by them to the Gordon-Hutman Corp.?

Mr. GORDON. That is right.

Mr. SIMON. What is the rental?

Mr. GORDON. I don't remember exactly. It is a sliding scale.

Mr. SIMON. What is the sliding scale?

Mr. GORDON. I don't remember. I can get you exact figures, though.

Mr. SIMON. Mr. Hutman, do you know the rental?

Mr. HUTMAN. No; I wouldn't trust my memory on that. We have records of it.

Mr. SIMON. Who are the stockholders of the Gordon-Hutman Corp.?

Mr. GORDON. Mr. Hutman, myself, and our wives.

Mr. SIMON. Is Mr. Preston part of that?

Mr. GORDON. No.

Mr. SIMON. Just you and Mr. Hutman and your wives; is that right?

Mr. GORDON. And Investors Syndicate.

Mr. SIMON. How much stock do they own in this shopping center company?

Mr. GORDON. A third, approximately.

Mr. SIMON. Sorry?

Mr. GORDON. One-third, approximately.

Mr. SIMON. And you and your wife owns a third?

Mr. GORDON. That is right.

Mr. SIMON. And Mr. Hutman and his wife own a third?

Mr. GORDON. To the best of my memory.

Mr. SIMON. What was the capital of that corporation?

Mr. GORDON. I don't remember, but we put quite a bit of money in it. I don't know how much it is capitalized.

Mr. SIMON. Did Investors put any money into it?

Mr. GORDON. They made a mortgage on it.

Mr. SIMON. They made a mortgage on it, and did they put up any money for their one-third of the stock?

Mr. GORDON. I believe they paid their one-third of the stock.

Mr. SIMON. Is this one of the corporations with \$1,000 capital?

Mr. GORDON. I told you I don't remember how much it is capitalized.

Mr. SIMON. Who organized that corporation?

Mr. GORDON. Mr. Budwesky.

The CHAIRMAN. Do you remember, Mr. Budwesky, what the capitalization is?

Mr. BUDWESKY. I think it is about \$2,000 of common stock.

The CHAIRMAN. Two thousand of common?

Mr. BUDWESKY. Yes, they own the land.

The CHAIRMAN. Did the FHA insure the mortgage?

Mr. BUDWESKY. No. FHA had nothing to do with it. It is not financed by FHA. As a matter of—

Mr. SIMON. It couldn't be, being commercial property.

Mr. GORDON. It could be.

Mr. BUDWESKY. There are some commercial properties financed by FHA in connection with housing projects.

Mr. SIMON. Did Mr. Hutman and Mr. Gordon put into that company that they took out of the Shirley-Duke companies?

Mr. BUDWESKY. Well, they put their money in. I suppose you might say some of it came out of there. I know they had a couple of hundred thousand dollars invested in buildings down there before

they undertook to get any mortgage on this. Then when they undertook to get a mortgage they had to give up a third interest of the equity.

Mr. SIMON. What is the name of the shopping center?

Mr. BUDWESKY. Shirley Duke shopping center.

Mr. SIMON. \$2,000 worth of capital and Investors paid—

Mr. BUDWESKY. I think if it is of any interest to you, there is a \$550,000 mortgage they put up.

Mr. SIMON. Mr. Hutman and Mr. Preston loaned the company money?

Mr. BUDWESKY. Mr. Preston is not involved.

Mr. SIMON. Mr. Gordon and Mr. Hutman loaned the company some cash?

Mr. BUDWESKY. Yes. They had buildings in there. There was a substantial part of the property developed before they got a mortgage on it.

Mr. SIMON. Do you know what the rent is?

Mr. BUDWESKY. Ground rent?

Mr. SIMON. Yes.

Mr. BUDWESKY. My recollection is it is \$20,000 a year.

Mr. SIMON. Is it a sliding scale?

Mr. BUDWESKY. I think after—it is provided in later years the rental will be increased. I think the rent was put low in the initial years, because they realize that the owners would have to amortize the mortgage and I think after they figured maybe a 15-year period the mortgage would be paid off and the rent on the land increases. I don't know exact details, but I know the rental of the land there does increase.

Mr. SIMON. Is it your recollection that Mr. Black and Mr. Gordon got this land free, and they are now getting \$20,000 a year rent, which increases?

Mr. GORDON. He did not get it free and I didn't say we got it free.

Mr. SIMON. You didn't pay anything for it?

Mr. GORDON. Yes, we did.

Mr. SIMON. How much did you pay?

Mr. GORDON. We didn't pay any money, but we paid services.

The CHAIRMAN. What kind of services?

Mr. GORDON. Zoning work on it.

The CHAIRMAN. Will you speak a little louder, please?

Mr. GORDON. Getting it properly zoned, getting it set up for a shopping center, because you needed stores there for the apartments.

Mr. SIMON. Did you do that work after you knew you were going to be the owner of the land?

Mr. GORDON. That is right. Some of it before and some after.

Mr. SIMON. But you knew you were going to end up owning the land when you did this work?

Mr. GORDON. When we did some of it.

Mr. SIMON. Mr. Gordon, I show you a handwritten application for an FHA commitment, and ask you if you know whose handwriting that is?

Mr. GORDON. No. I can't say that I do know whose handwriting it is.

Mr. SIMON. Mr. Budwesky, do you know whose handwriting that is?

(No response.)

Mr. SIMON. Mr. Bros, do you know whose handwriting that application is written by?

Mr. BROS. I will have to see it first.

The CHAIRMAN. Show it to Mr. Bros.

Mr. BUDWESKY. I don't think all of it is in the same handwriting.

The CHAIRMAN. Can you identify any of that handwriting?

Mr. BUDWESKY. I think I can identify some of it. One person didn't write everything that is on it.

While he is trying to do that, Mr. Simon——

The CHAIRMAN. It oughtn't to take but a minute. He ought to be able to look at it at a glance and tell whether it is his or not.

Mr. BROS. My handwriting is up here.

Mr. SIMON. Whose handwriting is on pages 2 and 3, which is what we are particularly interested in? I might ask you first, Mr. Bros, you testified a moment ago that the typewritten applications that we have here were typed by your girls from a handwritten application. Is that the handwritten application from which the application on section 1 was typed?

Mr. BROS. Mr. Simon, that has been 5 years. I can't say whether it was. If they were compared, that is probably what it was. There are different handwritings and I would say that this handwriting here, to the best of my knowledge, would be Don Loftus.

Mr. SIMON. By "this handwriting" you are referring to the part that is under equity capital that said Mr. Gordon was putting up \$84,000 of land?

Mr. BROS. Yes, sir.

Mr. SIMON. And who——

Mr. BROS. I don't recognize these figures here.

Mr. SIMON. That is on page——

Mr. BROS. I have some of it where I made erasures and corrections. I went over these with an adding machine for mathematical errors and there are many places——

Mr. SIMON. Mr. Bros, under "Resources," in the upper left-hand corner of page 3 it says "the total equity" in this corporation was going to be two-hundred-and-ninety-three-thousand-some-odd dollars.

Mr. BROS. Page 3——

Mr. SIMON. Page 3, the upper left-hand corner; what is the amount of total equity shown there under "Resources?"

Mr. BROS. \$313,402.

Mr. SIMON. Whose handwriting is that in?

Mr. BROS. The figures are awfully hard to tell what handwriting.

Mr. SIMON. Actually there was only \$1,000 of equity in this corporation, wasn't there?

Mr. BROS. The testimony has been that there was \$1,000 stock; yes, sir.

Mr. SIMON. And the only assets the corporation ever had were the stock and the mortgage loan proceeds; isn't that right?

Mr. BROS. As far as I know, that is correct.

Mr. SIMON. The application you have in your hand shows the resources to consist of a full mortgage loan proceed, plus \$313,000 of equity; is that right?

Mr. PAUL. Isn't that under the title "Proposed Setup"?

Mr. BROS. I was just going to ask—up here this is torn out. What does it say at the top?

Mr. PAUL. It says "Proposed Setup." It doesn't say they had it.

Mr. SIMON. They were going to have it, that is right, but it says they are going to have the full proceeds of the mortgage plus \$313,000; is that right?

Mr. BROS. I would have to study it more. I can't tell you that offhand. I haven't seen one of these applications for many years.

Mr. SIMON. Do you know whose handwriting that is in or who supplied those figures?

Mr. BROS. The figures were made up on the portion of the application which Investors didn't sign for, the mortgagor's application, by the builders, Mr. Loftus—I was in the meetings. I have no technical knowledge to produce figures like that. I wrote some of the figures down. I think my secretary wrote some of the figures down that were given to us.

Mr. SIMON. At the time this document was prepared, was it contemplated that Investors would own 50 percent of the equity?

Mr. BROS. As I remember, that was the contemplation.

Mr. SIMON. Was an amended application ever filed?

Mr. BROS. I would have to see the Investors files.

Mr. SIMON. So far as you know, was an amended application ever filed to advise FHA that this equity was not going to be put in?

Mr. BROS. I am not going to rely on my memory any more. The last time I was talking to you gentlemen I did my best and I find I made some errors. I want documents or something else. I am trying to give you the best that I possibly can.

Mr. SIMON. All we know, of course, is that there are no amended applications in the FHA files, but I was hoping you could tell us whether there had been any amended applications filed or prepared.

Mr. BROS. You would have to get that from Investors. I don't remember these things.

Mr. SIMON. Referring to the first page, Mr. Bros, under the mortgagor's application—this is the mortgagor's part, it says "Correspondence should be addressed care of Investors Syndicate, 311 Tower Building."

Mr. BROS. That is right. That is my handwriting.

Mr. SIMON. Why was the mortgagor to be addressed in care of Investors Syndicate?

Mr. BROS. Because I think all of the work was being done up there, the meetings were up there, and there were three different addresses and it was easier to get any correspondence there, and in addition to that, the mortgagee always had to treat with the FHA. The builder couldn't treat directly with the FHA.

Mr. SIMON. If you will turn to the last page, and it says in the printed part of the application:

The undersigned proposes to furnish assurance of completion of the project construction—

the last page about three lines from the bottom—the printed part says:

The undersigned proposes to furnish assurance of completion of the project construction in the form of—

do you find that?

Mr. BROS. Yes, sir.

Mr. SIMON. Then there is a blank space, and in the blank space is typewritten—

See letter from Investors Syndicate dated March 8, 1949.

Mr. BROS. That is right.

Mr. SIMON. Do you recall what that letter was?

Mr. BROS. No, sir. That came up the other day and I gave the answer to the best of my ability. I would have to see those letters.

Mr. SIMON. Did Investors write a letter indicating that it would guarantee the completion of the building, or furnish assurance of completion of the project?

Mr. BROS. I testified last week that solely on memory, Investors had written such letter and I think in that letter they said something about taking second preferred stock or something like that. I do not have the letter.

Mr. SIMON. Is that the letter to which you refer?

Mr. BROS. It would appear that it is; yes, sir.

Mr. SIMON. Is there anything in there about second preferred stock?

Mr. BROS. I haven't finished reading it yet.

Mr. SIMON. While you are reading that, I would like to ask Mr. Gordon; Mr. Gordon, who is Mr. Sonnenblick?

Mr. GORDON. I don't know the gentleman.

Mr. SIMON. Do you know how his name happens to be on this application that you signed?

Mr. GORDON. I can only surmise.

The CHAIRMAN. What is your surmise?

Mr. GORDON. I presume they felt we needed additional sources of capital on that application, that his name—

The CHAIRMAN. Who needed it? Who surmised that they needed extra sources of capital?

Mr. GORDON. I say I surmised that the application would need additional sources of capital to comply with the FHA 10-percent requirement, when this application was submitted as an application for insurance during construction, and they felt that this man—

Mr. SIMON. Who is "they"?

Mr. GORDON. "They" is Mr. Loftus, Investors Syndicate, whoever were in the proceedings and making up these applicants. Therefore, they selected this man as a possible additional source of capital, if it was needed.

The CHAIRMAN. You don't know the man, never heard of him?

Mr. GORDON. Never saw him in my life.

Mr. SIMON. Mr. Gordon, on an application that you signed it says that Mr. Sonnenblick is going to put up \$181,783. Where did you get that information.

Mr. GORDON. Where did I get the information?

Mr. SIMON. Yes.

Mr. GORDON. I didn't put the information down on there.

Mr. SIMON. You signed the application.

Mr. GORDON. That is right.

The CHAIRMAN. You signed the contract.

Mr. GORDON. That is right.

Mr. SIMON. Did you know that was in there when you signed it?

Mr. GORDON. Yes.

Mr. SIMON. And you had never met the man?

Mr. GORDON. No.

Mr. SIMON. You had no notion of whether he had \$181,000 or not?

Mr. GORDON. I didn't have the slightest idea.

Mr. SIMON. Did you know that such a man existed?

Mr. GORDON. No; not for certain.

The CHAIRMAN. Do you know today whether such a man does exist?

Mr. GORDON. I have never spoken to him.

The CHAIRMAN. Do you think it is a phony?

Mr. GORDON. I don't imagine he is a phony because I understand he was very much upset when his name appeared in the paper.

The CHAIRMAN. His name was used without his knowledge?

Mr. GORDON. I don't know whether he had knowledge of that—

The CHAIRMAN. Who is the gentleman that was upset?

Mr. GORDON. This Mr. Sonnenblick.

The CHAIRMAN. Who is he? You said you didn't know him.

Mr. GORDON. I never spoke to him.

The CHAIRMAN. Who is he?

Mr. GORDON. I don't know.

The CHAIRMAN. How do you know he was upset?

Mr. GORDON. Mr. Bros told me he was upset.

Mr. BROS. I heard it. I heard he was called.

The CHAIRMAN. Who is this gentleman?

Mr. BROS. I never heard of Mr. Sonnenblick either.

The CHAIRMAN. Does any one of you eight or nine gentlemen—does anybody here—

Mr. SIMON. Mr. Crabb apparently.

The CHAIRMAN. Who is he, Mr. Crabb?

Mr. CRABB. Mr. Sonnenblick is a wealthy real-estate broker in New York City.

The CHAIRMAN. Is a wealthy real-estate broker in New York City?

Mr. CRABB. Yes, sir.

Mr. SIMON. Did he know his name was in this application when it was filed?

Mr. CRABB. I cannot say. I was not present at the drafting of that. But Mr. Sonnenblick is a thoroughly responsible man, probably worth 2 or 3 million dollars.

The CHAIRMAN. He could be worth \$700 million, but if he didn't know his name was being used—Mr. Crabb, was this a phony?

Mr. CRABB. I don't think so. I think he knew it was being used. He may be upset, but my guess is he knew his name was being used.

The CHAIRMAN. Did he ever intend to put the money in?

Mr. CRABB. If necessary, he was able to do it.

The CHAIRMAN. What is that?

Mr. CRABB. If necessary, he was certainly able to do it.

The CHAIRMAN. For putting up \$181,000, what was he to get in return?

Mr. CRABB. So far as I know, I don't know of any compensation.

The CHAIRMAN. You mean just do it out of the goodness of his heart?

Mr. CRABB. Yes, sir.

The CHAIRMAN. Gentlemen, I am flabbergasted. Maybe it is because it is 12 o'clock. You gentlemen have got me.

Mr. SIMON. Do you know whether Mr. Sonnenblick authorized the use of his name in this application, Mr. Bros?

Mr. BROS. I was going—

Mr. CRABB. I want to make it perfectly clear that I had nothing personally to do—

The CHAIRMAN. I understand this, and in all fairness to everybody—even the man that signed the application, Mr. Gordon, says he didn't know his name was in there and he didn't know anything about him either. Yet he signed the application.

Now, gentlemen, the record ought to show we are talking about an application that you gentlemen made to FHA, asking FHA to agree to insure on completion—

Mr. GORDON. No; beg your pardon, insure on advance.

The CHAIRMAN. Insure what?

Mr. GORDON. Insure upon completion.

Mr. PAUL. The application doesn't so state.

The CHAIRMAN. I don't care whether it is on completion or how do you want to say it?

Mr. GORDON. On advances.

The CHAIRMAN. On advances—I don't care which way it is. The record ought to speak for itself. The fact remains that the testimony is developing here that it is not a true statement. You gentlemen have used the name of a man and say he is going to put up \$181,000 and none of you say who he is.

Mr. BUDWESKY. I didn't say I didn't know who he is.

The CHAIRMAN. Well then you tell us what you know about it.

Mr. BUDWESKY. Mr. Loftus conferred with Mr. Sonnenblick during the negotiations, and the preparation of these applications, and it was Mr. Loftus who used Mr. Sonnenblick's name and I have every reason to assume that he used it fully and completely with Mr. Sonnenblick's permission. Now, I might say—

The CHAIRMAN. Let me ask you this: Did Mr. Loftus own any of the common stock in any one of these six corporations?

Mr. BUDWESKY. He did not, sir. He was a consultant.

The CHAIRMAN. What interest did Mr. Loftus have?

Mr. BUDWESKY. He was a consultant on Investors Diversified Services. He was a very close friend of the officials who were running Investors Diversified Services, and particularly—

The CHAIRMAN. Investors Diversified Services have testified in executive session that he did not work for them and they had never paid him anything.

Mr. BUDWESKY. You see, the present ownership of Investors Diversified Services is different than it was at the time this thing was started, and the people involved in Investors Diversified Services today are entirely different than the people who were running Investors Diversified Services at that time, but it is still the same company.

Now, if I may be permitted to do so—and I think it was stated that we could make ample statements to clarify our position here, and there are two things that I want to get in the record from our point of view: You stated a moment ago, Senator, that it never occurred to us to make, or to apply the money that was not used in the building and construction of these projects in payment of the loan, and as has been intimated in quite a number of releases, that thereby the rentals of the project could be reduced.

Well, that is not true. Under the terms of the mortgage insured by FHA, any payment other than a regular monthly payment that is made on any one of these mortgages is applied against the last payment due, so if this money had been used to reduce the amount of the mortgage, it would have paid principal payments due 33, 32, 31, or 30 years hence.

The CHAIRMAN. We are glad to get that information, because we are going to get FHA back up here.

Now, Mr. Powell, of course, was the head man, and he won't testify and tell us anything.

Mr. BUDWESKY. I would like to complete my statement, if I may.

The monthly, regular monthly payments that we, as owners, would have to make on that mortgage, would not be reduced one cent by reason of having made those payments that wouldn't come due 30 or 32 years from now.

Well, about the only one who would be benefited out of that probably would be the mortgagee, who would have a mortgage or less money invested on the same property. It wouldn't get the tenant anything. You couldn't reduce his rent.

The CHAIRMAN. Oh, you could.

Mr. GORDON. You couldn't.

Mr. BUDWESKY. Not unless you modified the terms of the mortgages.

The CHAIRMAN. Well, those are things we want to get. We want all the facts and if FHA is wrong we want to know it. I am not saying they were.

Mr. SIMON. I want to follow that up, if I may.

I think you have given an unfair connotation. I have the balance sheets of this company here which show that immediately upon completion of the building, they appreciated on their books the value of the property by roughly \$3 million; is that right?

Mr. BUDWESKY. You say you have the books. All right.

Mr. SIMON. I would be glad to show them to you.

For Shirley Duke No. 1, which I happen to hold in my hand, I have a letter dated January 16, 1952, from John W. Bisselle & Co.—this relates only to No. 1—and it says that as of December 31, 1950, the company had a credit for unexpended portion of the mortgage of \$494,220.

Mr. BUDWESKY. Yes.

Mr. SIMON. And that on the same day it made a distribution to holders of common stock of the same amount, and the balance sheet shows that the building was appreciated on the books of the corporation in the amount of \$492,446.

I would be glad to show this to you.

Mr. BUDWESKY. What has that got to do with the monthly payments on the mortgage, or the amount of rent you charge a tenant?

Mr. SIMON. I will get to that in just another question.

Is this what happened? They did appreciate the value of the property on their books?

Mr. BUDWESKY. The corporations had an appraisal of their physical assets made, and that appraisal was made by the appraisal board of the Arlington, Alexandria, and Fairfax real estate board; yes, sir.

Mr. SIMON. But within a year of completion of the building they wrote up the value of the buildings by roughly \$500,000 for each corporation; is that right?

Mr. BUDWESKY. They put it on the books at what it was appraised at by the real estate board of Alexandria, Fairfax, and Arlington.

Mr. SIMON. And the effect of that was to write up 6 buildings at roughly \$500,000?

Mr. BUDWESKY. Whatever it may be. You have the figures.

Mr. SIMON. And during the same year you appreciated the value of these buildings by roughly \$500,000 for each of the 6 units; you took depreciation of \$24,000 for this particular building; is that right?

Mr. BUDWESKY. The depreciation was only taken on the basis of actual cost and not on the appreciated value.

Mr. SIMON. But the point I am trying to make is in the same year you appreciated it and you depreciated it, both at the same time; is that right?

Mr. BUDWESKY. You mean we took depreciation in computing our income tax?

Mr. SIMON. Yes.

Mr. BUDWESKY. Everybody does that.

Mr. SIMON. And you appreciate by \$500,000—

Mr. BUDWESKY. We took our depreciation on cost figures, and not on any appraisal figures.

Mr. SIMON. I understand, but in the same year for one purpose you appreciated the values by roughly \$3,000,000, and in the same year, for tax purposes, you depreciated the value by the normal tax allowable depreciation?

Mr. BUDWESKY. You mean we charged depreciation against our operating expense, which is a normal function, sir, but still hasn't anything to do with the monthly payment we have to make on the mortgage.

Mr. SIMON. But you depreciate during the same year that you took appreciation; is that correct?

Mr. BUDWESKY. Well, you make it appear as though there is something bad about it, but I tell you very frankly there isn't.

Mr. SIMON. I was making no connotation except to get the facts.

Mr. BUDWESKY. Well, I have no objection to your doing that. It is a perfectly normal procedure.

Mr. SIMON. In 1951—and now I am getting to your rent directly—did Mr. Bros, under date of April 23, 1951, on the stationery of Investors Diversified Services, file an application for rent increase?

Mr. BUDWESKY. I have no knowledge of that, sir, because I was not actively—I was not in a position to actively look after Shirley Duke's interest at that time. I was in Wilmington, Del.

Mr. SIMON. I have in my hand a letter dated April 23, 1951, signed or purporting to have the signature of Mr. Bros, on Investors Diversified Services, addressed to the Federal Housing Administration, asking for a rent increase. Attached to it is a breakdown of the reasons why they should have a rent increase, and one of the items which they used in computing the rent figures is a matter of principal and interest on the mortgage—I am sorry, not principal and interest on the mortgage, principal and interest of \$97.59 a year.

Do you know whether in this application they took credit for a 6½-percent return on a \$15,000,000 building, added to their actual costs this \$3,000,000 of writeup, and then asked FHA to give them rents, including the 6½-percent return on the appreciation of \$3,000,000?

Mr. BUDWESKY. I positively cannot believe that any such thing as that occurred, because FHA, who would have to pass on this application for a rent increase, had filed with it actual reports as to the cost of this property—not the appraisal or anything else; we had to file with them statements as to the actual cost.

They knew we built it, what we built it for; they knew we had this money left; they knew we were going to distribute it; they knew that Internal Revenue had approved the distribution on a capital-gains basis.

Mr. SIMON. That is right; they knew all that and they still gave you a rent increase, based on the appreciated value, didn't they?

Mr. BUDWESKY. They must have decided that the circumstances justified it, otherwise they wouldn't have done it. I don't know. That was FHA's doings. The application was filed.

Now, they are certainly independent agents. I had nothing to do with that application. But I must assume that certain things are true in connection with it.

The CHAIRMAN. Why was the Investors Diversified Services making this application rather than the owners of the project, the Shirley Duke people?

Mr. BUDWESKY. Did Investors Diversified Services sign the application?

Mr. SIMON. Yes.

The CHAIRMAN. Yes.

Did you do this, Mr. Bros?

Mr. BROS. Yes, sir.

May I answer that?

The CHAIRMAN. Yes. Why did you do it rather than the owners?

Mr. BROS. Investors—I mean the mortgagee always has to treat with the FHA and the information was given to us, and passed on the FHA through the mortgagee.

Mr. SIMON. Mr. Bros, isn't it a fact——

Mr. BROS. I haven't seen that letter.

The CHAIRMAN. We will show it to you.

Mr. SIMON. Maybe we could skip that and give you time to study it, and come back with it, Mr. Bros. I would like to finish with this Sonnenblick.

You indicated——

Mr. BROS. Nothing except that was answered.

Mr. BUDWESKY. I believe the difficulty was absolved, because Mr. Sonnenblick and Mr. Loftus talked about it, and Mr. Sonnenblick remembered the incident. That is what I was told.

The CHAIRMAN. Did you know Mr. Sonnenblick?

Mr. BROS. No, sir.

The CHAIRMAN. Did you know Mr. Sonnenblick?

Mr. BUDWESKY. Personally, no.

The CHAIRMAN. Did you know Mr. Sonnenblick?

Mr. HUTMAN. No.

The CHAIRMAN. Did you, Mr. Gordon?

Mr. GORDON. I have already said it.

The CHAIRMAN. Did you, Mr. Preston?

Mr. PRESTON. No.

The CHAIRMAN. Did you, Mr. Paul?

Mr. PAUL. No.

The CHAIRMAN. Did you, Mr. Yeatman?

Mr. YEATMAN. No.

The CHAIRMAN. Did you, Mr. Crabb?

Mr. CRABB. Yes, sir.

The CHAIRMAN. You knew him?

Mr. CRABB. Yes, sir.

The CHAIRMAN. Who he is?

Mr. CRABB. He is a mortgage and real-estate broker in New York City.

The CHAIRMAN. A mortgage and real-estate broker in New York City; and what is his address?

Mr. CRABB. We have done a great deal of business with him in acquiring New York mortgages.

The CHAIRMAN. What is his address in New York?

Mr. CRABB. I do not know, offhand.

The CHAIRMAN. You don't know?

Mr. CRABB. We can get it for you.

The CHAIRMAN. Does he have a firm? A firm name, or is he under his own name?

Mr. CRABB. He has a firm name.

The CHAIRMAN. Do you remember the firm name?

Mr. CRABB. I believe it is Sonnenblick, Goldman & Co., or something like that.

The CHAIRMAN. Do you have any idea of why this man's name was used?

Mr. CRABB. My assumption would be that in view of the substantial amount of business that we had done with him, and his close friendship with Mr. Loftus, that he did it, he lent his name to this largely as an accommodation, and a gesture of good will.

The CHAIRMAN. Just as an accommodation?

Mr. CRABB. Yes, sir.

Mr. McCARTIN. Mr. Simon, may I see a copy of the letter when Mr. Bros has finished?

Mr. SIMON. He has the one I have.

The CHAIRMAN. You may have it.

Mr. SIMON. Mr. Bros, going back to these applications, I think there is one more question:

Who put in the architect's fee in that application?

Mr. BROS. Again, it is figures. I don't know.

Mr. SIMON. What is the amount of the architect's fee shown there?

Mr. BROS. \$125,005. This is estimated requirements.

Mr. SIMON. That is which of the six buildings?

Mr. BROS. Those are my figures.

Mr. SIMON. Those are your figures?

Mr. BROS. I think that is my writing.

Let me qualify that. That is my writing. I don't say it is my figures. I was not technically qualified to write those figures.

Mr. SIMON. That would make architect's fees for the 6 buildings of roughly \$750,000?

Mr. BROS. I haven't calculated that. These sections were on different sites. They were not all equal number of units.

Mr. SIMON. Do you know what the actual architect's fee was on the six projects?

Mr. BROS. I would have to consult the books.

Mr. SIMON. Mr. Budwesky, I believe you said it was \$63,000 for the entire 6 projects?

Mr. BUDWESKY. He was paid \$30 a unit. I think there are 624 units.

Mr. SIMON. That would make some \$60,000?

Mr. BUDWESKY. That is correct.

Mr. SIMON. The figure put in the application was at least 10 times what he was paid?

Mr. BROS. If those figures are correct, that would be right.

Mr. SIMON. We have gone through here and found a number of things in the application that weren't true. The architect's fee, the cash that Mr. Gordon was going to put in——

Mr. BROS. Pardon me——

Mr. SIMON. The participation of Mr. Sonnenblick, a number of things in there are different at least than what happened.

Did FHA ever get informed that those things weren't going to take place, and was FHA ever advised of what was to take place?

Mr. BROS. In the first place, let me say these are estimated requirements, that was worked up at the very beginning when this deal was in the embryo stage, because you have to put in applications before you can get the money.

Mr. SIMON. You have to present your plans and specifications with the application, don't you?

Mr. BROS. I think if my memory serves me, and this is purely memory, plans, very sketchy plans, if any, were available at that time.

Mr. SIMON. But you had retained the architect or these people had retained the architect before they filed the applications, hadn't they?

Mr. BROS. Mr. Lueders, I believe he drew up the original sketches; yes.

Mr. SIMON. Therefore, they knew they weren't going to pay him \$120,000 for each building?

Mr. BROS. I don't say that. I don't know what they were going to pay him. I don't think there was any determination on that at this point.

Mr. SIMON. Was FHA ever told that Lueders wasn't going to get the fees, Sonnenblick wouldn't be in the deal, and all those other things?

Mr. BROS. That I couldn't tell you, unless there is evidence in Investors' files. I cannot rely on my memory.

Mr. SIMON. Did you have any discussions with Mr. Barringer with respect to that rental application?

Mr. BROS. Who?

Mr. SIMON. Mr. Barringer.

Mr. BROS. Barringer?

Mr. SIMON. Yes; with respect to the rental application you hold in your hand.

Mr. BROS. If I had any discussions it was merely that I was going to bring it over. I don't remember that particular, but I may have.

Mr. SIMON. I have in my hand a letter from Mr. Barringer, who was director of the district office of FHA, to Clyde L. Powell, dated July 12, 1951, which starts out by saying:

The sponsors of the captioned projects have requested a rent increase. Forwarded herewith are sponsors' exhibits to support their claim of increased operating costs. This office has examined their exhibits, inspected the project, and has prepared the attached operating figures which it feels to be reasonable.

Does this letter refer to the application you have in your hand?

Mr. BROS. Well, I suppose it does. I don't know of any other applications that were made for a recent increase.

Mr. SIMON. The first item shown here, on which the rent was computed, which Mr. Barringer discussed with Mr. Powell, is land and structure, plus working capital, \$15,575,302, at 6½ percent.

Mr. BROS. Is that the the figures that were furnished by the corporation?

Mr. SIMON. I was about to ask you.

Mr. BROS. How would I know what Mr. Barringer did, sir?

Mr. SIMON. I was about to ask you if you knew where Mr. Barringer—

Mr. BROS. It seems that this discussion could be based on fact. I think there are copies of applications around here that someone has, rental applications.

Mr. PAUL. We were asked to produce those.

The CHAIRMAN. Will you talk a little louder?

Mr. BROS. All of the data is available in a rental application. There is no use of me trying to rely on my memory.

The CHAIRMAN. I suggest that we recess

Mr. SIMON. Before we recess, could you give us those applications?

Mr. RICHARD. Yes, sir.

Mr. SIMON. Also, do you have the canceled checks representing these dividend payments that were called for in the subpoenas?

Mr. RICHARD. At this time I would like to have the record show I am Glen Richard, and I am representing Mr. Gordon and Mr. Hutman, and also the Shirley-Duke Corp., sections 1 and 6, and sections 4 and 5.

Now, for those particular corporations, we do have the canceled checks for all distribution to the stockholders of those respective corporations.

Mr. SIMON. May we have those, Mr. Richard?

Mr. RICHARD. We have the originals; if they can be withdrawn, if you want photostats of them, of course, that can be arranged.

The CHAIRMAN. Let us have the originals and we will return them to you.

Mr. SIMON. Do you have the canceled checks for the other two corporations?

Mr. PAUL. I have, and also the applications for the rent increase, but the applications for rent increase were made with respect to all 6, and I think if you have 1 copy you have got the whole works.

I believe that is correct.

Mr. RICHARD. I believe that is the application on behalf of all six corporations.

Mr. PAUL. I would like to have the record show that pursuant to the subpoena, the canceled checks with respect to the distributions to stockholders from sections 2 and 3 of Shirley-Duke corporations are delivered to you.

Mr. SIMON. I am happy to have the record show that Mr. Paul has handed me two envelopes which I assume contain the documents he referred to.

The CHAIRMAN. Unless there is something else here, we will now recess until 2 o'clock and meet in this same room.

(Whereupon, at 12:25 a recess was taken until 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

The witness will resume the stand. Mr. Simon, will you proceed?

Mr. SIMON. Mr. Budwesky, I am now referring to Shirley-Duke Corps. 4 and 5.

In those two corporations we have been told that Alfred Bornstein, William Bornstein, and Adolph Klein own stock; is that correct?

Mr. BUDWESKY. They did at one time, sir.

Mr. SIMON. And the sheets of paper which were supplied to us this morning in response to the subpoena list William Bornstein as owning 13 shares, Alfred Bornstein, 8½, and Adolph Klein, 8½ shares. Is that the amount they did own?

Mr. BUDWESKY. They owned 30 shares altogether, so 8½—13; correct.

Mr. SIMON. I hold in my hand, Mr. Budwesky, 4 checks of Shirley-Duke Apartments, Section 4, Inc., and 4 checks of Shirley-Duke Apartments, Section 5, Inc., which total \$110,000, each of which is made out to the order of Carl Budwesky, common trustee, and in the upper left-hand corner of 2, 1 for each corporation, is the name of "Klein," in the upper left-hand corner of 2, 1 for each corporation, is the name of "William Bornstein." The same for Alfred Bornstein, and then 1 check apparently bears the name of all 3 of them.

All of these checks are endorsed on the reverse—excuse me. I withdraw that.

Two of the checks, one for each corporation, are endorsed on the reverse side "Deposit to the credit of Carl Budwesky, trustee," and the other 6 bear a rubber stamp which reads "Credit to the credit of the above-named payee, First National Bank of Virginia."

Did you receive these checks?

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. Were they deposited in your account?

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. Is that a separate bank account that you maintain as trustee.

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. Were any other funds ever deposited in that bank account other than the proceeds of these 8 checks?

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. What funds went into that account?

Mr. BUDWESKY. Well, I had certain other fiduciary funds. I can explain that situation to you very easily, sir.

Mr. SIMON. I would be happy to have you do so.

Mr. BUDWESKY. The checks represent the distribution to the payees, or to not the payee, because I am named as the payee, but the checks represent the amount of money that was due to William Bornstein, his son Alfred Bornstein, and their partner, or associate in business, Adolph Klein, for the distribution due them on their 15 percent of the stock in sections 4 and 5 of Shirley-Duke.

The money was paid over to me, instead of being paid directly to the three gentlemen who were actually entitled to receive it, because in another transaction, wherein Mr. Loftus and the plumbing and heating firm of William Bornstein & Sons were involved, Mr. Loftus felt that he was entitled to, or wanted some sort of leverage of pro-

tection because he felt that he had overpaid them as a subcontractor on another job, and I think he must have discussed it with Mr. Hutman in some manner of trying to hold some leverage over them to protect him on this other transaction, so the money was paid to me, the situation was worked out between Mr. Loftus and Mr. Bornstein, and when I was authorized and told that everything was clear, I paid the money out to Mr. Bornstein and the son and Mr. Klein.

Mr. SIMON. Do you have canceled checks to Klein and Bornstein?

Mr. BUDWESKY. Oh, yes. I had to go through that very carefully with the Internal Revenue when they checked my individual returns and saw this amount of money credited to my account. But I do have all the canceled checks showing that this amount of money was in due time paid over to Mr. William Bornstein, Mr. Alfred Bornstein, and Mr. Adolph Klein.

Mr. SIMON. Would you make those checks available to us?

Mr. BUDWESKY. I would be glad to do so.

Mr. SIMON. Mr. Loftus was neither a stockholder nor, so far as we can gather, in any way directly connected with this project. Why would he have that amount of leverage over the corporation?

Mr. BUDWESKY. Well, I think Shirley-Duke was a deal, because Mr. Loftus approved it for Shirley-Duke or for Investors Diversified Services, he being their consultant. His O. K. made the deal possible, so I suppose the boys who were connected with Shirley-Duke realized that the whole thing came into being more or less because in the final analysis Mr. Loftus gave his consent, and if he asked them to do this, that, or the other thing for them I imagine they were inclined to do so.

Mr. SIMON. Did he ever get compensated in any way, that you know of, for putting the deal together?

Mr. BUDWESKY. No, he did not. I am confident that Mr. Loftus never received anything out of Shirley-Duke transactions, either from the Shirley-Duke corporations, or from Investors Diversified Services. I think maybe he got some expense money, if he attended a consultants' meeting, which they used to have probably every 90 days in New York, but outside of that I am confident that Mr. Loftus never received anything. He did this because he was a very close friend of the Investors' officials heading up the mortgage loan department, and that is the reason, the only reason that I know of.

Mr. SIMON. Mr. Preston, I have before me a list of stockholders of Shirley-Duke 2 and 3.

Mr. PRESTON. Yes, sir.

Mr. SIMON. Owning 30 shares in each company is E. M. Bros, Silver Spring, Md.; who is Mr. Bros?

Mr. PRESTON. The gentleman sitting right here.

Mr. SIMON. And he at the time this corporation was incorporated was the Washington manager of Investors Diversified Services?

Mr. PRESTON. That is right.

Mr. SIMON. He purchased 30 shares in each corporation. How much did he pay for it?

Mr. PRESTON. The regular share amount. What was it?

Mr. SIMON. It would be \$150 for each corporation, and \$300.

Mr. PRESTON. That is right.

Mr. SIMON. And he received dividends of \$110,000; is that right?

Mr. PRESTON. That is right. That paper is correct, what it says there.

Mr. SIMON. What reason was there for cutting Mr. Bros into this project?

Mr. PRESTON. The only reason for that was Mr. Bros and I had been friends——

The CHAIRMAN. Will you talk a little louder, please?

Mr. PRESTON. The only reason for that was Mr. Bros and I had been friends for a long time in association and a business way.

The CHAIRMAN. You and Mr. Bros had been friends for a long time?

Mr. PRESTON. That is right.

Mr. SIMON. Has he ever been an employee of yours?

Mr. PRESTON. Not up to that time, no. He isn't now. He is part of the corporation, but not an employee of mine.

The CHAIRMAN. The question was. Was he ever an employee of yours?

Mr. PRESTON. No.

Mr. PAUL. He is now.

Mr. BUDWESKY. Excuse me for interrupting——

Mr. SIMON. At an executive session of this committee, did you tell us, Mr. Preston, Mr. Bros was an employee of your concern?

Mr. PRESTON. Yes, but I think that was an error on my part.

I covered the whole thing, but I made an error in saying Mr. Bros and another person——

The CHAIRMAN. In other words, in executive session you made an error in stating that Mr. Bros was an employee of yours?

Mr. PRESTON. That is right.

The CHAIRMAN. How many employees do you have?

Mr. PRESTON. At that time I probably had 150.

The CHAIRMAN. And you made a mistake saying that Mr. Bros was an employee?

Mr. PRESTON. I didn't quite understand the statement at the time. You were talking to someone else, and I made the error.

The CHAIRMAN. You permitted Mr. Bros to buy \$150 worth of stock, or was it \$300?

Mr. SIMON. \$300.

The CHAIRMAN. \$300 worth of stock, for which he has since received dividends of \$110,000 just because you liked him?

Mr. PRESTON. That is correct; exactly.

The CHAIRMAN. I wish you would like me.

Mr. PRESTON. If I had known you as well as Mr. Bros, I would have.

Mr. PAUL. Mr. Chairman, this error was corrected, I may say, in the telephone conversation I had with Mr. Simon.

Mr. SIMON. But only after we had issued a subpoena for Mr. Bros.

Mr. PAUL. I don't recollect.

Mr. YEATMAN. I think the chairman should see that testimony. Mr. Preston wasn't testifying when it happened. It is a misunderstanding.

The CHAIRMAN. I don't think it is too serious.

Mr. SIMON. Who is Mr. E. G. Wallentsik of Yonkers, N. Y., Mr. Preston?

Mr. PRESTON. He is a job accountant who first worked under me—he worked in the Venezuelan Embassy—

The CHAIRMAN. Maybe you had better sit up here.

Mr. PRESTON. Mr. Wallentsik worked for me on the Venezuelan Embassy and on the Greyhound Bus Terminal, as an accountant.

Mr. SIMON. Was he an employee of yours in 1949?

Mr. PRESTON. When the project was built, you mean?

Mr. SIMON. Yes.

Mr. PRESTON. Yes, he was my job accountant.

Mr. SIMON. Who is H. E. Hamilton, Columbus, Ohio?

Mr. PRESTON. He was my superintendent on the job.

Mr. SIMON. He was an employee in 1949?

Mr. PRESTON. That is right. He ran the construction business.

Mr. SIMON. Who is M. I. McHugh?

Mr. PRESTON. Just another friend of mine.

Mr. SIMON. A friend of yours?

Mr. PRESTON. That is all.

Mr. SIMON. Is he an employee?

Mr. PRESTON. No, he is not.

Mr. SIMON. Then when you said the other day all these people were employees, that was also a misstatement?

Mr. PRESTON. That is right.

Mr. SIMON. What is Mr. McHugh's business?

Mr. PRESTON. He is a Government employee.

Mr. SIMON. Where in the Government does he work?

Mr. PRESTON. I would rather not discuss that.

The CHAIRMAN. You would rather not?

Mr. PRESTON. Not divulge that.

The CHAIRMAN. You must do that, Mr. Preston. Otherwise you will be in contempt of this committee.

Mr. PRESTON. He works for—

The CHAIRMAN. What is wrong with it?

Mr. PRESTON. Well—

The CHAIRMAN. Where did he work?

Mr. PRESTON. Just a minute.

Mr. SIMON. What was the answer?

The CHAIRMAN. He said, "Just a minute."

Mr. PRESTON. I can't think of the name at the present moment. I am not trying to evade the question.

The CHAIRMAN. I understand. You go ahead.

The point is, he is a Government employee?

Mr. PRESTON. That is right.

The CHAIRMAN. You cannot think of the department he works in?

Mr. PRESTON. Not at the moment. I can't even think of the initials of it. It is a highly secret organization.

The CHAIRMAN. CIA?

Mr. PRESTON. That is right.

The CHAIRMAN. He is in CIA?

Mr. PRESTON. Yes.

Mr. SIMON. Was he of any help to you in this project?

Mr. PRESTON. No, other than just being a friend of mine. I didn't think of any reason why you couldn't sell some of your friends some stock if you wished to.

Mr. SIMON. Mr. Budwesky, referring to Shirley-Duke Apartments 3 and 4, you received dividend checks which are endorsed "Carl Budwesky, oil account." What is the significance of that?

Mr. BUDWESKY. Well, there is no significance to it. It is just one of my bank accounts. I have an account that I call an attorney account, in which I would deposit funds that perhaps were due for, some of which might belong to me, and some of which would have to be paid out to different people. I have a rent account in which I would deposit rents that I might receive from properties that I own.

The oil account is an account that I opened up when in my advent into the Wilmington, Del., area, I bought some participations in some wildcat oil deals, with oil associates, and it just happened that I deposited that particular check, if that is what is on there, in the account that I designated "oil account."

Mr. SIMON. Did anybody other than yourself ever get any of the proceeds of that check?

Mr. BUDWESKY. Why, of course not. You mean anything going into my account, oil account?

Mr. SIMON. Yes.

Mr. BUDWESKY. No, that is my money.

Mr. SIMON. And it was disbursed only to you?

Mr. BUDWESKY. That is right, absolutely.

Mr. SIMON. Mr. Gordon, who is Hubert Spaulding, of Vienna, Va.?

Mr. GORDON. He is my superintendent, been working for me since 1937.

Mr. SIMON. And who is Harold J. Fredricks, of Falls Church?

Mr. GORDON. He is more or less office manager, who has been working for me for a considerable length of time. I don't remember just when he came to work.

Mr. SIMON. Mr. Budwesky, I have been asked a question that I think is perfectly clear, but I want to make sure the record is clear on it.

The amortization of the mortgage loan on these projects is paid out of the income of the property coming from the rents: is that correct?

Mr. BUDWESKY. Yes, sir.

Mr. SIMON. And I take it that assuming no default in the 31-year period of the loan, the present stockholders, in addition to the distributions they have already received, will end up owning free and clear real estate that they now value at \$15 million; is that right?

Mr. BUDWESKY. That is absolutely correct; yes, sir. I mean it isn't something peculiar to Shirley-Duke.

Mr. SIMON. No.

Mr. BUDWESKY. I mean it is true with the ownership of any property. If you pay off the mortgages and obligations against it, and you don't owe any more on it, then you own it.

Mr. SIMON. And the mortgage in the absence of default, would be paid off out of income from the property and the value of the property would accrue to the people interested in it without payment of any taxes on the property; is that right?

Mr. BUDWESKY. That is perfectly true, sir, and I think that is what makes America.

Mr. SIMON. In the 80th Congress, the Congress passed a law which is dated December 27, 1947, two sentences of which read as follows:

Title VI of the National Housing Act—

and section 608, I might add, is a part of title VI—

as amended, shall be employed to assist in maintaining a high volume of new residential construction, without supporting unnecessary or artificial costs. In estimating necessary current costs for the purposes of said title, the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations.

That is the end of the quote.

Is there any explanation of how the Commissioner was so far off in estimating the actual costs, and I assume your people were efficient builders, how he was so far off in estimating actual cost of this proposition?

Mr. BUDWESKY. The Commissioner undoubtedly operated in setting up the replacement cost of the Shirley Duke project by the same yardstick that his agency employed in approving the replacement valuation of any other project. Surely, there was nothing special set up insofar as Shirley-Duke is concerned.

Now, if I may be permitted to answer you fully and completely in this, and if it is a factual statement that you are seeking with reference to the operation of FHA, I think perhaps I may be able to clarify some things that presently seem to be awfully confused in many people's minds.

There are many different manners in which some of these operations were set up. If the sponsor of a project, or the sponsors of a project, were a combination of an architect and a builder, and they wanted to get in on a section 608 project, and certainly FHA did everything it could to induce people to come on in and get in on this program, and provide housing, which was then badly needed, they realized that certain pushoff or start off or front money was necessary to get the thing underway, in spite of the fact that you seem to make so much of the point there is only \$1,000 or \$6,000 in common stock. That doesn't mean anything. That is what the final equity investment is, if everything works out all right, but if anything goes wrong, my friend, there is an entirely different picture.

An architect and a builder needing, say, perhaps \$200,000 of front money, in order to get the thing up to the point where they could even apply to FHA—you had to pay a lot of money to even file your application—would go to somebody that they considered investment capital and make a proposition to them. The architect would figure he would be very happy if he got his 5 percent architect's fee out of the deal. The builder would be happy to take the 4 or 5 percent, whichever FHA set up as a part of the deal.

Mr. SIMON. Did Lueders ever get a 5 percent architect's fee?

Mr. BUDWESKY. No, he didn't. I told you what he got; \$30 a unit.

Mr. SIMON. Which is about a half of 1 percent, isn't it?

Mr. BUDWESKY. Whatever it is it speaks for itself. I told you he got \$30 a unit, which is about \$63,000.

Mr. SIMON. And that is all he ever got?

Mr. BUDWESKY. Exactly right, sir, and I will say this to you: If there has been an instance in which FHA has ever issued a commitment, in which its replacement value did not include a 5 percent architect's fee, I have never heard of it.

You are in a position to tell me if they ever did. I doubt it very much, because they set it up.

As a matter of fact, in the commitments issued by FHA itself, where advances under an FHA insured mortgage are to be insured as they are made during the course of construction, when you try to figure out how the sponsor is going to meet his equity requirement, FHA provides that the architect is going to get blank dollars in cash, and the sponsor gets credit, as against his equity requirement for whatever portion of the 5 percent architect's fee is in their estimate that is not going to be paid to him in cash.

Mr. SIMON. That is only if he misstates the fact as to what is the architect's fee, isn't it?

Mr. BUDWESKY. Who misstates the fact?

Mr. SIMON. The applicant. In your application here you listed—

Mr. BUDWESKY. I am not talking about the application. I am talking about FHA's replacement schedule which they set up. I don't care what you put in your application fee for an architect's fee. I don't believe FHA would ever have wound up other than setting up 5 percent for an architect's fee, and I don't think they ever did.

The CHAIRMAN. Do you think FHA gave you or permitted you to put 5 percent architect's fee on—5 percent on \$12 million would be what, \$600,000?

Mr. BUDWESKY. Six hundred thousand dollars.

The CHAIRMAN. Do you think FHA intended to allow you \$600,000 on this mortgage, knowing that you were only going to spend \$63,000 for architect's fees?

Mr. BUDWESKY. They did it hundreds and hundreds of times, sir. Their own commitment forms recognized the fact that the architect isn't going to get the cash.

The CHAIRMAN. Do you think that FHA, in your instance, knew that—they said to you "You can spend, if you want to, 5 percent"? That is what they said to you?

Mr. BUDWESKY. That is right.

The CHAIRMAN. Do you think they knew you only spent one-half of 1 percent?

Mr. BUDWESKY. I don't think they paid a particle of attention to what was spent for it.

The CHAIRMAN. You don't know?

Mr. BUDWESKY. No, I know they didn't.

Mr. SIMON. Did you ever tell them the architect's fee was only going to be a half of 1 percent?

Mr. BUDWESKY. Well—

The CHAIRMAN. You put in your application it would be 5.

Mr. BUDWESKY. That is because that is the way FHA wanted the applications filed.

Mr. SIMON. Did they ever tell you that?

Mr. BUDWESKY. I don't believe you would have gotten a commitment out of FHA if you didn't put in 5 percent for the architect fee.

Mr. SIMON. That is the very point.

Mr. BUDWESKY. I think the architects wrote the law.

Mr. SIMON. Let me ask you this on that point, in this application it asked for estimated requirements for this project, and you have the estimated requirements for architects, builders' fees, and a lot of fees, and it comes down to financing expense, and it says here one and a half percent.

Mr. BUDWESKY. That is right.

Mr. SIMON. Actually, the financing expense was six and a half percent.

Mr. BUDWESKY. The loan agreement is in here, my friend. Now, we have told you before that at the time that application was filed it was contemplated the Investors Diversified Services were going to get a one and a half percent finance fee, and they were going to own 50 percent of the project.

Mr. SIMON. You changed—

Mr. BUDWESKY. Then they changed their terms.

Mr. SIMON. Did you ever tell that to FHA?

Mr. BUDWESKY. I didn't.

Mr. SIMON. Did anybody?

Mr. BUDWESKY. I don't think they did, no.

Mr. SIMON. The application that I held in my hand—

Mr. BUDWESKY. I don't think it would have made any difference.

Mr. SIMON. Whether it made any difference or not, as you know, Mr. Budwesky, there is a statute that makes it a crime to falsify certifying to an agency of the Federal Government. Maybe it wouldn't have made any difference if they had been told the truth, but the fact is that these applications didn't say what was going to happen.

Mr. BUDWESKY. I will say this to you, sir: That there was nothing falsely certified to FHA in connection with the Shirley-Duke project, and if you want me to establish that for you I can do it in 2 minutes.

If FHA didn't insure this loan until after it was complete—before it was completed we had to furnish FHA with a copy of our charter, a copy of our bylaws, and a certified copy of the minutes of every meeting of the board of directors and stockholders of this corporation. All of those records completely show that the capital investment here by the stockholders of these projects was \$1,000 for 200 shares of stock in each corporation, and every other dollar that was used in the building of these projects was borrowed money.

Mr. SIMON. Mr. Budwesky, if your original application had shown the facts we have talked about here today, do you think it is conceivable FHA would have issued the commitment?

Mr. BUDWESKY. What facts are you talking about?

Mr. SIMON. That the financing expenses would be 6½ percent, that the architect's fee would be a half of 1 percent, that the equity capital would be \$1,000—if all that had been in the application is it conceivable FHA would have issued the commitment?

Mr. BUDWESKY. Well, since it was a commitment to insure after completion, FHA was not interested in what the equity capital was, because if they had been interested in what the equity capital was then their commitment would have specified what the equity capital should be, and how it should be provided, which is absolutely what they do require if they are going to insure the advances, but when they insure after completion they have no requirement as to equity capital, so I assume from that that they have no interest in what the equity capital should be, and I definitely think that the material that is in those applications, since I have since been apprised, I understood originally that there were two applications filed—whether one was put in and then because they changed their mind they allowed them to take one out and put in another, I don't know the mechanics, but I will say this: That in the application for insurance after completion, I am confident

that FHA regulations do not require any information or any facts with regard to what equity capital is going to be.

Mr. SIMON. Do you know where we can find a copy of the application that you refer to, the so-called second application?

Mr. BUDWESKY. I don't know. I don't know. All I do know is that in an application, or what I am trying to say to you is that I am confident that in an application to FHA for a commitment to insure after completion, they have no requirement from the sponsor for equity capital.

Mr. SIMON. Do you have a copy of such an application for Shirley-Duke?

Mr. BUDWESKY. I have never had a copy of an application for Shirley-Duke.

Mr. SIMON. Do you know anybody who does have a copy of such an application?

Mr. BUDWESKY. Yes, I do.

Mr. SIMON. Who?

Mr. BUDWESKY. If they are in existence, then FHA should have them.

Mr. SIMON. I can only tell you that the only applications we find in the FHA files are these dated March 10, 1949.

Mr. BUDWESKY. I can tell you this: I do have copies of all of the commitments issued by FHA in connection with each of these six corporations, and not a one of those commitments has any requirement as to equity capital.

Mr. SIMON. Oh, but the commitments refer to land at the value of \$500,000, which had been purchased a few days earlier for \$180,000.

Mr. BUDWESKY. Commitments?

Mr. SIMON. Yes.

Mr. BUDWESKY. Where do you see any capital—where do you see any equity capital requirements in this commitment?

Mr. SIMON. I have the commitment for No. 2 in my hand. Each of them lists the value of the real estate that went in here doesn't it? Doesn't your commitment show the value of real estate?

Mr. BUDWESKY. I have a commitment here consisting of four pages, which is the commitment, and if you can show me anything in there that requires any equity capital on the part of the sponsors of this corporation I will be very much surprised.

Mr. SIMON. I am sorry, I am referring to the project analysis of FHA.

Mr. BUDWESKY. That is a document prepared by FHA.

Mr. SIMON. Yes, and it is the basis on which the commitment is issued.

Mr. BUDWESKY. It is their termination of the replacement cost of this project, not ours.

Mr. SIMON. But follows your application, doesn't it?

Mr. BUDWESKY. I don't know whether it did or not.

Mr. SIMON. I will be glad to show it to you.

The CHAIRMAN. Isn't the commitment guaranteeing the mortgage based upon your application that you filed with it?

Mr. BUDWESKY. No.

The CHAIRMAN. If it isn't, what is it based upon?

Mr. BUDWESKY. The commitment is issued to Investors Diversified Services, Inc., the FHA never dealt directly with an owner. They

dealt with the mortgagee. The commitment is issued to Investors Diversified Services, not to Shirley-Duke 1, 2, 3, 4, 5, 6.

The CHAIRMAN. That is right, and I do not know whom it is issued to, and don't care. All I know is that you filed an application signed by Mr. Preston, and signed by Investors Syndicate, as the mortgagee's application, and the mortgagors' application was signed by Mr. Preston.

Mr. BUDWESKY. That is right.

The CHAIRMAN. And that application was the basis upon which FHA made up this analysis that Mr. Simon was talking about, and the basis upon which they gave you a commitment to purchase or to guarantee the mortgage, when the project was completed.

Mr. BUDWESKY. That is very undoubtedly true.

The CHAIRMAN. And the records show, according to the testimony here this morning, that the application that you filed, that I hold in my hand, was possibly not a true application. The facts were not true.

Mr. BUDWESKY. I can't agree with you on that, Senator, because I would like to have——

The CHAIRMAN. It was definitely testified here this morning that the gentleman did not own the land.

Mr. BUDWESKY. He didn't have to own it at the time he filed the application. It says "sources of equity." That means that if we had gotten a commitment that required us to have equity capital investment at the time, before the insured commitment, or the commitment to insure would be issued, we would be able to show that we had complied with the conditions of our application, but there is no equity required.

The CHAIRMAN. It says as to resources you put in other equity of at least \$221,000. Where was that equity?

Mr. BUDWESKY. I will say this, sir: I seem to have a great deal of difficulty getting the idea over.

If this had been a commitment whereby FHA was going to insure advances during the course of construction, before that commitment would have been issued all of this equity capital would have to have been provided and the mortgagee would necessarily have had to certify to FHA that it had the equity capital funds in hand before the commitment would be issued.

The CHAIRMAN. Well, then, this application, as far as you are concerned, meant nothing?

Mr. BUDWESKY. The application, insofar as it contains any information with regard to equity capital being an application to insure, after completion, contains a lot of superfluous material, because there was no equity capital requirement in an application for insurance after completion. The persons who filled out the application blanks, perhaps did not understand when they filled it out that no equity capital was required. They undertook to specify how it would be provided, if, as, and when it would be required, and they suddenly found out that it wasn't necessary, so, consequently, that information in there is superfluous.

Mr. SIMON. Was Jay Charlie Lewis to be a sponsor of this project, Mr. Budwesky?

Mr. BUDWESKY. I haven't the slightest idea. I have never seen one of these applications.

Mr. SIMON. Mr. Lewis, the application for FHA insurance on Shirley-Duke No. 2 lists you as a sponsor, and it says that you are going to put up equity of \$198,500. Did you know that?

Mr. LEWIS. It would be what you term a source of equity if called upon to be able to help Mr. Preston, assist him, and of that there would be, of course, no interest in the project.

Mr. SIMON. Did you know it listed you?

Mr. LEWIS. Yes. I recall something at the time. If necessary, I could be called upon to secure that source of equity.

Mr. SIMON. Did you have \$198,000?

Mr. LEWIS. I had access to get sources of that.

Mr. SIMON. Access to what sources?

Mr. LEWIS. I could have any number of people who could assist me.

Mr. SIMON. I take it Mr. Preston could get any number of people to assist him, but why did this application tell FHA—

Mr. LEWIS. Because I had some property, and I had some cash, and what I didn't have, as stated, I could secure.

Mr. SIMON. At the time this application was filed and listed you as a source of equity of \$198,500, what was your net worth?

Mr. LEWIS. Let me see, I had practically that amount in cash—

Mr. SIMON. You had that amount in cash?

Mr. LEWIS. Just about.

Mr. SIMON. Your own money?

Mr. LEWIS. That is right, and I had some property in my name.

Mr. SIMON. Was the cash on deposit in a bank?

Mr. LEWIS. I believe so.

Mr. SIMON. What bank?

Mr. LEWIS. I believe so. Cleveland Trust Co. I had mortgaged out two buildings.

Mr. SIMON. Where, in Cleveland?

Mr. LEWIS. In the Cleveland Trust Co.

Mr. SIMON. What do you mean by mortgaged out?

Mr. LEWIS. You can pay your bill and secure a new loan.

Mr. SIMON. You had some FHA buildings out there?

Mr. LEWIS. No, they were not FHA buildings, it is possible after you pay it down to secure a new loan, which is your own money. You still have the obligation to pay.

Mr. SIMON. You had approximately \$198,000?

Mr. LEWIS. No. I didn't have that much in cash. I had some real estate.

Mr. SIMON. I thought you said a moment ago you had approximately that much in cash?

Mr. LEWIS. No. I think your cash was 90, wasn't it? Wasn't your cash 90?

Mr. SIMON. It doesn't break it down here.

Mr. LEWIS. I don't know just exactly.

Mr. SIMON. Then, immediately below your name here, where it says "real estate and other assets, \$198,500," it says "See letter of Investors Syndicate as dated March 9, 1949."

Do you know what that letter said?

Mr. LEWIS. No, I don't.

Mr. SIMON. I will be glad to show you the application, if that will refresh your memory.

Mr. LEWIS. I don't know what that letter is. Is the letter available?

Mr. SIMON. I don't know, sir. I have never seen it.

Mr. LEWIS. Is there a letter available?

Mr. SIMON. I have a letter of March 9, 1949, from Investors Syndicate, which Mr. Bros had this morning, but it doesn't refer to you in any way.

Mr. LEWIS. This is a letter that states that they are going to take the commitment upon completion.

Mr. SIMON. All that letter says, is that they will determine that the mortgage is a first lien on the property, and that upon completion all the construction costs will have been paid, but it doesn't refer to your putting up \$198,500.

Mr. LEWIS. It just says this here is sources of equity.

Mr. SIMON. Yes, but I am wondering what the letter of Investors had to do with it. It talks about putting up that equity, and then says, "See letter of Investors."

Mr. LEWIS. I am at a loss to know what that letter is. If nobody has it—isn't there anything in any files or anything available as to that letter, or does it refer to this?

Mr. SIMON. Mr. Bros, do you know whether there is any other letter of Investors?

Mr. BROS. No, I don't think so, Mr. Simon. I have seen some of these applications where it was written over to March 8. It probably refers to the March 8 letter.

Mr. SIMON. What connection would this March 8 letter have with Mr. Lewis putting up money?

Mr. BROS. I don't think it would have any connection. The applications were made the same, it says Mr. Preston, and gives certain things under his name: Mr. Lewis, and certain things under his name, and then Investors.

Mr. SIMON. Why would it say "See Investors' letter of March 9"?

Mr. BROS. Where else in this form would you put it? That is the last line left.

Mr. SIMON. It also appears on the fourth page.

Mr. BROS. Maybe it is the same letter. I can't remember. There is the change.

Mr. SIMON. Why would they refer to the same letter under completion of the project, and this letter does refer to the completion of the project, and also refer to it under sources of equity capital?

Mr. PAUL. It does.

Mr. BROS. I am afraid it says something there about that.

Mr. PAUL. Preferred stock.

Mr. BROS. It says Investors Syndicate will—do you want me to read this into the record?

The CHAIRMAN. Yes.

Mr. BROS (reading):

A. Determined the instrument securing the section 608 mortgage loan is a first and valid first lien on the property therein described, and the premises are free and clear of all liens, other than than of the mortgage to be insured, except those waived by the Commissioner;

B. Verify and cause to be paid—cause to be paid—and certify to the Commissioner that to the best of its knowledge and belief there are not outstanding any unpaid obligation—any unpaid obligations contracted in connection with the purchase of the property, the construction of the project, or the mortgage transaction, except obligations for the payment of which funds are held by the

mortgagor, or mortgagee, and obligations which will be fully paid out of the mortgage fund, or are secured by collateral other than the mortgage property, and, further, except second preferred stock of mortgagor if issued for additional loan funds, if any required for the above purchase and advanced by Investors Syndicate which are not satisfied by the section 608 mortgage loan.

I would take that to mean, in my memory, and again I point out it is my memory, that that letter was drawn up by one of Investors' attorneys. I don't remember which one it was. There were several of them. Mr. Burke, I believe, was in on it, and Mr. Dan Farr, who I don't think was a valid employee of Investors, but I think he was a counsel for Investors, and I do not remember the other chap's name.

Mr. SIMON. Do you know whether this is the only letter of Investors that is referred to in these applications?

Mr. BROS. I can't say it is the only letter. I believe it to be the only letter.

Mr. PAUL. That is a source of equity.

Mr. BROS. I would say it is a source of equity. It says that the payments are to be paid; that there will be no unpaid obligations, and they will see they are paid, it seems to me.

Mr. SIMON. Mr. Bros, since we referred to it this morning have you had a chance to refresh your recollection about the application for rent increase?

Mr. BROS. I had the papers put in and that was the end of it. I gave you back those.

Mr. McCARTIN. I handed it back to you, Mr. Simon.

Mr. SIMON. This is the application which you prepared and submitted?

Mr. BROS. I wrote the letter, but I think I say right in the letter, "This data is sent to you at the request of the owner of the apartments with the idea that the actual cost of operating the apartments warrants an increase in the rents."

As far as I remember, the data was prepared by Mr. Harold Fredricks, who was the manager of the Shirley-Duke Apartments.

Mr. SIMON. I show you a letter dated July 12, 1951, from the Director of the Washington office of FHA, to Clyde Powell, transmitting your application for an increase in rent costs.

Mr. BROS. Yes, sir.

Mr. SIMON. I ask you if you have any knowledge of the facts, sir?

Mr. BROS. No, sir, but I suppose it was the general method of working it out.

Mr. SIMON. In that letter Mr. Barringer computes the recommended new rent schedule, including a 6 $\frac{1}{2}$ -percent return on land and building valued at fifteen-million-some-odd dollars. Do you know where—

Mr. BROS. Land and structure, plus working capital. I don't know what the working capital represents.

Mr. SIMON. The amount is \$15 million—

Mr. BROS. \$575,302. Somebody will have to tell me what working capital is.

Mr. SIMON. Do you know where Mr. Barringer got that figure?

Mr. BROS. Before lunch I pointed out to you that these applications, the whole form, I believe, was handed to you. Those would have to be studied.

Mr. SIMON. Here is the file that you gave me, which incidentally contains a carbon copy of the paper you have in your hand and the rent schedule returned to you is the rent schedule Mr. Barringer recommended.

Is there any doubt in your mind but what that \$15 million figure was given to Mr. Barringer by the owners of the property?

Mr. BROS. If you want to give me time enough to go through this thoroughly, I could probably answer that question. I am not going to answer it offhand.

Mr. SIMON. I would be very glad to.

The CHAIRMAN. What was the original mortgage on all six projects?

Mr. BUDWESKY. Thirteen-million-eight-hundred-thousand some-odd dollars.

The CHAIRMAN. How does it get up now to \$15 million?

Mr. BUDWESKY. I never knew it did. I don't know why it should.

Mr. GORDON. That is the valuation.

The CHAIRMAN. That is the application for a rent increase, listing it at \$15 million plus.

Mr. PAUL. I think the chairman is mistaken.

Mr. BUDWESKY. FHA knew what actual cost was.

Mr. SIMON. As a matter of fact, you people furnished us just yesterday with a balance sheet that showed you appreciated the value of these properties by between somewhere around two and a half to three million dollars.

Mr. BUDWESKY. I don't know anything about that, sir. I didn't give it to you. I don't know—you know what I mean. If you want a cost statement, the same as we use in dealing with the Bureau of Internal Revenue for tax purposes, that is one thing.

Mr. SIMON. Isn't the \$15½ million figure on which FHA based the new rents your appreciated value of the properties?

Mr. BUDWESKY. I just can't conceive of that, because I couldn't conceive of FHA doing that in the face of their own records showing exactly what the project cost; and what the mortgage is. They base their rents on mortgage.

The CHAIRMAN. There is a lot of things we don't seem to be able to conceive of around here that has to do with the testimony this morning, but the fact remains it is 15 million something in this letter from Barringer.

Mr. BUDWESKY. Well then I think——

The CHAIRMAN. What we are trying to find out is, when you asked for a rent increase, did you state to FHA, and give a reason for the increase, that the properties were worth 15 million plus, and ask 6½ percent on 15 million plus? Did you or didn't you?

Mr. BUDWESKY. I don't have the application, but I can't imagine that they did any such thing.

The CHAIRMAN. Who made the application for the rent increase?

Mr. BUDWESKY. I don't know.

Mr. BROS. I put the application in with data that was furnished me by the rental office.

The CHAIRMAN. Who furnished you the data?

Mr. BROS. Harold Fredericks, manager of the Shirley-Duke Apartments.

The CHAIRMAN. Mr. Fredericks gave you the figures, you turned them in to FHA and asked for a rent increase, and in doing so you used the figure of \$15 million?

Mr. BROS. Did I use the figure of \$15 million?

The CHAIRMAN. It is in there.

Mr. BROS. It is in the letter—

Mr. BUDWESKY. May I clarify the situation a little bit? I don't think valuations is what FHA would use in fixing the rents. They would use the amount of the mortgage.

The CHAIRMAN. You tried to get a rent increase and did get a rent increase and you used—the reason for the rent increase was that the valuation of the properties were over \$15 million.

Mr. RICHARD. Mr. Chairman, just before the noon recess, we filed with you the application material which had been furnished by Mr. Fredericks, the rental manager of Shirley-Duke.

Mr. SIMON. Mr. Bros has that.

Mr. BROS. Yes.

Mr. RICHARD. I assume you have carefully gone through this during the noon recess. I would like to ask this question: Is there any figure of 15 million in this application? I frankly do not know. That might simplify this.

Mr. SIMON. In the material you left with Mr. Barringer, or at least that he had, which he submitted to Mr. Powell, he computed the rent increase on the basis of the value of the property, structures, land, working capital of \$15½ million.

We also find in FHA's records balance sheets of this company, made by John W. Bisselle, and there is a note on the top "To be attached to annual report forwarded to C. L. P. on 9-24-51," and that and even your subsequent balance sheets showed that you wrote up the value of this property to approximately \$15½ million.

Mr. RICHARD. Of course, I am asking you, Mr. Simon, is the material which Shirley-Duke submitted in their application, through Investors Diversified, for rent increase, is there any figure of \$15 million plus in the material which we submitted?

Mr. SIMON. There is not. It appears only twice, once in your own balance sheets. If you will add up the appreciated value of your property as you show it on your balance sheets, it adds up to \$15½ million; and Mr. Barringer used that figure in his letter to Mr. Powell. I do not know where Mr. Barringer got it. That is what we are trying to find out.

Mr. GORDON. Mr. Simon, what is 90 percent of that figure you are speaking of, the \$15 million figure?

Mr. SIMON. What is what?

Mr. GORDON. What is the 90 percent of that \$15 million figure?

Mr. SIMON. I have figured it out, but it would be roughly \$14 million.

Mr. GORDON. \$14 million or \$13 million? That is the valuation which FHA originally put on the project, and it lent 90 percent of that, so it wasn't anything we had anything to do with. That was FHA's valuation of the project.

Mr. SIMON. The rent, then, was based on a \$15½ million valuation?

Mr. GORDON. From the very beginning. The rent was based on the valuation of the project.

Mr. BUDWESKY. Fixed by FHA.

Mr. GORDON. Fixed by FHA as Mr. Budwesky says.

The CHAIRMAN. Where are there any records to that effect?

Mr. GORDON. Look at your commitment.

Mr. BUDWESKY. In your commitment, you will see a replacement cost, won't you? If you will add up the replacement cost on each one of the six commitments, I think you will find that FHA estimated the replacement cost——

The CHAIRMAN. At \$15½ million?

Mr. BUDWESKY. Something like that, yes, sir.

Mr. SIMON. And it turned out that the cost to build was about \$11 million, is that right?

Mr. BUDWESKY. Whatever it was. I thought I said before, a little over 12.

Mr. SIMON. And, of course, the \$12 million included the \$1 million paid to Investors?

Mr. BUDWESKY. That is right.

Mr. SIMON. Now, during the period of construction, you had interest on your construction loan.

Mr. BUDWESKY. That is right.

Mr. SIMON. And taxes?

Mr. BUDWESKY. That is right.

Mr. SIMON. For your own bookkeeping purposes, did you charge that as a cost of construction or as an operating expense?

Mr. BUDWESKY. Well, we had the right of election under the Internal Revenue Code, to either capitalize it and take depreciation on it, over a period of years, or charge it off to operation.

Mr. SIMON. And you——

Mr. BUDWESKY. So we elected to charge it off to operation and that is the reason a lot of people think we built the property for a lot less money than we did because it doesn't include interest during construction, taxes or insurance.

Mr. SIMON. When you filed your application for a rent increase, did you charge the interest and taxes during construction as a cost of construction or as an operating expense?

Mr. BUDWESKY. I haven't the slightest idea. I don't know what they did in that application.

Mr. SIMON. In the application that Mr. Bros filed, he lists a comparison of the income estimated by FHA, and then actual experience of income and expense, is that right, Mr. Bros?

Mr. Bros. Information——

Mr. BUDWESKY. Could I answer you on that since you seem to make a point of it? I don't see where that would make a particle of difference. Under internal revenue law we have an election. Now we can get an immediate benefit by charging off these things to operation, or we can get a long-term benefit by capitalizing it, and getting our depreciation of 2½ or 3 percent over a long period of years, so it wouldn't make any difference in the application. That was merely the question taxwise. It hasn't anything to do with it in any other way.

Mr. SIMON. Don't you think they ought to at least have been consistent and charged it one way or another throughout?

Mr. GORDON. It was.

Mr. BUDWESKY. Well, after all, the cost is there. The cost of the building includes interest during construction, taxes, normal capital

investments. The fact that internal revenue gives you an election tax-wise, doesn't alter the fact that it is a proper cost.

The CHAIRMAN. Did you get a rent increase?

Mr. BUDWESKY. I believe they did. I don't know. I was not in Alexandria at the time.

The CHAIRMAN. Does anybody know?

Mr. BROS. Here is the letter.

The CHAIRMAN. How much was the rent increase?

Mr. SIMON. Here it is.

Mr. Bros, in the application which you filed on information given you by Mr. Fredericks, do you have a part on the last page headed "Actual experience of income and expense"?

Mr. BROS. I do.

Mr. SIMON. The first item under that is listed as "income," which I take it is your actual income. The next item is "less 7 percent vacancy."

Mr. Bros, at the time this application was filed in 1951, was 7 percent the actual vacancy?

Mr. BROS. Again, I am relying on these figures of Mr. Fredericks, but I think that is the way the FHA wanted the figures.

Mr. SIMON. The top half of the sheet is the FHA original estimate. In the FHA original estimate, which is the way they set it up, they allowed you 7 percent for vacancy, which I understand is their normal procedure.

Mr. BROS. That is correct.

Mr. SIMON. In the bottom half you are purporting to state what had been your actual experience. My understanding is——

Mr. BROS. The vacancy was not that much.

Mr. SIMON. It was a small fraction of 1 percent, wasn't it?

Mr. BROS. As I remember it, that is right.

Mr. SIMON. So this is in error when it says your actual experience was a 7 percent vacancy, isn't it?

Mr. BROS. It must be; yes, sir.

The CHAIRMAN. What was the rent increase that was granted?

Mr. BUDWESKY. Does anybody know?

Mr. SIMON. I believe it was from \$69.27 per apartment per month to \$72.75 per apartment per month, is that right?

Mr. RICHARD. Mr. Chairman, there is in that application a letter from Mr. Barringer, dated July 25, 1951, setting the new rents, and for a two-bedroom apartment, even under the increase the maximum was \$76 a month for a two-bedroom apartment.

The CHAIRMAN. But you did get a rent increase of about \$3 a month?

Mr. BUDWESKY. \$3 a month, that is right.

Mr. BROS. May I comment?

The CHAIRMAN. Yes.

Mr. BROS. You stated that in my letter to FHA, I put that \$15 million. That is an error and I wouldn't want that on the record.

The CHAIRMAN. You did not put it in?

Mr. BROS. No, sir; I can't find it here.

Mr. SIMON. It is not in your letter.

The CHAIRMAN. It is in Barringer's letter.

Mr. BROS. I can't control Mr. Barringer's letter, sir.

Mr. PAUL. Mr. Chairman, will you ask Mr. Bros or some one of these gentlemen that know this question: Was there any further allowance of 6½ percent allowed on account of the rent increase over the amount which was allowed with respect to the original valuation of the property, as made by FHA?

Mr. SIMON. I take it what you are saying is that the original valuation was \$15,500,000.

Mr. PAUL. I don't know what it was, but I understand your rent increase, sir, is not predicated at all upon any change of that original allowance of 6½ percent, but only upon increased costs.

Mr. SIMON. The original estimate of the value of the property was \$15½ million, and FHA allowed them a 6½ percent return on a \$15½ million investment?

Mr. PAUL. That is a gross return on it.

Mr. SIMON. When they went in for a rent increase, in spite of the fact that the building had turned out to cost them only \$11 million or \$12 million FHA gave them the rent increase, and retained the \$15½ million valuation in spite of the fact that the investment turned out to be some \$3½ million less?

Mr. PAUL. They protected their own loan by keeping the valuation what it was.

Mr. SIMON. Mr. Gordon, during the noon hour were you able to refresh your recollection on how much rent you received from that shopping center?

Mr. GORDON. How much rent I have received?

Mr. SIMON. Yes, sir.

Mr. GORDON. I have never received any.

Mr. SIMON. I thought you testified this morning that you and Mr. Black were the owners of the land on which the shopping center was erected?

Mr. GORDON. That is right.

Mr. SIMON. And that you received rent under that lease?

Mr. GORDON. No. I didn't say I received rents. I waived all the rent, because that shopping center is put in there as a convenience to the apartments and I have never received any rent on it.

Mr. SIMON. You have waived the rent or just deferred the payments?

Mr. GORDON. Waived it as far as I know. I haven't got any—

Mr. SIMON. You don't ever intend to collect any rent?

Mr. GORDON. Yes, if it gets to the point it can pay rent, I will take some.

Mr. SIMON. When it gets to that point, are you going to get rent only from then on, or are they going to pay you rent from the inception of the project?

Mr. GORDON. That will have to be decided then.

Mr. SIMON. What is your agreement with the company?

Mr. GORDON. I just told them they didn't have to pay me and it is no obligation.

Mr. SIMON. You are a third owner of the stock of the company, of course?

Mr. GORDON. Yes.

Mr. SIMON. So far, has the company not made any profits?

Mr. GORDON. I don't believe the company has made any profits. At least, I haven't received any share of it and I still have got a lot of my own money in it.

Mr. SIMON. Would you know whether they made any profits or not?

Mr. GORDON. Has it shown any profits?

Mr. HUTMAN. No, I don't believe so.

Mr. GORDON. I don't believe so.

Mr. HUTMAN. Whatever profit might have been shown is plowed back into additional construction. In other words, we didn't take anything out of it moneywise.

Mr. SIMON. What do you mean by "additional construction," Mr. Hutman?

Mr. HUTMAN. In other words, if we had a chance to build additional stores, we built additional stores.

Mr. SIMON. So you are plowing the profit back into further equity?

Mr. HUTMAN. That is right, rather than taking any actual cash.

Mr. GORDON. If there is any profit.

Mr. HUTMAN. I am not too sure there is any profit.

Mr. GORDON. I don't think there will be.

The CHAIRMAN. You gentlemen mean to tell me you own a corporation over there and don't know whether there is a profit or not?

Mr. HUTMAN. Senator, let me tell you something—

The CHAIRMAN. Remember you are under oath and this is not a funny matter, which some of you gentlemen out there seem to think it is. It might be well to wipe the smiles off of your faces because to us and to a lot of people this is not a funny matter. It is a business matter and it is not to be made light of, which you seem to be doing. Just remember now that you are under oath and remember that your testimony this morning so far has been in many respects somewhat different than the facts as to the applications. Let's not be funny about this matter now, as you have been trying to be, because it is no smiling matter.

Mr. HUTMAN. Can I say something now?

The CHAIRMAN. Yes. It seems strange to me that you can't remember whether or not this corporation made a profit or whether it didn't.

Mr. HUTMAN. Can I say something?

The CHAIRMAN. Yes, you may.

Mr. HUTMAN. Our primary interest is having these apartments that are earning an income for us, that we can pass on to our children and from then on—

The CHAIRMAN. Yes.

Mr. HUTMAN. We wanted to make that a successful project. For that reason, we put up the shopping center. We don't care if we don't make a dime out of the shopping center. That is not our concern. When I say we don't know whether we made a profit or not, I haven't seen a statement on the project in over a year, and that is why I say I don't know whether we made any profit. We are not concerned about that. Our prime interest is in the apartments.

Senator BENNETT. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, Senator Bennett.

Senator BENNETT. Did I understand you to say you were plowing the profits back into the project? Did I understand somebody to

say you were plowing the profits back into the project and building new buildings?

Mr. HUTMAN. The shopping center is not a completed thing. There is vacant spaces there, where we are trying to put additional stores, and additional services up, and any moneys that are left over out of earnings from the shopping center itself now—that is entirely separate from the apartment.

Senator BENNETT. That is what I want to get at. Can you separate in your mind profits on one side and moneys left over out of earnings on the other, and assume that those are two different kinds of funds?

Mr. HUTMAN. Senator, I haven't seen a statement on this for over a year and I really don't know.

Senator BENNETT. I would like to get at the question I really want to ask: How much additional money have you invested in that shopping center since your original investment?

Mr. HUTMAN. I think combined we have investments of over \$100,000 in that.

Senator BENNETT. In addition to the original money that you put in?

Mr. HUTMAN. In addition to the first mortgage that Investors Syndicate has on it.

Senator BENNETT. Was that additional capital you supplied from other sources out of your own pocket, or has that been profit out of the operation of the shopping center?

Mr. HUTMAN. No, that was money that we supplied out of our own pocket for which we have gotten notes, which we received no interest on, and have had no compensation at all from.

Senator BENNETT. Well now, Mr.—I don't know these names—

Mr. SIMON. Hutman.

Senator BENNETT. Mr. Preston, was it—

Mr. BUDWESKY. Mr. Gordon.

Senator BENNETT. Mr. Gordon who said he had had no rent for the land, and was it he who said that you had put the profits of this proposition back into additional building, building additional property in the shopping center? Have there been any additional properties built out of profits from the operation of the center?

Mr. GORDON. I would be glad to get you a financial statement on that, Senator, and show you the whole thing, but as far as my recollections are concerned, the operation will show a loss, especially when we take depreciation on the buildings that have been put up. I know there is no profit.

Senator BENNETT. You have not built any additional buildings, except out of cash that you found from another source and put into the proposition?

Mr. HUTMAN. Out of our own pockets; yes, sir.

Mr. GORDON. We have also used whatever funds were available in it; whether it be depreciation money, whether it be cash from our own pockets—

Senator BENNETT. If this is a corporation they must have made some income-tax returns.

Mr. SIMON. Yes.

The CHAIRMAN. They are available to us.

Mr. GORDON. All of that is available to you any time you want it.

The CHAIRMAN. We have that.

Mr. SIMON. Mr. Crabb—

Mr. HILL. He stepped out of the room for just a minute.

Mr. McCARTIN. If you will excuse me, I will get him. He stepped out for just a minute.

Mr. BUDWESKY. May I, while you are awaiting Mr. Crabb, make 1 or 2 observations in completion of my statement?

The CHAIRMAN. Yes.

Mr. BUDWESKY. I would like to state for the information of the committee that in the funds that were available in the Shirley-Duke Corporations, at the time the projects were completed and the mortgage instruments were insured by FHA, there had been received and collected by these corporations in excess of \$500,000, receipt from rents of apartments that had been completed while we were still constructing others, so the entire amount of money that is involved is not necessarily money that was not expended in construction. We had income from these rents that had been accumulated.

The CHAIRMAN. That was due to the fact that FHA did not require any payments for 18 months?

Mr. BUDWESKY. That is right.

The CHAIRMAN. Which was a very, very foolish thing for FHA to do.

Mr. BUDWESKY. Well, at this stage of the game, perhaps that may be true, but FHA was offering all sorts of inducements to people in those days to get in here and provide housing which they wanted built. Whether it was good or not, at any rate that is what the fact was.

The CHAIRMAN. It would seem to me it would have been very simple to have said it began when the project was completed, whether it be 11, 12, 18, 22, or 24 months. Why they had that policy of 18 months we don't know, but that is not your problem.

Mr. BUDWESKY. I understand. That isn't the way it was set up.

The CHAIRMAN. You are right.

Mr. BUDWESKY. Now, considerable comment has been made of the fact that there is not only in this corporation, but in many of them that have been mentioned, that the investment was, say, as it is here, \$6,000. That happens to be the final—when it is all completed and if everything worked out all right and you didn't have any strikes and FHA insured your loan, and you didn't get into a problem where you might not have had your project insured because of some regulation of FHA not having been complied with—there were many angles of risk here over which the owner—

The CHAIRMAN. On the other hand, I want to call your attention to the fact that as far as you stockholders were concerned, FHA did agree to guarantee the loan when it was completed, and Investors agreed in a contract that they would furnish you all the money. So I don't see where you were taking any chance at all. You had the commitment from FHA before you started. You had a commitment from "Fannie May" that they would extend \$14 million plus, and you had a contract with Investors that they would furnish all the money. Now, what chances were the common-stock holders taking?

Mr. BUDWESKY. Well, suppose they hadn't—suppose FHA didn't come forward with any commitment at all?

The CHAIRMAN. It would have been the loss of Investors, not your loss.

Mr. BUDWESKY. That isn't entirely true.

The CHAIRMAN. The commitment was given before you stated so there was no possible chance for FHA not to make good on it.

Mr. BUDWESKY. There had to be topographic surveys made of the land; somebody had to put up the money.

The CHAIRMAN. Wasn't Investors putting up all that money?

Mr. BUDWESKY. No. These men, Mr. Gordon here, it was his man, Mr. Grefe, who was the engineer, got out there and worked and a lot of people worked on it. Let's not take Shirley-Duke. Let's take any of these section 608 projects. There is a lot of money involved that has to be put up before you get a commitment out of FHA. You don't hire an architect to draft your plans and survey your land and come in with your plot plan and pay your filing fee of three-tenths of 1 percent of the amount of the loan, and you risk all that money. However, that isn't too important here, but let me say this with reference to the Shirley-Duke project, and particularly in view of the observation, how did FHA go so far wrong in the amount of the loan they gave?

I believe FHA in this particular instance, the Shirley-Duke project, I mean, has as low a per-unit loan as there is in the entire metropolitan Washington area. These buildings are fireproof construction. They are steel and concrete, and they involve a little extra cost in the beginning, because they do save a lot of insurance cost in the operation.

I don't know of any FHA-insured project in the entire metropolitan area that has as low a rent schedule as we have at Shirley-Duke.

The CHAIRMAN. Low rentals?

Mr. BUDWESKY. As low rentals as we have in Shirley-Duke.

I stated to you before that we surveyed what could be accomplished, in applying the savings on the mortgage, and we found—well, who in the world would be benefited? It would have to be applied on payments that would be due 33, 32, 31 years from now. Well, what particular incentive is there in doing that? And in addition to that, we wind up—we decide that what might be done about it. We go to the Bureau of Internal Revenue, we get an advance ruling before we distribute a dollar because this money wasn't distributed until December. It was available in September so we were very, very careful to find out what we were going to do. If we had applied it on the loan, the Government of the United States wouldn't have gotten a nickel. As it was, they got 25 percent of the amount of money that was distributed, which is between \$500,000 and \$600,000, so I don't know what else we might have done.

The CHAIRMAN. The Government is still guaranteeing the mortgage and if something happens the Government will have to repossess the mortgage, because all there is back of it is \$6,000.

Mr. BUDWESKY. Well, they get a half percent a month on all the loans they have, you know.

I will say this, and perhaps it might be well for the committee to consider in connection with these FHA projects: One of the biggest stumbling blocks we have here are the penalty clauses in trying to repay. It costs us between 4 and 5 percent.

The CHAIRMAN. I said we are going to look into that.

Mr. BUDWESKY. We would probably be very happy to go out here and get a conventional loan, and get everybody out of this if they feel

that they are in such precarious position, but it could cost us 5 percent penalty to do it.

The **CHAIRMAN**. We are going to look into that. I am glad you brought it up this morning because it is one thing we overlooked up to this time. I didn't know they were permitting penalty clauses to be written into the mortgages.

I might say at this point, that we will meet at 10 o'clock tomorrow morning. We are not going to recess for another hour or two, but tomorrow we will convene at 10 o'clock and our witnesses will be Mr. Andrew Frost, of Albuquerque, N. Mex., Mr. Bertram Bovard, of Lorton, Va., and Mr. Loftus. I am sure he will be feeling well enough to be with us tomorrow, and on Friday, our witness will be Charles H. Glueck, of Gary, Ind.

Mr. **SIMON**. Mr. Crabb.

The **CHAIRMAN**. If you will let Mr. Crabb sit there, please.

Mr. **BUDWESKY**. Yes, I will. I will be very glad to give him this seat.

Mr. **SIMON**. Mr. Crabb, would you give the reporter your full name, address, and occupation?

STATEMENTS OF EARL E. CRABB, CHAIRMAN, EXECUTIVE COMMITTEE, AND T. S. KENEALY, AUDITOR, ACCOMPANIED BY JOHN W. McCARTIN, GENERAL COUNSEL, INVESTORS DIVERSIFIED SERVICES

Mr. **CRABB**. Earl E. Crabb. My address is 3432 Hunts Point Road, Bellvue, Wash., a suburb of Seattle, and my present occupation is chairman of the executive committee of Investors Diversified Services.

Mr. **SIMON**. In 1949, were you president of Investors Diversified Services?

Mr. **CRABB**. Yes, sir.

Mr. **SIMON**. You have been here all morning, I believe, when Mr. Budwesky was testifying about the Shirley-Duke project?

Mr. **CRABB**. Yes, sir.

Mr. **SIMON**. What personal participation did you have in the negotiations with the sponsors of these projects prior to the June 15, 1949, contract?

Mr. **CRABB**. It was brought to me by some of the officers of the mortgage department, and by Mr. Loftus. My contact with it was of rather general character, and on the basis of the overall picture and desirability to us as an investment.

Mr. **SIMON**. Was the original undertaking that Investors would own a 50 percent interest in the equity?

Mr. **CRABB**. It was 49 percent of the nonvoting interest, was the basis on which we first considered making the commitment for the loan. That was on the basis of insured advances.

Mr. **SIMON**. And Investors would have 49 percent of the equity?

Mr. **CRABB**. Yes.

Mr. **SIMON**. And these sponsors would have 51 percent of the equity?

Mr. **CRABB**. They would have all of the voting stock which represented 51 percent of the equity.

Mr. **SIMON**. Is it a customary practice for Investors to take an equity participation in mortgages, or projects such as this?

Mr. CRABB. Yes, under the same circumstances.

Mr. SIMON. Can you tell us how many projects financed by the Federal Housing Administration Investors has had an equity participation in?

Mr. CRABB. I can't tell you that offhand. We have had equity participators both in FHA-insured loans and in conventional or non-insured loans. We made, I believe, 148 mortgages under section 608, in which they were handled in the same manner as this one, or on the basis of participation. How many of each, I don't know.

Mr. SIMON. In each of your section 608 mortgage participations, you either had an equity participation or a fee which in this contract is called a compensatory fee, for furnishing the money, is that correct?

The CHAIRMAN. I want to make sure of this: How many projects did you have under section 608?

Mr. CRABB. 148.

The CHAIRMAN. You said a moment ago they were all handled on the same basis as the Shirley-Duke. Did you intend to say that?

Mr. CRABB. No, not exactly. A good many of them, but I don't know how many were handled on the basis of a participation. Of that 148, 6 of them were the Shirley-Duke, and 3 were Cleveland.

Mr. SIMON. The Cleveland ones were the same type of deal as Shirley-Duke, were they not?

Mr. CRABB. That is right.

Mr. SIMON. That is you got a 6½ percent compensatory fee in addition to interest?

Mr. CRABB. That is right.

Mr. SIMON. How many of the other 139 did you have an equity participation in?

Mr. CRABB. I don't know. I would have to check the record.

Mr. SIMON. Of the 139 that you had an equity participation in, did any of them mortgage out?

Mr. CRABB. Mortgage out as to cost?

Mr. SIMON. That is, was the cost of construction less than the amount of the mortgage?

Mr. CRABB. I think so. I think they also——

Mr. SIMON. What is that?

Mr. CRABB. If I understood your definition of "mortgage out," I think all of them.

Mr. SIMON. All of them mortgaged out?

Mr. CRABB. Virtually all of them mortgaged out. Again, I would have to check the record.

Mr. SIMON. In those cases where they did mortgage out, was the excess of funds distributed to the stockholders?

Mr. CRABB. I don't know.

Mr. SIMON. Sorry?

Mr. CRABB. I don't know whether it was or not.

Mr. McCARTIN. Mr. Chairman, may I interrupt?

The CHAIRMAN. Do we have your name?

Mr. McCARTIN. Yes, you do, sir.

The CHAIRMAN. Give your name for the record.

Mr. McCARTIN. John W. McCartin.

The CHAIRMAN. What is your position?

Mr. McCARTIN. General counsel, Investors Diversified Services.

The CHAIRMAN. You are representing Mr. Crabb as an attorney?

Mr. McCARTIN. As his counsel.

The CHAIRMAN. You may ask a question or advise your client.

Mr. McCARTIN. I would like this to be on the record, Mr. Chairman.

The CHAIRMAN. This is all on the record.

Mr. McCARTIN. Mr. Crabb, we have introduced into evidence at executive sessions of this committee statistical information which indicates the number of deals that we have financed under Section 608 of the Housing Act, and the things that are the subject of inquiry here.

The CHAIRMAN. Yes.

Mr. McCARTIN. In that statistical data is included the amount of fees which were received by Investors Diversified Services, and any other interest which we might have had in the projects after the mortgages were insured by the FHA.

It is my memory of those exhibits that with the exception of the management contracts which Investors had in connection with the Shirley-Duke and Cleveland projects, Investors Diversified Services had no interest in the project after they were completed and the FHA mortgages insured.

The CHAIRMAN. Will you yield just one moment?

This gentleman is correct. He gave us these records, and if there is no objection we will now place them in the record. Supposedly they cover the 149 section 608 projects. Now I want to ask some more questions.

Mr. SIMON. Some section 213 projects.

The CHAIRMAN. And some section 213 projects.

Is this all the section 213, 608, 207 or any other rental projects that FHA is involved in that you have handled?

Mr. McCARTIN. Mr. Chairman, I would like to say this: We think, and to the best of our knowledge, it is complete.

The CHAIRMAN. Will you go back and recheck your record and if you find it isn't, will you then refile with us?

Mr. McCARTIN. Absolutely.

The CHAIRMAN. And will you also file with us the other projects that you have entered into, like the FHA sale of houses, and individual houses?

Mr. McCARTIN. I interpret your question to mean, Mr. Chairman, that we will furnish information relative to the section 213 projects.

The CHAIRMAN. Section 203.

Mr. McCARTIN. Section 203's. Yes; we will do that.

(The information referred to follows.)

Investors Diversified Services, Inc., and Investors Syndicate of America, Inc., FIA 608 loans made during period Jan. 1, 1947, through June 25, 1954¹

CONSTRUCTION LOANS INSURED ADVANCES

Our loan No.	Name of mortgagors	Date of note insured by FIA	Amount of loan	Fees received	Premium paid	Sold to—	Date of sale	Principal balance at time of sale	Premium received on sale of mortgage	Servicing fee basis	Management fees
16-66646	Montana Apartment Corp., 2137 to 2151 Montana Ave., Santa Monica, Calif.	Feb. 1948	\$95,900	\$479.50	-----	Great West Assurance Co.	Dec. 1948	\$95,659.86	\$1,434.90	Percent None	None
16-67029	Joseph B. Kovach and Hermina, 5416 Carlton Way, Los Angeles, Calif.	Jan. 1948	50,600	506.00	-----	do.....	Dec. 1948	50,409.61	756.14	None	None
16-68618	Essex Village Apartments, Inc., Hialeah, Fla.	Mar. 1948	602,400	None	-----	Federal National Mortgage Association.	July 1949	602,400.00	-----	None	None
16-75233	Lincoln Gardens Annex, Inc., Northwest 24th Ct., 46 and 48th St., Dade County, Fla.	Apr. 1949	261,800	3,927.00	-----	do.....	Oct. 1949	261,800.00	-----	None	None
16-75234	Lincoln Gardens Apartment Corp., Northwest 24th Ct., 46th and 48th St., Dade County, Fla.	Apr. 1949	235,600	3,534.00	-----	do.....	Oct. 1949	235,600.00	-----	None	None
16-77337	Clairemar Corp., 1150 Silverado Ave., La Jolla, Calif.	July 1949	1,670,400	8,352.00	-----	Dry Dock Savings Bank....	Dec. 1950	1,670,400.00	45,936.00	None	None
16-64103	Envoy Construction Corp., 15232 Dickens St., Sherman Oaks, Los Angeles, Calif.	Jan. 1948	100,500	2,010.00	-----	Great West Assurance Co.	Feb. 1949	99,867.69	1,498.02	None	None
16-63355	Valley Vista Apartment Corp., Valley Vista, Sherman Oaks, Calif.	Nov. 1947	108,200	2,164.00	-----	do.....	Dec. 1948	107,656.28	1,614.84	None	None
16-65325	Piedmont Ct. Apartments, Inc., Piedmont Road, Atlanta, Ga.	June 1948	831,600	None	-----	Federal National Mortgage Association.	Aug. 1949	831,600.00	-----	None	None
16-58781	Budlong Woods Apartments, East, Inc., 2713-25 West Berwyn Ave., Chicago, Ill.	Apr. 1947	189,000	1,417.50	-----	Modern Woodmen of America.	Dec. 1949	184,141.76	-----	None	None
16-58782	Budlong Woods Apartments West, Inc., 2727-39 West Berwyn Ave., Chicago, Ill.	Apr. 1947	189,000	1,417.50	-----	do.....	Dec. 1949	184,141.76	-----	None	None
16-58783	Phillips Building Corp., 6327-6329 North Winthrop Bldg. Corp., Chicago, Ill.	June 1947	82,800	1,242.00	-----	Bronx County Trust Co....	Oct. 1949	80,992.70	404.96	1/8	None
16-60247	Richard F. Dalley & Beatrice R., 2555 Foothill Blvd., Oakland, Calif.	Sept. 1947	145,000	None	-----	do.....	Aug. 1949	142,596.07	71.298	1/8	None

16-60586	Carl A. Fossil & Albert O., 1505 North Terry St., Port- land, Oreg.	May 1947	67,800	None	do	do	66,409.53	332.05	1/4	None	
16-61026	High Pines Apartments, Inc., 57th Ave., Red Rd., Mi- ami, Fla.	June 1947	476,000		7,140.00	Modern Woodmen of Amer- ica.	Oct. 1949	469,344.77	2,346.72	1/4	None
16-61459	Winifree E. Nelson, lots 7 and 8, block 18, Princeton Ave. and Calvert, College Park, Md.	Aug. 1947	86,000		645.00	Bronx County Trust Co.	Aug. 1949	84,574.17	422.87	1/4	None
16-61473	Richard F. Dalley, Foothill Blvd., Oakland, Calif.	Sept. 1947	170,000	None		do	do	167,181.54	835.91	1/4	None
16-62456	University Gardens, Inc., 111 East Broadway, Salt Lake City, Utah.	Aug. 1947	481,700		9,634.00	do	do	477,442.76	2,387.21	1/4	None
16-63601	Embassy-Young Construction Co., 333-339 South Mar- garet Ave., Los Angeles, Calif.	Feb. 1948	76,200	None		Modern Woodmen of Amer- ica.	Dec. 1949	74,837.21	374.19	1/4	None
16-63927	Park Lawn Apartments, 964 Linlen Ave., Winnetka, Ill.	July 1947	99,000		1,980.00	Bronx County Trust Co.	Oct. 1949	96,969.72	484.85	1/4	None
16-63944	H. W. Grassle, Polie and Lau- rel, San Buenaventura, Calif.	Feb. 1948	64,400	644.00		Modern Woodmen of Amer- ica.	Dec. 1949	63,163.88	315.82	1/4	None
16-64101	Seoville Manors, Inc., 1001- 1011 Southwest Lejune Rd., Miami, Fla.	Sept. 1947	61,200	None		N. A. Life & Casualty	Sept. 1949	60,185.37	300.93	1/2	None
16-64102	Seoville Manors, Inc., 997 Southwest Lejune Rd., Miami, Fla.	do	61,200		612.00	Modern Woodmen of Amer- ica.	Oct. 1949	60,185.37	300.93	1/4	None
16-64474	E. M. Ward & Sons, Inc., 4140 Southeast 37th Ave, Port- land, Oreg.	do	111,600	None		Bronx County Trust Co.	Aug. 1949	109,894.98	549.47	1/4	None
16-64512	Sunny Grove Investment Co., 4203 Southwest 14th St., Miami, Fla.	do	88,600		886.00	Modern Woodmen of Amer- ica.	Oct. 1949	87,015.50	435.08	1/4	None
16-64648	Rock Springs Manor, Inc., 2769 Rock Springs Rd., Atlanta, Ga.	do	514,000		7,710.00	Greenwich Savings Bank Serviced by Institutional Sec. Corp.	Dec. 1949	507,489.97		(3)	None
16-64649	Rock Springs Gardens, Inc., 425 Sandler Dr., Atlanta, Ga.	do	445,000		8,890.00	Bronx County Trust Co.	Aug. 1949	441,634.58	2,208.17	1/4	None
16-64650	Spring Lake Apartments, Inc., Goode Construction Corp., project 2, Rock Spring Road Larkin Drive, Atlanta, Ga.	do	222,400		4,448.00	do	Aug. 1949	220,718.06	1,103.59	1/4	None
16-64651	Spring Lake Apartments, Inc., Goode Construction Corp., Rock Spring Road, Atlanta, Ga.	do	704,600		14,080.00	Greenwich Savings Bank serviced by Institutional Sec. Corp.	Oct. 1949	697,471.21	6,974.71	1/4	None

See footnotes at end of table, p. 217.

Investors Diversified Services, Inc., and Investors Syndicate of America, Inc., FHA 608 loans made during period Jan. 1, 1947, through June 25, 1954—Continued

CONSTRUCTION LOANS INSURED ADVANCES—Continued

Our loan No.	Name of mortgagors	Date of note insured by FHA	Amount of loan	Fees received	Premium paid	Sold to -	Date of sale	Principal balance at time of sale	Premium received on sale of mortgage	Servicing fee basis	Management fees
16-64863	L. & S. Construction Co., 3720-3721 Northeast Mallary, Portland, Oreg.	Sept. 1947	\$161,800	None	.....	Bronx County Trust Co....	Aug. 1949	\$159,327.98	\$796.64	Percent 1/8	None
16-64901	Emary Woods, Inc., 113 Trinity Place, Decatur, Ga.	June 1948	1,900,000	None	.....	Greenwich Savings Bank serviced by Institutional Sec. Corp.	Dec. 1949	1,900,000.00	23,750.00	1/8	None
16-65326	Templeton Manor Apartments, Sec. I, Inc., Edmonston Rd., Prince Georges County, Md.	Oct. 1947	1,190,700	None	.....	Modern Woodmen of America.	June 1949	1,187,718.30	.....	1/4	None
16-66243	Sylvan Heights Apartments, Inc., Cleveland Ave. and Sylvan Rd., East Point, Ga.	Jan. 1948	1,197,000	.....	\$23,940.00	Greenwich Savings Bank serviced by Institutional Sec. Corp.	Nov. 1949	1,189,468.71	11,894.69	1/8	None
16-66255	Howard L. Buchanan; 7555 Herschel St., La Jolla, Calif.	Oct. 1947	85,500	.....	855.00	Modern Woodmen of America.	Dec. 1949	83,203.55	416.47	1/4	None
16-66380	Grand Homes, Inc., 1357-1361 MacArthur Blvd., Oakland, Calif.	Dec. 1947	94,600	\$173.00	.....	Bronx County Trust Co....	Aug. 1949	93,399.64	467.00	1/8	None
16-67056	Louis Construction Co., Inc., lot 5, block 7, B31, Douglas sec., Coral Gables, Fla.	Nov. 1947	69,000	.....	690.00	Modern Woodmen of America.	Oct. 1949	67,945.79	339.73	1/4	None
16-67057	Louis Construction Co., Inc., 7821 Deekins Ave., Coral Gables, Fla.	.....do.....	69,000	.....	690.00	do.....	do.....	67,945.79	339.73	1/4	None
16-68033	Collfax Co., Inc., Granville, Portland, Oreg.	Dec. 1947	165,500	None	.....	Bronx County Trust Co....	Sept. 1949	163,399.97	817.00	1/8	None
16-68063	Southwest Manors Corp., 130-190 Southwest 12th St., Miami, Fla.	Mar. 1948	245,200	None	.....	Modern Woodmen of America.	Oct. 1949	244,585.98	1,222.93	1/8	None
16-69290	Garfield Co., Inc., Garfield, Mallary, Failing, and Beach Sts. Portland, Oreg.	Feb. 1948	167,600	None	.....	Bronx County Trust Co....	Aug. 1949	166,118.73	830.56	1/8	None
16-69416	Hardee Road Corp., University Park, Miami, Fla.	.....do.....	194,400	2,916.00	.....	Modern Woodmen of America.	Oct. 1949	192,183.60	960.92	1/8	None
16-69417	Franklin Street Corp., Lot 13-29, Inc. University Park, Miami, Fla.	.....do.....	194,400	2,916.00	.....	do.....	do.....	192,183.60	960.92	1/8	None

16-70873	Templeton Manor Apartments, Sec. II, Inc., Edmonston Road and Browning Lake, Prince Georges County, Md.	do	1,035,000	None	Greenwich Savings Bank serviced by Institutional Sec. Corp.	Sept. 1949	1,032,408.19	10,324.08	3/8	None
16-71018	Templeton Manor Apartments, Sec. III, Inc., Edmonston Rd., Prince Georges County, Md.	Apr. 1949	932,000	None	do	do	932,000.00	9,320.00	3/8	None
16-73851	Rock Springs Apartments, Inc., Rock Springs Rd., Atlanta, Ga.	Mar. 1949	504,000	7,560.00	Institutional Sec. Corp.	Jan. 1950	504,000.00	6,300.00	3/8	None
16-74151	Goldsboro Apartments, Inc., Euclid Ave. N.E., Atlanta, Ga.	May 1949	356,000	5,340.00	do	May 1950	356,000.00	4,450.00	3/8	None
16-74447	Norman D. Chasnoff, 6225 Antioch St., Oakland, Calif.	Apr. 1949	68,600	1,029.00	do	do	68,341.89	1,025.13	3/8	None
16-74547	Evergreen Gardens Inc., Evergreen Gardens No. 4, Detroit, Mich.	Feb. 1949	355,300	5,329.50	do	Mar. 1950	355,300.00	5,329.50	3/8	None
16-74548	Dexter Petroske, Corp., Ewald Circle Ter., No. 3, Detroit, Mich.	do	129,600	1,944.00	do	Jan. 1950	129,600.00	1,944.00	3/8	None
16-74937	Dexter Petroskey Corp., Ewald Circle Ter., No. 2, Detroit, Mich.	do	129,600	1,944.00	do	do	129,600.00	1,944.00	3/8	None
16-74938	Dexter Petroskey Corp., Ewald Circle Ter., No. 4, Detroit, Mich.	do	156,500	2,347.50	do	do	156,500.00	2,347.50	3/8	None
16-74964	Louis Jensen, 1381 Marion Way, Sacramento, Calif.	Apr. 1949	150,000	2,250.00	do	May 1950	149,435.58	2,241.53	3/8	None
16-59943	B. & L. Housing Corp., 1208 Douglas Rd., Coral Gables, Fla.	May 1947	143,900		\$1,439.00 Modern Woodmen of America.	Oct. 1949	140,568.90	702.84	1/4	None
16-64513	Sanford Investment Co., 4203 Southwest 15th St., Miami, Fla.	Sept. 1947	88,600	886.00	do	do	87,015.50	435.08	3/8	None
16-74983	Dexter Petroskey Corp., 14011 Holmur Ave., Detroit, Mich.	Mar. 1949	226,800	3,402.00	Institutional Sec. Corp.	Jan. 1950	226,800.00	3,402.00	3/8	None
16-74984	Dexter Petroskey Corp., Ewald Circle Ter., No. 6, Detroit, Mich.	do	275,800	4,137.00	do	do	275,800.00	4,137.00	3/8	None
16-75070	Cheryl Drive Apartments, Inc., Cleveland Ave. and Springdale Rd., Atlanta, Ga.	May 1949	378,000	5,670.00	do	Feb. 1950	378,000.00	4,725.00	3/8	None
16-75358	North Decatur Apartments, Inc., North Decatur Rd and Webster Dr., Decatur, Ga.	June 1949	320,000	4,800.00	do	do	320,000.00	4,000.00	3/8	None

See footnotes at end of table, p. 217.

FHA INVESTIGATION

Investors Diversified Services, Inc., and Investors Syndicate of America, Inc., FHA 608 loans made during period Jan. 1, 1947, through June 25, 1954—Continued

CONSTRUCTION LOANS INSURED ADVANCES—Continued

Our loan No.	Name of mortgagors	Date of note insured by FHA	Amount of loan	Fees received	Premium paid	Sold to—	Date of sale	Principal balance at time of sale	Premium received on sale of mortgage	Servicing fee basis	Management fees
16-75840	Dexter Petroskey Corp., Dexter and Grand, Detroit, Mich.	Apr. 1949	\$81,000	\$1,215.00	-----	Institutional Sec. Corp	Jan. 1950	\$81,000.00	\$1,215.00	Percent 1/8	None
16-76280	Evergreen Gardens, Inc., Evergreen Gardens, No. 5, Detroit, Mich.	do	343,800	5,157.00	-----	do	Mar. 1950	343,800.00	5,157.00	1/8	None
16-76506	Evergreen Gardens, Inc., No. 7, 13440 Seven Mile Rd., Detroit, Mich.	May 1949	339,200	5,088.00	-----	do	do	339,200.00	5,088.00	1/8	None
16-76507	Evergreen Gardens, Inc., No. 9, Seven Mile and Evergreen Rd., Detroit, Mich.	do	323,300	4,849.50	-----	do	do	323,300.00	4,849.50	1/8	None
16-76508	Evergreen Gardens, No. 11, northwest corner Evergreen and 7 Mile Rd., Detroit, Mich.	do	181,000	2,715.00	-----	do	do	181,000.00	2,715.00	1/8	None
16-76619	Evergreen Gardens, Inc., Seven Mile Rd. and Evergreen Rd., Detroit, Mich.	do	498,500	7,477.50	-----	do	do	498,500.00	7,477.50	1/8	None
16-77606	Patrician Land Co., Ewald Ter., No. 4, Detroit, Mich.	June 1949	110,800	1,662.00	-----	do	May 1950	110,800.00	1,662.00	1/8	None
16-78212	Harvey G. Brackett, El Camino and Aragon Blvds., San Mateo, Calif.	Sept. 1949	92,500	1,387.50	-----	do	Aug. 1950	92,500.00	1,387.50	1/8	None
16-78997	Brooks Manor, Inc., East Line of Brooks Ave. from McKinley Ave. to Esther Ave., Fresno, Calif.	Oct. 1949	269,900	5,800.00	-----	do	Jan. 1951	269,900.00	4,048.50	1/8	None
26-82110	Forest Boulevard Apartments, Inc., Columbia Dr. and Forest Blvd., Decatur, Ga.	May 1950	169,000	2,535.00	-----					None	None
26-84617	Bayard Apartments, Inc., South Bayard St., East Point, Ga.	Sept. 1951	1,023,000	15,345.00	-----					None	None
26-85003	Battle Courts Apartments, Inc., Southeast section near Moreland Faith, Atlanta, Ga.	Dec. 1950	223,900	3,358.50	-----					None	None

26-75849	Berkshire Building Corp., 4305-15-25 Minnetonka Blvd. and Loppa St., St Louis Park, Minn.	Apr. 1949	121,500	1,822.50						None	None
26-81368	Jamshire, Inc., Northwest corner Jamison and Devon- shire, St. Louis, Mo.	Apr. 1940	97,200	1,458.00						None	None
26-82114	5522 Delmar Corp., Roy A. Chaffee, president, 6107 Westminster Pl., St. Louis, Mo.	July 1950	389,900	5,848.50						None	None
26-74546	Ketell Arms Corp., Ketell Arms Apartments, 2175 Northwest Davis St., Port- land, Oreg.	June 1949	289,700	4,345.50						None	None
26-75108	Ketell Manor Corp., 2174 Northwest Davis St., Port- land, Oreg.	do	291,600	4,374.00						None	None
26-76585	Magnuson Apartments, Inc., Renton, Wash.	July 1949	239,000	3,585.00						None	None
26-79323	Portland Tower Corp., South- west 21st Ave. and Salmon St., Portland, Oreg.	Feb. 1950	1,970,800	29,562.00						None	None
26-84562	Corvallis Plaza Corp., between 15th and 16th on Jackson St., Corvallis, Oreg.	July 1950	374,300	5,614.50						None	None
16-65553	Dickens Apartment Corp., 15122-15139½ Dickens St., Sherman Oaks, Calif.	Jan. 1948	155,700	1,557.00	Great West Assurance Co.	Dec. 1948	154,919.14	2,323.79		None	None
16-80459	Valley Homes, Inc., adjacent to Fort McPherson, At- lanta, Ga.	May 1950	1,210,000	18,150.00	Bank for Savings	Feb. 1952	1,203,918.08			None	None
16-80460	Points Apartments, Inc., 1374 East Rock Springs Rd. NE., Atlanta, Ga.	July 1951	440,261	6,225.00	do	Nov. 1951	438,027.98			None	None
16-86143	Fort Homes, Inc., Stanton Rd. and Fort McPherson, Atlanta, Ga.	Sept. 1950	1,865,000		Federal National Mortgage Association.	Mar. 1952	1,865,000.00			None	None
16-85180	Arnold Court Apartments, Inc., Arnold St., Napeville, Ga.	Feb. 1951	257,500	3,667.50	Dry Dock Savings Bank	Sept. 1951	257,178.11			None	None
	Total		30,635,261	101,837.50	\$83,639.00			213,078.38			

See footnotes at end of table, p. 217.

Investors Diversified Services, Inc., and Investors Syndicate of America, Inc., FHA 608 loans made during period Jan. 1, 1947, through June 25, 1954¹—Continued

CONSTRUCTION LOAN ADVANCES NOT INSURED

Our loan No.	Name of mortgagors	Date of note insured by FHA	Amount of loan	Fees received	Premium paid	Sold to—	Date of sale	Principal balance at time of sale	Premium received on sale of mortgage	Servicing fee basis	Management fees
16-61308	Schaefer Enterprises, Inc., 16420 Gulf Blvd., Redington Beach, Fla.	July 1947	\$109,800	-----	\$2,200.00	Modern Woodmen of America.	Jan. 1950	\$107,094.49	\$1,070.94	Percent ¼	None
16-61309	Carmalt Apartments, Inc., 16436 Gulf Blvd., Redington Beach, Fla.	do	109,800	-----	2,200.00	do	do	107,112.51	1,071.13	¼	None
16-63082	Columbia Heights Development Co., Columbia Dr. and Forest Blvd., Decatur, Ga.	Mar. 1948	264,000	\$2,640.00	-----	Bronx County Trust Co.	Aug. 1949	264,000.00	1,320.00	¼	None
16-63504	Del Amo Gardens, Inc., Long Beach, Calif.	Sept. 1947	166,800	None	-----	Modern Woodmen of America.	Dec. 1949	162,938.75	814.69	¼	None
16-63505	do	do	162,600	None	-----	do	do	158,835.97	794.18	¼	None
16-63506	do	do	120,800	None	-----	do	do	118,003.55	590.02	¼	None
16-63821	Number III Wycliffe Co., 6900 Watson Rd., St. Louis, Mo.	Oct. 1947	108,000	1,980.00	-----	Bronx County Trust Co.	Aug. 1949	107,184.46	535.92	¼	None
16-63822	do	Sept. 1947	72,000	None	-----	do	do	71,547.25	357.74	¼	None
16-63823	Number IV Wycliffe Co., 6900 Watson Rd., St. Louis, Mo.	do	72,000	None	-----	Modern Woodmen of America.	July 1950	70,333.25	-----	¼	None
16-63824	do	do	72,000	None	-----	do	do	70,428.19	-----	¼	None
16-64358	Tropical Apartments, Inc., 16410 Gulf Blvd., Redington Beach, Fla.	Oct. 1947	109,800	-----	1,098.00	do	Jan. 1950	107,403.47	1,074.03	¼	None
16-64862	Martinique Corp., 16400 Gulf Blvd., Redington Beach, Fla.	Nov. 1947	109,800	-----	549.00	do	do	107,548.23	1,075.48	¼	None
16-67045	Clayton Realty & Construction Corp., 7625-7635 Delmar, University, Mo.	Dec. 1947	93,600	None	-----	Bronx County Trust Co.	Sept. 1949	92,412.29	462.06	¼	None
16-70446	Wm. F. Beckett & Bernice P., Fairmont Ave. and 29th St., Oakland, Calif.	Mar. 1948	59,800	897.00	-----	do	Aug. 1949	59,194.99	295.97	¼	None
16-71454	Inwood Apartment Corp., No. 3, Dallas, Tex.	Apr. 1949	534,000	-----	5,340.00	Modern Woodmen of America.	Oct. 1949	529,961.48	2,649.81	¼	None
16-71455	Inwood Apartment Corp., No. 4, Dallas, Tex.	June 1949	604,800	-----	6,048.00	do	do	601,760.85	3,008.80	¼	None

16-53718	Clempton Investment Co., lots 1, 2, 3, blk 14, University Park, St. Louis County, Mo.	Mar. 1950	61,800	1,710.00	do	July 1950	64,650.19	0	None	None	
16-58274	Ben F. Marron & Cora H. Marron, Mary Murray Apartment, M. W. C. Wardlow Rd., Long Beach, Calif.	May 1947	114,900	574.50	do	Great West Assurance Co.	Dec. 1948	113,442.07	1,701.63	None	None
16-58786	Beachwood Building Co., Inc., Beachwood Dr., Los An- geles, Calif.	Mar. 1948	75,400	754.00	do	do	do	75,210.12	1,125.32	None	None
16-59355	Envoy Construction Corp., 152 Dickens St., Van Nuys, Calif.	July 1947	99,000	200.00	do	do	do	97,998.36	1,469.98	None	None
16-59741	John L. McElroy & John D. Howard, southeast corner Limp Ave., Chandler Blvd, Los Angeles, Calif.	do	44,800	224.00	do	do	Nov. 1948	44,346.75	664.34	None	None
16-59461	Masterbuilt Corp., 117-156 Sunset Blvd., Los Angeles, Calif.	Nov. 1947	134,200	None	do	do	Jan. 1949	133,014.05	1,995.20	None	None
16-60186	B. F. Marron & V. H. Marron, 3402 and 3404 Caviota Ave., Long Beach, Calif.	Aug. 1947	46,400	696.00	do	do	Nov. 1948	46,490.06	690.74	None	None
16-60216	S. V. Hunsaker & Associates, 1045 East Carson, Long Beach, Calif.	do	48,300	724.50	do	do	do	47,934.75	719.00	None	None
16-60333	Monarch Construction Co., Burbank and Whitsett Blvd., Los Angeles, Calif.	Dec. 1947	58,400	584.00	do	do	Aug. 1949	57,474.49	718.42	None	None
16-60334	Green Ivy Manor, Burbank Blvd. and Whitsett, Los An- geles, Calif.	do	58,400	584.00	do	do	do	57,431.74	717.39	None	None
16-60335	Green Ivy Manor, Burbank and Whitsett, Los Angeles, Calif.	do	59,900	599.00	do	do	do	58,906.96	736.33	None	None
16-60336	Green Ivy Manor, lot 67 and 68, tract 13668, Los Angeles, Calif.	do	59,900	599.00	do	do	do	58,906.96	736.33	None	None
16-60337	Green Ivy Manor, Burbank Blvd. and Whitsett, Los Angeles, Calif.	do	59,900	599.00	do	do	do	58,906.96	736.33	None	None
16-60338	Trager Corp., lot 75-76, tract 13668, Los Angeles, Calif.	do	58,400	584.00	do	do	Sept. 1949	57,281.56	716.02	None	None
16-60339	Trager Corp., Burbank and Whitsett, Los Angeles, Calif.	do	59,900	599.00	do	do	do	58,752.84	734.41	None	None
16-60340	Trager Corp., Burbank Blvd. and Whitsett, Los Angeles, Calif.	do	59,900	599.00	do	do	do	58,752.84	734.41	None	None

See footnotes at end of table, p. 217.

Investors Diversified Services, Inc., and Investors Syndicate of America, Inc., FHA 608 loans made during period Jan. 1, 1947, through June 25, 1954¹—Continued

CONSTRUCTION LOAN ADVANCES NOT INSURED—Continued

Our loan No.	Name of mortgagors	Date of note insured by FHA	Amount of loan	Fees received	Premium paid	Sold to—	Date of sale	Principal balance at time of sale	Premium received on sale of mortgage	Servicing fee basis	Management fees
16-61085	J. Willoughby Howe, 515-523 San Vicinto Blvd., San Marina, Calif.	Jan. 1948	\$114,300	\$1,714.50	-----	Great West Assurance Co...	Apr. 1948	\$114,013.78	\$1,710.21	<i>Percent</i> None	None
16-61803	S. V. Hunsaker, 1122 East Carson Ave., Long Beach, Calif.	Nov. 1947	97,800	-----	\$1,467.00	do-----	Nov. 1948	97,432.02	1,459.63	None	None
16-61817	Royal Corp., 1421-1431 South Fairfax Ave., Los Angeles, Calif.	July 1947	52,500	525.00	-----	do-----	Dec. 1948	51,968.87	779.53	None	None
16-61781	Line Bilt Structures, Inc., 14812-14822 Dickens St., Los Angeles, Calif.	do-----	77,300	1,159.50	-----	do-----	Nov. 1948	76,616.84	1,147.77	None	None
16-62728	Eilert Voge and Wilma P. Voge 3355 Alma St., Lynwood, Calif.	Oct. 1947	72,200	-----	1,083.00	do-----	do-----	71,928.34	1,078.93	None	None
16-61760	Albert Clark Ray, 3742-3746 Jasmine Ave., Los Angeles, Calif.	July 1947	77,000	770.00	-----	do-----	do-----	76,220.94	1,141.83	None	None
16-63060	Richard S. Heald and Wilma A., 1117 East Carson St., Long Beach, Calif.	Oct. 1947	50,000	-----	506.00	do-----	do-----	50,409.61	756.14	None	None
16-63081	Orville E. Heltkotter and Anna Louise, 1125 East Carson, Long Beach, Calif.	Dec. 1947	50,000	-----	759.00	do-----	Dec. 1948	50,473.29	757.10	None	None
16-63171	Stilson, Inc., lots 9-10-11, B-2, tract 14, Palms, Calif.	Sept. 1947	132,000	1,320.00	-----	do-----	do-----	130,833.38	1,962.50	None	None
16-63942	Hunny Investment Co., Church St., Downey, Calif.	Jan. 1948	200,000	-----	2,000.00	do-----	Mar. 1949	198,741.63	2,977.31	None	None
16-60098	S. V. Hunsacker, 1049 East Carson St., Long Beach, Calif.	Aug. 1947	48,300	724.50	-----	do-----	Nov. 1948	47,934.75	719.00	None	None
16-64914	M. A. Ekstand, 1061 East Carson, Long Beach, Calif.	Oct. 1947	47,800	-----	478.00	do-----	do-----	47,620.15	713.40	None	None
16-64915	Castle Park Corp., 721-723 Old Ranch Rd., Arcadia, Calif.	Jan. 1948	79,400	794.00	-----	do-----	Mar. 1949	78,698.24	1,180.47	None	None
16-65321	J. & H. Billiet, A. & M. Gagne, 751-755 North Hoover St., Los Angeles, Calif.	Oct. 1947	80,300	-----	803.00	do-----	Jan. 1948	79,896.50	1,198.45	None	None

16-56322	Truman Browne and Bette Forrest Browne, Grenshaw Dr. and 83d St., Los Angeles, Calif.	Feb. 1948	142,200	None	do	Aug. 1949	140,305.59	1,754.94	None	None
16-65323	Truman Browne, Grenshaw Dr. and Grenshaw Blvd., Inglewood, Calif.	do	117,300		1,173.00	do	115,811.59	1,447.60	None	None
16-65324	Truman Browne, Grenshaw Blvd., Inglewood, Calif.	do	190,800	None		do	188,378.60	2,354.72	None	None
16-65471	S. V. Hunsaker, Charlamagne and Carson, Long Beach, Calif.	Jan. 1948	96,700		967.00	Nov. 1948	76,200.94	1,448.70	None	None
Total			5,599,200	19,980.00	28,845.50			53,604.85		

NONCONSTRUCTION LOANS

16-61086	Mrs. Ola Bales, 1310 West Wall St., Millan I, Tex.	Mar. 1948	\$57,600		\$576.00	Modern Woodmen of America	Dec. 1949	\$56,113.49	\$280.57	1/4	None
26-61826	Glenwood Apartments, Inc., Rome, Ga.	June 1948	666,000		13,320.00	FHA debenture received	July 1950	0	0	0	0
16-67157	Fourth Avenue Apartments, Inc., Albany, Ga.	Dec. 1948	129,000		1,934.00	Bronx County Trust Co.	Aug. 1949	127,859.89	639.30	1/4	None
16-71452	Inwood Apartment Corp., No. 1, Dallas, Tex.	do	125,000		1,250.00	Modern Woodmen of America	Oct. 1949	123,574.83	617.87	1/4	None
16-71453	Inwood Apartment Corp., No. 2, Dallas, Tex.	do	297,000		2,970.00	do	do	293,613.85	1,468.07	1/4	None
16-83407	Emory Park, Inc., DeKalb County, Atlanta, Ga.	May 1951	483,000		0	Bank for Savings	Oct. 1951	479,960.58	None	None	None
Total			1,757,600		20,050.00				3,005.81		

¹ Does not include Shirley-Duke, Cleveland Parkway, or Broadview Gardens projects which are detailed in separate schedule.

² Service fee, \$1 per year.

*Investors Diversified Services, Inc., and Investors Syndicate of America, Inc.,
FHA 213 loans made during period Jan. 1, 1957, through June 25, 1954*

CONSTRUCTION LOANS INSURED ADVANCES

Our loan No.	Name of mortgagor	Date of note insured by FHA	Amount of loan	Fees received
16-93192	Carson Park Mutual Homes, No. 5, Los Angeles, Calif., 36 units.	Nov. 25, 1952	\$1,784,050	\$44,601.25
16-95640	Carson Park Mutual Homes, No. 7, Los Angeles, Calif., 22 ¹ / ₂ units.	Sept. 4, 1953	2,491,750	37,376.00
16-95641	Carson Park Mutual Homes, No. 8, Los Angeles, Calif., 168 units.	Oct. 1, 1953	1,849,600	27,744.00
16-95642	Carson Park Mutual Homes, No. 9, Los Angeles, Calif., 156 units.	Oct. 20, 1953	1,716,850	25,752.00
16-94054	Carson Park Mutual Homes, No. 10, Los Angeles, Calif., 37 units.	Feb. 2, 1953	2,936,100	73,248.50
16-94449	Carson Park Mutual Homes, No. 11, Los Angeles, Calif., 37 units.	Mar. 2, 1953	2,485,450	62,096.25
16-94948	Carson Park Mutual Homes, No. 12, Los Angeles, Calif., 35 units.	July 9, 1953	1,322,100	33,052.50
16-94949	Carson Park Mutual Homes, No. 13, Los Angeles, Calif., 159 units.	July 28, 1953	1,751,500	43,777.50
16-94950	Carson Park Mutual Homes, No. 14, Los Angeles, Calif., 169 units.	Aug. 13, 1953	1,859,800	46,490.00
16-89854	Lakewood Park Mutual Homes, No. 1, Los Angeles, Calif., 32 units.	Oct. 1, 1951	4,697,100	117,428.00
16-89855	Lakewood Park Mutual Homes, No. 2, Los Angeles, Calif., 32 units.	Oct. 18, 1951	4,718,400	117,887.00
16-91325	Lakewood Park Mutual Homes, No. 3, Los Angeles, Calif., 36 units.	Nov. 14, 1951	1,065,400	26,635.00
16-91468	Lakewood Park Mutual Homes, No. 4, Los Angeles, Calif., 37 units.	Nov. 28, 1951	1,895,400	47,325.00
16-91339	Lakewood Park Mutual Homes No. 5, Los Angeles, Calif., 36 units.	Nov. 21, 1951	1,474,550	36,843.50
16-91515	Lakewood Park Mutual Homes No. 7, Los Angeles, Calif., 36 units.	Dec. 27, 1951	1,345,850	33,626.25
16-91945	Lakewood Park Mutual Homes No. 8, Los Angeles, Calif., 37 units.	Jan. 21, 1952	1,779,050	44,426.25
16-91908	Lakewood Park Mutual Homes No. 9, Los Angeles, Calif., 35 units.	Feb. 7, 1952	2,300,800	57,520.00
16-96412	1st Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Jan. 4, 1954	231,800	3,477.00
16-96413	2d Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	do.....	231,800	3,477.00
16-96414	3d Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	do.....	229,900	3,450.00
16-96415	4th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	do.....	233,700	3,505.00
16-96416	5th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	do.....	233,700	3,505.00
16-96417	6th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Feb. 2, 1954	229,900	3,448.50
16-96418	7th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	do.....	229,900	3,448.50
16-96419	8th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	do.....	233,700	3,505.50
16-96420	9th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	do.....	227,800	3,417.00
16-96421	10th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Feb. 2, 1954	227,550	3,413.25
16-96422	11th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Mar. 29, 1954	231,800	3,477.00
16-96423	12th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Mar. 29, 1954	233,700	3,505.50
16-96424	13th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Mar. 29, 1954	231,800	3,477.00
16-96425	14th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Mar. 29, 1954	229,900	3,448.50
16-96426	15th Charleston Park Mutual Homes, Las Vegas, Nev., 19 units.	Mar. 29, 1954	229,900	3,448.50
	Total.....		49,949,600	927,744.25

The CHAIRMAN. Let me ask you this: How many section 203 houses or projects have you handled?

Mr. McCARTIN. That I cannot handle.

The CHAIRMAN. Is it as many as 50,000?

Mr. McCARTIN. I have no idea.

The CHAIRMAN. Would you think it would be 50,000?

Mr. McCARTIN. I have no idea.

The CHAIRMAN. Would you? You are chairman of the executive committee.

Mr. CRABB. I wouldn't—

The CHAIRMAN. Individual houses, where you have bought the mortgages or handled the mortgages on individual houses that have been guaranteed by FHA.

Mr. McCARTIN. Do we have that in this tabulation?

Mr. HILL. No.

Mr. McCARTIN. Mr. Chairman, I would like to ask another favor, if you will bear with me: When you use the term "mortgaging out" to Mr. Crabb, that means was the project completed, and the mortgage insured, and I don't think that it has to him the meaning that it has to you, that there was an excess of money delivered to the owners or the builders of the project over and above the amount of the mortgage, and I would like to have you, in questioning him, use the terminology with which he might be more familiar.

The CHAIRMAN. I would like to ask Mr. Crabb this question: Mr. McKenna testified that Mr. Budwesky told him or told one of his investigators that you had made something like \$26 million profit. Is that true or false?

Mr. CRABB. That is not true.

The CHAIRMAN. It is not true?

Mr. CRABB. No.

The CHAIRMAN. Do you know how much money you have made?

Mr. CRABB. We have an analysis of that.

The CHAIRMAN. That is on the section 608's, but I am thinking in terms of section 608's, 213's, individual houses, and the whole business.

Mr. CRABB. Well, over the 12- or 13-year period, or more than that—17 years.

The CHAIRMAN. It might well have been more than \$26 million.

Mr. CRABB. It could have been.

The CHAIRMAN. On the section 608 projects about which Mr. McKenna testified, would you say it was less than \$2 million?

Mr. CRABB. It was less than \$2 million altogether.

The CHAIRMAN. So evidently Mr. McKenna and Mr. Budwesky were thinking in terms of your entire FHA operation profit which you say runs over \$26 million rather than the section 608 projects; is that correct?

Mr. CRABB. Yes. I understood him to correct that this morning. I think he made himself clear on that.

Mr. SIMON. Mr. Crabb, the information which your counsel gave us the other day indicates that your company made more than \$2 million on Shirley-Duke and Cleveland Parkway alone.

Mr. CRABB. The record that we have—I would like to answer a previous question.

The CHAIRMAN. That would be gross profit?

Mr. McCARTIN. That would be gross profit.

Mr. CRABB. I would like to answer a question you asked, Mr. Chairman, as to the number of mortgages we have made. Over the period of the 17—

Mr. McCARTIN. This is 5 years.

Mr. CRABB. The 5-year period we have made 56,709 individual mortgages—

The CHAIRMAN. That have been insured by FHA?

Mr. CRABB. Yes. Some by VA, some section 608, some section 203; total amount of money loaned was \$620,750,000 plus. Of those 149—aggregating \$59,797,061—were section 608 loans, and the realized gross fees—not net—gross fees, was \$1,689,131, not \$26 million.

The CHAIRMAN. On what?

Mr. CRABB. On section 608's.

The CHAIRMAN. On section 608's?

Mr. CRABB. Yes; 148 section 608's.

The CHAIRMAN. That is your records?

Mr. CRABB. That is our records.

Mr. SIMON. Mr. Crabb, does that include management fees that you received under these projects?

Mr. CRABB. No, sir.

Mr. SIMON. Does it include premiums on mortgages that you might have sold?

Mr. CRABB. No, sir. We have had some discounts as well as premiums.

Mr. SIMON. Does it include the net of the premiums and discounts?

Mr. CRABB. No, sir.

Mr. McCARTIN. Mr. Simon, may I be of some help to you there? I think that the amount of fees that we are talking about here are fees which might in some way have been attributed finally to the FHA. That is, things that the FHA might possibly have had an insurance liability on. If you will permit me, I would like to check that with one of the men who are here that prepared the sketch. Is that right?

Mr. SIMON. I gather there are five ways in which your company could have made money on FHA loans. One, you could have received a compensatory fee as in the Shirley-Duke and Cleveland Parkway projects.

Mr. CRABB. Yes; that is distinguished from a financing fee. We will not regard that as a financing fee.

Mr. SIMON. If you add a financing fee, then I would have six. Secondly, you could have a financing fee.

Mr. CRABB. Yes, sir.

Mr. SIMON. Thirdly, you could have management fees for theoretically managing the property, as you heard here your company gets for 5½ years, 1½ percent of the gross income without actually managing the property.

Fourth, you could have an equity interest in the project, in which you might later get a distribution as a stockholder, or the project might be sold and as a stockholder you would get your share of the equity in the sale.

Fifth, you would get interest on your money, in this case at 6 percent; and finally, a premium on the mortgage, and which, as you pointed out, also might be a discount in some cases, but the company could have made one or more or even all of those fees on any one mortgage, isn't that right?

Mr. CRABB. Yes; I think that is generally correct. I would like the opportunity, if the question isn't going to come up later, to comment a little on this interest factor during the construction period.

The CHAIRMAN. Proceed.

Mr. CRABB. That is the 6-percent interest.

The statement has been made that this construction loan is a riskless investment as far as we are concerned, in view of the commitment for insurance at the end of the term. That is incorrect. Any construction loan involves many risks. We learned the mortgage business the hard way during the period 1928 to 1934.

There have been many instances in the building field when a contractor got into trouble—not in this case and not with these particular contractors—but it has been known to happen and we try to protect ourselves against that.

If any one of these particular builders had thrown up his hands and run into trouble, and we had to step in, we would have had a headache.

The risk money during a period of construction is generally recognized as being entitled to a better return than normal mortgage money.

Now, another thing, too, the interest on a construction loan is on the average amount we have. It isn't on the full amount, and the 1½ or 2 percent interest that we were receiving in excess of the going rate at that time didn't amount to too much in dollars, because it was calculated, as has been stated, month by month, and on the final advance, we got that for only 1 month.

It averaged out far less than the amount—

The CHAIRMAN. May I ask you this question: This company that you entered into the contract with only had \$6,000. Did you have the individuals, stockholders, or officers or directors endorse the notes or guarantee payments to you?

Mr. CRABB. I believe not.

The CHAIRMAN. You just depended upon the \$6,000?

Mr. CRABB. Well, we depended on both—

The CHAIRMAN. If you are that easy to do business with, I am going to come around and see you.

Mr. CRABB. If you show the same general attributes as those men had and qualities—

The CHAIRMAN. The attributes that permit you to make a lot of money.

Mr. CRABB. I wouldn't exactly say that. We were anxious to make a sound loan. You must remember we always had the land as security.

Mr. SIMON. Mr. Crabb, isn't the schedule "A"—are you familiar with schedule "A" attached to the contract?

Mr. CRABB. No, sir.

Mr. SIMON. Did you participate in negotiations leading to that contract?

Mr. CRABB. Only in a general way. We had competent and able officers in charge of our mortgage department and all that was discussed with me was the general desirability of the loan, and then I delegated the detail and relied on those people to do the detail work.

Mr. SIMON. Did you know that schedule "A" provided for the cost of construction on a unit basis, and that it provided that costs should be not more than 80 percent; that is, it turns out to be 80 percent of the amount of the FHA commitment?

Mr. CRABB. No, sir. I didn't see that form at all.

Mr. PAUL. Mr. Chairman, would you ask the witness this question? In the testimony given by Mr. McKenna at page 34, you said:

Let me ask you this: Is this a pattern? What I am trying to get at, is this a pattern where 3 people, I believe, invest \$6,000? They enter into a contract

with a big concern like Investors Diversified Service, which is a large concern in which they evidently both agreed before they entered into the contract or knew beforehand that they entered into the contract that they were both going to make a lot of money by mortgaging out. Is that a general pattern?

Mr. McKenna said:

That part of it, I think, is general. I think these people who went into it knew in advance pretty much how much they were going to mortgage out.

I wish you would ask Mr. Crabb whether he had any agreement with these people that they were going to mortgage out when they entered into this contract.

Mr. SIMON. That is exactly what I was about to ask him, Mr. Paul. The CHAIRMAN. We will ask that question.

Mr. SIMON. I show you this contract. If you will look at the paragraph that refers to exhibit A in the middle of the page, Mr. Crabb.

Mr. CRABB. Yes, sir.

Mr. SIMON. I believe you will find that it provides that the construction costs per unit are to be in accordance with schedule A. And if you will look at schedule A you will find that the costs are broken down for painting, plastering, and each individual item, and they total \$60,000 per unit.

Then if you will look up in front, one of the conditions of your contract is that you shall not be in any way obligated until after FHA has issued a commitment for an amount which turns out to be \$72,000.

Therefore, I take it, unless I don't read it rightly, that unless there was a breach of contract, the building had to be built for 80 percent of the amount of the loan, is that right?

Mr. Crabb, have you looked at the paragraph marked "2" on page 7?

Mr. McCARTIN. Mr. Simon, will you excuse us just a minute? We are having a little conference.

Mr. SIMON. Yes, indeed.

Mr. McCARTIN. Mr. Simon, we are ready to go ahead now.

Mr. SIMON. Have you examined paragraph No. 2 on page 7, Mr. Crabb?

Mr. CRABB. Yes, sir.

Mr. SIMON. Does it provide, as I have indicated, that exhibit A, attached, provides for a payment breakdown for each unit of construction with estimated costs assigned to the project?

Mr. CRABB. That is as I would interpret, yes.

Mr. SIMON. Does it provide that at the stage of any development, of construction, materials on hand for which advances are requested, shall at all times be equal to or exceed the advances payable under the breakdown?

Mr. CRABB. Yes.

Mr. SIMON. And the payment breakdown which is exhibit A calls for constructing the unit at a cost of \$59,905, is that correct? I happen to have the contract for section 4, Mr. Crabb. You will find a very few dollars, but they are all roughly \$60,000.

Mr. CRABB. Mr. Simon, as I understand this particular exhibit, that is merely a statement of the advances of which as is customary in making construction loans, 20 percent is held back or whatever is necessary to complete the property, is held back so that if anything does

happen we would have that much at least from reserve for completing the property.

Mr. SIMON. FHA theoretically held back 10 percent because they could only give a 60 percent loan and you then held back an additional 20 percent, is that right?

Mr. CRABB. I think that is about right. At least we held back enough—I think it would be helpful in this same point to look at page 6, paragraph at the top of the page:

In the event the lender shall determine at any time or from time to time that the undisbursed loan proceeds are insufficient to fully complete pay for all improvements constructed and to be constructed, and to permit the payment of any other disbursements required, or authorized by this agreement, lender may make written demand upon the borrower to deposit with the lender such amount as lender may estimate to be required for such purposes—

et cetera.

Mr. SIMON. And the borrower in this case was the Shirley Duke Corp.

Mr. CRABB. Yes, sir.

Mr. SIMON. Which only had \$1,000 of capital, is that right?

Mr. McCARTIN. I think you meant to say the borrower, didn't you?

Mr. SIMON. The borrower is Shirley Duke, which had \$1,000 of capital.

Mr. CRABB. For each unit.

The CHAIRMAN. They couldn't make good very much with just \$1,000 could they?

Senator BENNETT. Mr. Chairman, I would like to ask Mr. Crabb if he is saying that schedule A, which adds up to approximately \$6,000, is in fact only 80 percent of the agreed-to purchase price of each unit?

Mr. SIMON. The mortgage agreement.

Senator BENNETT. I mean cost of each unit. Do you mean to say to us that you deliberately held back \$12,000 per unit and, if so, how do we find it? Where do we find it?

Mr. SIMON. That is what I am trying to find out.

Senator BENNETT. That is why I would like to ask. For instance, here on schedule A is a figure storm sewer, \$1,500. Did you estimate it would cost \$1,200 to build the storm sewer and you were holding \$200 back out of the storm sewer, or is there something in this list that you knew would have to be added to the value of the building equal to 20 percent of its cost which is not listed in schedule A?

Mr. CRABB. You have me at a little disadvantage on this particular matter, because I have not had an opportunity to study it nor to discuss it with my associates, but my understanding is that this \$59,900 was an estimate by the engineers of the hundred percent of the cost of the property.

Senator BENNETT. That is the point I want to get at. Is there any place in your contract which says you will deliberately hold back 20 percent of the cost?

Mr. CRABB. No, sir, except this one.

Senator BENNETT. You have read us some language which indicates that if the cost begins to run above your commitment you have the right to call on the owners but is there any place here which indicates in advance that you are going to hold back any percent or 20 percent of the cost of the building?

Mr. McCARTIN. Mr. Chairman.

The CHAIRMAN. Yes, sir.

Mr. McCARTIN. Senator, the only knowledge I think that any of us have as to that at this moment is the statement that was made by Mr. Simon. He said the commitment was for so much, and this breakdown only adds up to 80 percent.

Now, as we have tried to explain to the chairman, and to Mr. Simon, in previous sessions, the men who handled the details of this just aren't available to us, and we don't know, but we are conjecturing that maybe that was a good business practice, to provide under our contract that while we might be committed to ultimately advance \$2 million, that we would not be required to do it until the project was completed, and that we could hold back part of our commitment until the thing was completed.

Senator BENNETT. Is there any place in the contract that says that?

Mr. McCARTIN. I think the breakdown itself says that.

Senator BENNETT. We are supposed to infer then because the breakdown, which seems to me to be the schedule representing the full expected cost of the construction of the building, is only 80 percent of the expected cost.

Mr. McCARTIN. You and Mr. Simon have a different interpretation of it. Mr. Simon says the figures add up to 80 percent of the commitment.

Mr. SIMON. Let me ask the witness a couple of questions. I think it will clear it up. Do I understand your testimony, Mr. Crabb, to be that your engineers figured 100 percent of the cost of one of these units would be \$60,000? Is that right?

Mr. CRABB. The out-of-pocket cost. That does not allow for even indirect costs.

Mr. SIMON. What do you mean by indirect costs?

Mr. CRABB. Overhead, know-how, putting the thing together, taxes during construction.

Senator BENNETT. Such out-of-pocket costs as entertainment, interest on loan, contingencies, they are all in this \$60,000?

Mr. McCARTIN. Interest on loans would be. No. He said that is one of the things that is not included, Senator. This is brick and mortar.

The CHAIRMAN. But it is included in the schedule.

Senator BENNETT. It is included in the schedule.

Mr. McCARTIN. I beg your pardon.

The CHAIRMAN. The Senator will read it to you. It is all included in the cost.

Mr. McCARTIN. Then I don't know.

Senator BENNETT. I will start on the bottom of the first page.

Mr. McCARTIN. I don't think you need to do that. We have a copy and we can see it.

Senator BENNETT. "Engineering, \$140; FHA fee, \$580; legal fee, \$44."

The CHAIRMAN. This is for each unit.

Senator BENNETT. These don't go into the building. This is not something that you hammer into the building itself—temporary power is undoubtedly part of the building cost. temporary heat, signs, architect, phone, office equipment, miscellaneous supplies, insurance, permits, temporary water, then we come to entertaining, interest on loans,

contingencies. Unfortunately they didn't show the boys a very good time. Entertaining was only \$11.

Mr. SIMON. There were 200 units.

Senator BENNETT. But there were 200 units, so that is \$2,200 for entertaining, contingencies, \$500 a unit, 200 units.

The CHAIRMAN. In this particular project.

Senator BENNETT. One hundred thousand dollars for contingencies in this. I realize I am injecting myself into this without having heard the whole thing this morning. I can't find any reference which would indicate that this list, which seems to be complete, is in fact only 80 percent of what you expected to have to put up and I can't find anything in the agreement which says specifically these figures are only 80 percent, or "we are withholding 20 percent, and that this list is therefore 20 percent short of the actual cost."

So I think we are justified in assuming that it was expected that those buildings would be built for \$60,000 a unit and that when we find, on an earlier page, the principal amount of the loan shall be \$72,600 per building unit, we are justified in assuming that you knew there would be, or you expected there would be a \$12,000 mortgaging out windfall in each of those 200 units.

Mr. PAUL. Senator, would you ask that question of the builders, too? The three builders who were here? I think they can explain the building practice on that.

Senator BENNETT. Is that all right with you?

Mr. McCARTIN. I think the question was explained this morning by one of the builders and that is the reason we are not attempting to go any further with it because they knew the practice and they testified in that regard before, and we, to the best of our knowledge, were following their suggestion on it and only offering it as a suggestion.

Senator BENNETT. Since I wasn't here this morning, may I ask again which was your best estimate of the cost of those units? The \$72,000 for which you agreed to provide mortgage for each unit or the \$60,000 which is represented by the specific schedule?

Mr. CRABB. I am unable to answer that, Senator, myself.

The CHAIRMAN. What was the actual figure when it was finished? What was the actual cost per unit when it was all finished and all the bills were paid?

Mr. CRABB. As far as I know, we do not have a record of that.

Mr. SIMON. \$60,000 a unit by 200 units would be \$12 million.

Mr. McCARTIN. It came awfully close to the figures on the schedule and we certainly will admit that.

Mr. SIMON. It was a little under \$12 million, the cost of the building.

The CHAIRMAN. So the facts are the actual cost when you got all through was approximately——

Mr. SIMON. \$60,000.

The CHAIRMAN. So what you had in this schedule was pretty accurate.

Mr. McCARTIN. I think that is right.

The CHAIRMAN. And the FHA agreed to loan you \$72,000, so you had \$12,000 leeway, and you may argue that there is nothing wrong with it. I am not taking a position.

Mr. CRABB. I would like to point out this: That these estimates were made even before construction started. Whatever estimates we relied

upon were based on a lot of contingencies and possibilities that we could not anticipate—strikes, bottlenecks, everything of that kind.

Mr. SIMON. Mr. Crabb, under this contract, these \$6,000 corporations were required to pay your fee in advance, were they not?

Mr. CRABB. Not exactly in advance. Those fees were paid in installments. The last fee—the last installment on the fee was paid on January 17, 1950, which was not too long before the property was completed.

Mr. SIMON. Doesn't the contract provide that it shall be paid in advance?

Mr. CRABB. The contract may provide that but that was not done.

Mr. SIMON. I refer you to paragraph 11 (b) on page 10, which reads—

Borrower agrees to pay the lender an amount herein sometimes referred to as lender's compensatory charge for this loan in the amount of 6½ percent of the original principal amount of the loan, which shall be payable forthwith upon recordation of the mortgage.

In any event the fees which they made to you under that provision of the contract were paid to you with money that you had loaned to them to pay the fee; is that right?

Mr. CRABB. Yes, although just answering yes on that might be a little misleading.

The fee, a large part of the fee, had been determined prior to our making a commitment. We had spent a lot of money on payroll, et cetera. We contributed, we think we contributed considerable know-how to putting it together, and, necessarily, we put all the charges against that particular account immediately when—

Mr. SIMON. Do you have the contract before you?

Mr. CRABB. Yes, sir.

Mr. SIMON. Could you turn to the addendum to paragraph 11 (b). It is on the page following page 11. Do you find that, Mr. Crabb?

Mr. CRABB. Yes, sir.

Mr. SIMON. It refers to the services that you had rendered at the instance and request of the borrower for which you were to be paid this fee. Among the things near the end of that paragraph it refers to services "in conjunction with other projects of other owners." We asked the people this morning what that meant, and nobody seemed to know. Do you know what that refers to? Specifically I mean what projects and what owners?

The CHAIRMAN. You go ahead and answer the question.

Mr. CRABB. Mr. Simon, I think, although I can't be sure, that that referred to the other projects in this same overall project. In other words, there were six different projects in this Shirley-Duke transaction, and I rather think that the other project in which some of these people might be interested referred to may be Shirley-Duke No. 1. This was written for only one unit.

Mr. SIMON. Are you certain it didn't refer to some projects that Mr. Loftus in Cleveland had?

Mr. CRABB. I am not certain but I don't think so.

Mr. SIMON. Mr. Crabb, it seems to be agreed here that Mr. Loftus brought these people together and did a lot of work and seemed to have a great deal of influence in that matter. Did he get paid in any way?

Mr. CRABB. No, not to the best of my knowledge, but I understood at the time that he was contributing his abilities in putting together a transaction of this kind, just out of his friendship with the company, and his friendship, close friendship, with some of the officers of the company. He was a wealthy man. He was not too interested in making any more money, and I always felt he got a kick out of doing something like this, whether he was paid or not. He was a genius in putting together a transaction of this kind.

Mr. SIMON. Mr. Crabb, in the FHA regulation interest is limited to 4 percent and on this loan, while the interest was paid on the temporary loan, the contract makes it clear that you were to be paid out of the permanent loan and your interest was 6 percent. The FHA regulations provide for a fee of 2½ percent, and you charged a fee of 6½ percent.

In addition you had a management contract on which you received \$121,000 so far and it has a year and a half to go, and you received \$175,000 premium, which is roughly \$1,250,000 in addition to 6 percent interest on all the money that was from time to time outstanding.

Does that impress you as a usual deal or is that an unusually harsh deal?

Mr. CRABB. I don't feel it is unusually harsh. The FHA regulations as I understand it applied to the FHA insured loan, not to the risk loan that was made to construct the property.

Mr. SIMON. But you knew the only source from which you could ever get paid was the FHA insured loan?

Isn't that right?

Mr. CRABB. Well, I suppose that is true, yes.

Mr. SIMON. Your contract provided you were not obligated to advance any funds until FHA had issued a commitment?

Mr. CRABB. Yes. If the project was completed successfully, and there were a lot of "ifs" between the time we began and our final commitment became effective.

Mr. SIMON. The only "if" was the difference between the FHA loan and the construction cost and you took care of that by providing a 20 percent commission.

Mr. CRABB. We tried to protect ourselves.

The CHAIRMAN. Didn't you likewise get a commitment from Fannie May?

Mr. CRABB. Such commitments from Fannie May were taken many times as a measure of safety in order to make sure we had an outlet for the mortgage.

The CHAIRMAN. Let me ask this question: I asked the question this morning if you gentlemen, meaning the group of you, had a Fannie May commitment and you said you did. I asked you this morning if you had a Reconstruction Finance Corporation commitment and you said none of you knew anything about it.

Do you now want to change your testimony or do you still say you knew nothing about it? Because I hold in my hand the Reconstruction Finance Corporation and Subsidiaries Report of June 30, 1950, and I find on page 71, Shirley-Duke Apartments, Sections 1, 2, 3, 4, 5, and 6, the combined authorized loans is \$14,412,600. You gentlemen are all owners of this project, and you, investors, are you saying you know absolutely nothing about that?

Mr. McCARTIN. Mr. Chairman, could we ask a question for information?

The CHAIRMAN. Yes.

Mr. McCARTIN. Wasn't Fannie May a subsidiary of RFC?

The CHAIRMAN. Yes, but this is a construction loan. You understand it was a commitment and the record does not show whether any of it was ever used or not at a later date.

Mr. HILL. What is the title of that schedule, Senator?

The CHAIRMAN. What?

Mr. HILL. The title of the schedule.

The CHAIRMAN. Schedule of loans and securities, \$100,000 and over, dated June 30, 1950.

Mr. McCARTIN. What is the heading on the page from which you are reading?

The CHAIRMAN. The heading is Reconstruction Finance Corporation Subsidiary, list of borrowers having unpaid loan balances and undisbursed authorization balances amounting to \$100,000 or over.

Mr. McCARTIN. Wouldn't that be the Fannie May commitments then? Because it does say subsidiaries.

The CHAIRMAN. What did you say?

Mr. McCARTIN. I wonder if that wouldn't be the Fannie May commitments, because it does say subsidiaries of RFC unrevoked or undisbursed authorizations.

The CHAIRMAN. Mr. Fink, who is the staff director of the House Committee on Banking and Currency and if anybody ought to know, he does, he is the gentleman who brought this to my attention today, says it is not true. We will have to get RFC up here I guess to find out who made this application. You gentlemen all claim you didn't. Now, did they just dream this up?

Mr. HILL. Could we see that a moment, sir?

The CHAIRMAN. Yes.

Mr. SIMON. While Mr. Hill is looking at that, Mr. Crabb, could I ask you the total of all the commitments by Fannie May to IDS.

Mr. CRABB. On FHA, I do not have that information.

Mr. SIMON. On all these FHA loans, did you always get a Fannie May commitment?

Mr. CRABB. At that particular time we got commitments in the majority of cases. I would like to go ahead with the other comment because it has a bearing on that very question.

Mr. SIMON. May I ask you how many times did you use the Fannie May commitment?

Mr. CRABB. I would have to check the record on that too.

Mr. SIMON. Was it relatively few times in comparison with the number of commitments you made?

Mr. CRABB. No, I think it was a rather substantial number of times, but may I explain?

Mr. McCARTIN. Mr. Chairman, may I please inject myself again?

The CHAIRMAN. Yes.

Mr. McCARTIN. Yes, sir, we gave you a schedule of our section 608 loans, and I think that the conclusion from the statistical data that we gave you yesterday was that out of the 148, or 149, section 608 loans that we had 4 of them or 5 of them were sold to Fannie May. I think that is the record. Mr. Crabb was not aware of that, but I think that in fairness to him we should tell him.

Mr. HILL. You asked me a question. I can account for it, Senator, only from the title which lists holdings or commitments really of FHA.

The CHAIRMAN. Will somebody get RFC on the phone?

Mr. HILL. RFC and subsidiaries.

Mr. CRABB. May I answer that question regarding the commitments from Fannie May?

The CHAIRMAN. Yes.

Mr. CRABB. At that particular time, we were organized to create and originate mortgages—

The CHAIRMAN. Talk a little louder, please.

Mr. CRABB. At that particular time we were organized to create and originate mortgages substantially in excess of what was required for our own portfolios. Necessarily, we were going to do our part in the construction business, and in the correction of the housing shortage. We had to have an outlet for this excess over what we could handle ourselves. We tried wherever we could to get an advance commitment so that we would know that we would not be caught short on our commitments. At one time I think we had commitments outstanding of something like \$150 million. And it was a safety measure. It wasn't—these were desirable loans, good loans, as was proved by the fact that they were sold to institutional investors. They liked them, they took them, and we didn't have to call on Fannie May for financing and purchasing the completed loans in a very large number of cases.

Mr. SIMON. Mr. Crabb, just to complete the record, I mentioned this morning, but I think I should ask you—is it correct any fees which your company received for compensatory services in the Shirley Duke matter were \$899,900?

Mr. CRABB. That is correct.

Mr. SIMON. And is it true that the premium you received on the sale of the mortgages was \$173,075?

Mr. CRABB. I think that is approximately correct. That premium was due to a great extent to a change in interest rates and interest level.

Mr. SIMON. I am reading from a paper that Mr. McCartin gave us the other day.

Mr. CRABB. To the best of my recollection that is correct.

Mr. SIMON. Is it true you have through May 21 of this year received \$121,619.78 on the management contract?

Mr. CRABB. That is correct.

Mr. SIMON. In addition you received 6-percent interest on your money that was from time to time outstanding?

Mr. CRABB. That is correct, although I think in fairness, that ought to be reduced to a dollar amount, not just 6 percent.

Mr. SIMON. Do you know what the amount is, Mr. Crabb?

Mr. CRABB. No, I don't.

The CHAIRMAN. How would you expect us to reduce it to a dollar amount?

Mr. McCARTIN. It is only payable month to month.

Mr. CRABB. It is only payable month to month.

The CHAIRMAN. We will be glad to reduce it to a dollar amount if you will tell us what it is.

Mr. SIMON. Mr. Crabb, we don't want to use the whole list of data but I would like to ask you a question on four checks that I have here,

which have been furnished to us by your office dated August 1, 1949, payable to Cleveland Parkway and Broadview Gardens and endorsed over by them to Don Loftus. Three of them deposited in the personal account of Mr. Loftus and one in the account of Mr. Lewis. Do you know anything about that transaction?

Mr. CRABB. I believe that that was for the purchase of land owned by Mr. Loftus in Cleveland in connection with the building project.

The CHAIRMAN. We will have to recess for about 10 minutes until I go for a quorum call and I will be right back.

(Whereupon, there was a short recess.)

Senator BENNETT (presiding). Shall we resume the hearings, please? I think Mr. Simon has one more question.

Mr. SIMON. Mr. Crabb, I gather from what you said earlier that you couldn't tell us at this time what the equity participation, or management fee, might have been in the section 608 projects on the list Mr. McCartin gave us the other day, excluding the Cleveland and Shirley Duke projects. Is that right?

Mr. CRABB. Yes, sir.

Mr. SIMON. Could you furnish us within the next 2 or 3 weeks a sworn statement, sworn to by whoever in your company would best have the facts, of the FHA-insured projects in which your company participated, under sections 608, 213, 203, or 207, and also giving the compensatory fee, the financing fee, management fee, equity participation and distribution, if any, interest and premium?

Could you get that to us?

Mr. McCARTIN. Yes.

Mr. CRABB. For how long a period?

Mr. SIMON. From January 1, 1946 to the present time.

Mr. CRABB. Yes, sir. We will be glad to do that.

(A summary of the information requested will appear in a later volume.)

Mr. PAUL. Mr. Chairman, before Mr. Crabb is released this morning I spoke—

Mr. SIMON. Would you let us have him before you release him?

Mr. PAUL. Thank you.

Mr. SIMON. Mr. McCartin, you have some summaries of fees and compensation which investors received in the Cleveland Gardens project?

Mr. McCARTIN. That is correct.

Mr. SIMON. Would you be good enough or willing to put them in the record and can Mr. Crabb certify their authenticity?

Mr. McCARTIN. If you don't mind, Mr. Simon, Mr. Kenealy who had a period before this committee heretofore as a witness has that detail and is here to testify if you would just as soon take his statement.

Mr. Kenealy is sitting right here.

Senator BENNETT. Mr. Kenealy, will you be sworn? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KENEALY. I do.

Mr. SIMON. Would you give us the fees and other remuneration Investors received on the Cleveland Park project?

Mr. KENEALY. I believe I gave you the schedules yesterday.

Mr. SIMON. I would like to have them read into the record, so they are part of the record.

Mr. KENEALY. On the Cleveland deals there was compensatory fees of \$397,650, a service fee of \$119,385, an inspection fee of \$11,081.

Mr. SIMON. What is the total, please?

Mr. KENEALY. There was premiums on the sales of the mortgages of \$58,819. The total of those compensatory fees and service fees is \$517,335.

Mr. SIMON. Is there a management fee included?

Mr. KENEALY. Yes. I am coming to that, sir. The management fees through 1954 to date were \$52,971.72.

Senator BENNETT. Thank you, Mr. Kenealy.

We understand that you have a statement which Mr. McCartin will read for Mr. Crabb.

We will be glad to have that now.

Mr. McCARTIN. Thank you. Mr. Chairman, you all who are sitting here can appreciate the fact that Mr. Crabb is a gentleman somewhat advanced in years, and he was not advised of this proceeding until Monday of this week, and has had to fly out here from Seattle and has been busy and had very little rest since he got here, and that is the reason for asking permission for me to read this statement; and we will file a copy with the reporter if it is in accordance with your practice.

This is entitled "Statement of Earl E. Crabb, chairman of the executive committee of Investors Diversified Services, Inc., before the Senate Banking and Currency Committee on June 30, 1954."

The CHAIRMAN. Could I have a copy of it? I see you are giving everybody else copies.

Mr. McCARTIN. Senator Capehart and members of this committee [reading]:

Investors Diversified Services, Inc., has taken an active part in developing the resources, facilities, and services of this country, with particular emphasis on providing housing for the people of this country. Our company, for a considerable number of years, has been one of the principal sources of mortgage financing in the United States.

A substantial number of its mortgage transactions have been under the Government-insured mortgaging programs.

All transactions in this field have been conducted by the company in the same manner that any well-managed company would conduct its business. The actions that were taken by Investors Diversified Services, Inc., were based upon the advice of counsel either employed by the company or retained outside the company; and, whenever possible, opinions as to procedures and technical interpretations of regulations were obtained from authorized officers within the various insuring agencies.

We have appeared voluntarily before this committee to assist in your investigation. We have expended a great deal of time and effort in developing from our files information which you have requested and we certainly intend to continue to cooperate.

Certain erroneous information has been presented to this committee concerning the operations of Investors Diversified Services, Inc. I wish to correct such misinformation and clarify certain areas of misunderstanding.

Investors Diversified Services, Inc., was incorporated in 1894 and maintains its principal office at Minneapolis, Minn.

Negotiations for the Shirley-Duke project were finalized in February 1949. During the negotiation and subsequent construction, I was president and the principal executive officer of the company.

Testimony was presented to this committee that Investors Diversified Services, Inc., made a profit of \$26 million in connection with FHA 608 financing.

This testimony attributed such statement to Mr. Budwesky who was not a representative of Investors Diversified Services, Inc., although the testimony tended to indicate that he might have been.

The statement upon which this testimony was based was false. The facts are that during the years 1949 through 1953 Investors Diversified Services, Inc., financed 56,709 individual mortgage loans totaling \$620,750,617. Of the total mortgage loans handled during this period, approximately 93 percent were guaranteed by the Veterans' Administration or insured by FHA as is shown by the following summary:

Type	Number of loans	Total amount of loans
FHA.....	16,854	\$190,765,591
VA.....	36,072	263,053,579
Conventional.....	3,783	166,931,476
Total.....	56,709	620,750,617

Included in these transactions were 148 section 608 loans representing an investment of \$59,797,061, and in connection with these mortgages our company realized gross fees of \$1,689,131 and not \$26 million as erroneously reported to this committee.

I would like to emphasize that these so-called fees were gross and not net income. They make no allowance for the substantial costs involved in the development of such earnings. The amount of these fees shows that Investors Diversified Services, Inc., did not unduly profit at the expense of the persons for whom these housing programs were developed.

Testimony before this committee also implied that our company received an unconscionable profit in connection with the financing of the Shirley Duke Apartments. As this committee has already been advised by authorized representatives of Investors Diversified Services, Inc., the fees which the company received in this transaction aggregated \$919,298.

This money was earned by the company for taking the entire risk amounting to approximately \$14 million of construction and completion of a large housing project which at the time of its planning was necessary to alleviate the critical shortage of rental housing in the Washington, D. C., area.

Our company risked this money to further a program which was not only approved by the Government but in which the Government was vitally interested.

When 16 units out of 2,100 were completed and ready for occupancy, there was a long waiting list of applicants indicating that the rental rates were attractive and well in line with competitive rates in this area.

In fact, I believe these apartments represented about the best value in metropolitan Washington.

This mortgage was, and is, a sound and desirable investment in which the Government, as insurer, is in excellent position.

An intimation of overreaching or unfair dealing on the part of Investors Diversified Services, Inc., with any branch of the Government having within its jurisdiction matters relating to the insuring of mortgage loans is unfounded in fact. The company has received out of its participation in such program only that remuneration to which any institutional lender would have been entitled in connection with similar transactions.

Investors Diversified Services, Inc., had no reason to be other than completely candid with you, and you may count on our complete cooperation in developing the facts in which you are interested. It is our hope that the developing of these facts will proceed in a manner which will prevent misunderstandings of the activities and attitudes of Investors Diversified Services, Inc.

I might add that while our company is interested in developing and earning legitimate returns on its investments and on its operations, primarily our interest is in protecting the interests of the 500,000 certificate holders and other investors in the securities offered by our company.

Investors Diversified Services, Inc., FHA 608 loans made during period Jan. 1, 1947, through June 25, 1954

Name of mortgagor	Amount of loan	Fees received
Schaefer Enterprises, Inc., 16420 Gulf Blvd., Redington Beach, Fla.....	\$109,800	None
Carmalt Apartments, Inc., 16436 Gulf Blvd., Redington Beach, Fla.....	109,800	None
Columbia Heights Development Co., Columbia Dr. and Forest Blvd., Decatur, Ga.....	264,000	\$2,640.00
Del Amo Gardens, Inc., Long Beach, Calif.....	166,800	None
Do.....	162,600	None
Do.....	120,800	None
No. III Wycliffe Co., 6900 Watson Rd., St. Louis, Mo.....	108,000	1,980.00
No. III Wycliffe Co., 6900 Watson Rd., St. Louis, Mo.....	72,000	None
No. IV Wycliffe Co., 6900 Watson Rd., St. Louis, Mo.....	72,000	None
Do.....	72,000	None
Tropical Apartments, Inc., 16410 Gulf Blvd. Redington Beach, Fla.....	109,800	None
Martinique Corp., 16490 Gulf Blvd., Redington Beach, Fla.....	109,800	None
Clayton Realty & Construction Corp., 7625 35 Delmar, University City, Mo.....	93,600	None
William F. Beckett and Bernice P., Fairmont Ave. and 29th St., Oakland, Calif.....	59,800	897.00
Inwood Apartment Corp., No. 3, Dallas, Tex.....	534,000	None
Inwood Apartment Corp., No. 4, Dallas, Tex.....	604,800	None
Clepton Investment Co., lots 1, 2, and 3, block 14, University Park, St. Louis County, Mo.....	64,800	1,710.00
Ben F. Marron and Cora H. Marron, Mary Murray Apartment, M. W. C. Wardlow Rd., Long Beach, Calif.....	114,900	574.50
Beachwood Building Co., Inc., Beachwood Dr., Los Angeles, Calif.....	75,400	None
Envoy Construction Corp., 152 Dickens St., Van Nuys, Calif.....	99,000	200.00
John L. McElroy and John D. Howard, Southeast corner Limp Ave., Chandler Blvd., Los Angeles, Calif.....	44,800	224.00
Masterbuilt Corp., 117-56 Sunset Blvd., Los Angeles, Calif.....	134,200	None
B. F. Marron and V. H. Marron, 3402 and 3404 Caviota Ave., Long Beach, Calif.....	46,400	None
S. V. Hunsaker & Associates, 1045 East Carson, Long Beach, Calif.....	48,300	None
Monarch Construction Co., Burbank and Whitsett Blvd., Los Angeles, Calif.....	58,400	584.00
Green Ivy Manor, Burbank Blvd and Whitsett, Los Angeles, Calif.....	58,400	584.00
Green Ivy Manor, Burbank and Whitsett, Los Angeles, Calif.....	59,900	599.00
Green Ivy Manor, lot 67 and 68, tract 13668, Los Angeles, Calif.....	59,900	599.00
Green Ivy Manor, Burbank Blvd. and Whitsett, Los Angeles, Calif.....	59,900	599.00
Trager Corp., lots 75 and 76, tract 13668, Los Angeles, Calif.....	58,400	584.00
Trager Corp., Burbank and Whitsett, Los Angeles, Calif.....	59,900	599.00
Trager Corp., Burbank Blvd. and Whitsett, Los Angeles, Calif.....	59,900	599.00
J. Willoughby Howe, 515-523 San Vicinto Blvd., San Marina, Calif.....	114,300	1,714.50
S. V. Hunsaker, 1122 East Carson Ave., Long Beach, Calif.....	97,800	None
Royal Corp., 1421-31 South Fairfax Ave., Los Angeles, Calif.....	52,500	525.00
Line Bilt Structures, Inc., 14812-22 Dickens St., Los Angeles, Calif.....	77,300	1,159.50
Eilert Voge and Wilma P. Voge, 3355 Alma St., Lynwood, Calif.....	72,200	None
Albert Clark Ray, 3742-46 Jasmine Ave., Los Angeles, Calif.....	77,000	770.00
Richard S. Heald and Wilma A., 1117 East Carson St., Long Beach, Calif.....	50,600	None
Orville E. Heitkotter and Anna Louise, 1125 East Carson, Long Beach, Calif.....	50,600	None
Stilson, Inc., lots 9, 10, 11, B-2, tract 14, Palms, Calif.....	132,000	1,320.00
Bunny Investment Co., Church St., Downey, Calif.....	200,000	None
S. V. Hunsacker, 1049 E. Carson St., Long Beach, Calif.....	48,300	721.50
M. A. Ekstand, 1061 East Carson, Long Beach, Calif.....	47,800	None
Castle Park Corp., 721-723 Old Ranch Rd., Arcadia, Calif.....	79,400	794.00
J. and H. Billet, A. and M. Gagne, 751-55 North Hoover St., Los Angeles, Calif.....	80,300	None
Truman Browne and Bette Forrest Browne, Grenshaw Dr. and 83d St., Los Angeles, Calif.....	142,200	None
Truman Browne, Grenshaw Dr. and Grenshaw Blvd., Inglewood, Calif.....	117,300	None
Truman Browne, Grenshaw Blvd., Inglewood, Calif.....	190,800	None
S. V. Hunsaker, Charlemagne and Carson, Long Beach, Calif.....	96,700	None
Mrs. Ola Bales, 1310 West Wall St., Midland, Tex.....	57,600	None
Glenwood Apartments, Inc., Rome, Ga.....	666,000	None
Fourth Avenue Apartments, Inc., Albany, Ga.....	129,000	None
Inwood Apartment Corp., No. 1, Dallas, Tex.....	125,000	None
Inwood Apartment Corp., No. 2, Dallas, Tex.....	297,000	None
Emory Park, Inc., DeKalb County, Atlanta, Ga.....	483,000	None
Montana Apartment Corp., 2137 to 2151 Montana Ave., Santa Monica, Calif.....	95,900	479.50
Joseph B. Kovach and Harmina, 5416 Carlton Way, Los Angeles, Calif.....	50,600	506.00
Essex Village Apartments, Inc., Hialeah, Fla.....	602,400	None
Lincoln Gardens Annex, Inc., NW. 24th Court, 46th and 48th St., Dade County, Fla.....	261,800	3,927.00
Lincoln Gardens Apartment Corp., NW., 24th Court, 46th and 48th St., Dade County, Fla.....	235,600	3,534.00
Clairemar Corp., 1150 Silverado Ave., La Jolla, Calif.....	1,670,400	8,352.00
Envoy Construction Corp., 15232 Dickens St., Sherman Oaks, Los Angeles, Calif.....	100,500	2,010.00
Valley Vista Apartment Corp., Valley Vista, Sherman Oaks, Calif.....	108,200	2,164.00
Piedmont Court Apartments, Inc., Piedmont Rd., Atlanta, Ga.....	831,600	None
Budlong Woods, Apartments East, Inc., 2713-25 West Berwyn Ave., Chicago, Ill.....	189,000	1,417.50

Investors Diversified Services, Inc., FHA 608 loans made during period Jan. 1, 1947, through June 25, 1954—Continued

Name of mortgagor	Amount of loan	Fees received
Budlong Woods, Apartments West, Inc., 2727-39 West Berwyn Ave., Chicago, Ill	\$ 89,000	\$1,417.50
Phillips Building Corp., 6327-6329 North Winthrop Building Corp. Chicago, Ill	82,800	1,242.00
Richard F. Dalley and Beatrice R., 2555 Foothill Blvd., Oakland Calif.	145,000	None
Carl A. Fossi and Albert O., 1505 North Terry St., Portland, Oreg.	67,800	None
High Pines Apartments, Inc., 57th Ave., Red Rd., Miami, Fla.	476,000	None
Winfree E. Nelson, lots 7 and 8, block 18, Princeton Ave. and Calvert, College Park, Md	86,000	None
Richard F. Dalley, Foothill Blvd., Oakland, Calif	170,000	None
University Gardens, Inc., 111 East Broadway, Salt Lake City, Utah	481,700	None
Embassy-Young Construction Co., 333-39 South Margaret Ave., Los Angeles, Calif	76,200	None
Park Lawn Apartments, 964 Linden Ave., Winnetka, Ill	99,000	None
H. W. Grasse, Polie and Laurel, San Buenaventure, Calif	64,400	644.00
Scoville Manors, Inc., 1001-11 SW. Lejeune Rd., Miami, Fla.	61,200	None
Scoville Manors, Inc., 997 SW. Lejeune Rd., Miami, Fla.	61,200	None
E. M. Ward & Sons, Inc., 4140 SE. 37th Ave., Portland, Oreg.	111,600	None
Sunny Grove Investment Co., 4203 SW. 14th St., Miami, Fla.	88,600	None
Rock Springs Manor, Inc., 2769 Rock Springs Rd., Atlanta, Ga.	514,000	None
Rock Springs Gardens, Inc., 425 Sandler Dr., Atlanta, Ga.	445,000	None
Spring Lake Apartments, Inc., Goode Construction Corp. project 2, Rock Spring Rd. and Larkin Dr., Atlanta, Ga.	222,400	None
Spring Lake Apartments, Inc., Goode Construction Corp, Rock Spring Rd., Atlanta, Ga.	704,600	None
L. & S. Construction Co., 3720-21 NE. Mallery, Portland, Oreg	161,800	None
Emery Woods, Inc., 113 Trinity Pl., Decatur, Ga.	1,900,000	None
Templeton Manor Apartments, section I, Inc., Edmonston Rd., Prince Georges County, Md.	1,190,700	None
Sylvan Heights Apartments, Inc., Cleveland Ave. and Sylvan Rd., East Point, Ga.	1,197,000	None
Howard L. Buchanan, 7555 Herschel St., La Jolla, Calif	85,500	None
Grand Homes, Inc., 1357-1361 McArthur Blvd., Oakland, Calif	94,600	473.00
Louis Construction Co. Inc., lot 5, block 7, B31, Douglas section, Coral Gables, Fla.	69,000	None
Louis Construction Co. Inc., 7821 Deckins Ave., Coral Gables, Fla.	69,000	None
Colfax Co. Inc., Granville, Portland, Oreg.	165,500	None
Southwest Manors Corp., 130-190 SW. 12th St., Miami, Fla.	245,200	None
Garfield Co., Inc., Garfield Mallery Failing and Beach St., Portland, Oreg.	167,600	None
Hardee Road Corp., University Park, Miami, Fla.	194,400	2,916.00
Franklin Street Corp., Lot 13-29 Inc., University Park, Miami, Fla.	194,400	2,916.00
Templeton Manor Apartments, Section II, Inc., Edmonston Rd. and Browning Lake, Prince Georges County, Md.	1,035,000	None
Templeton Manor Apartments, Section III, Inc., Edmonston Rd., Prince Georges County, Md.	932,000	None
Rock Springs Apartments, Inc., Rock Springs Rd., Atlanta, Ga.	504,000	7,560.00
Goldshoro Apartments, Inc., Euclid Ave. NE., Atlanta, Ga.	356,000	5,340.00
Norman D. Chasnoff, 6225 Antioch St., Oakland, Calif.	68,600	1,029.00
Evergreen Gardens, Inc., Evergreen Gardens No. 4, Detroit, Mich.	355,300	5,329.50
Dexter Petroskey Corp., Ewald Circle Ter. No. 3, Detroit, Mich.	129,600	1,944.00
Dexter Petroskey Corp., Ewald Circle Ter. No. 2, Detroit, Mich.	129,600	1,944.00
Dexter Petroskey Corp., Ewald Circle Ter. No. 4, Detroit, Mich.	159,500	2,347.50
Louis Jensen, 1381 Marion Way, Sacramento, Calif.	150,000	2,250.00
B. & L. Housing Corp., 1208 Douglas Rd., Cor 1 Gables, Fla.	143,900	None
Sanford Investment Co., 4203 SW. 15th St., Miami, Fla.	88,600	886.00
Dexter Petroskey Corp., 14011 Holmur Ave., Detroit, Mich.	226,800	3,402.00
Dexter Petroskey Corp., Ewald Circle Ter. No. 6, Detroit, Mich.	275,800	4,137.00
Cheryl Drive Apartments, Inc., Cleveland Ave. and Springdale Rd., Atlanta, Ga.	378,000	5,670.00
North Decatur Apartments, Inc., North Decatur Rd. and Webster Dr., Decatur, Ga.	320,000	4,800.00
Dexter Petroskey Corp., Dexter and Grand, Detroit, Mich.	81,000	1,215.00
Evergreen Gardens, Inc., Evergreen Gardens No. 5, Detroit, Mich.	343,800	5,157.00
Evergreen Gardens, Inc., No. 7, 13440 Seven Mile Rd., Detroit, Mich.	339,200	5,088.00
Evergreen Gardens, Inc., No. 9, Seven Mile and Evergreen Rd., Detroit, Mich.	323,300	4,849.50
Evergreen Gardens No. 11, northwest corner Evergreen and Seven Mile Rd., Detroit, Mich.	181,000	2,715.00
Evergreen Gardens, Inc., Seven Mile Rd. and Evergreen Rd., Detroit, Mich.	498,500	7,477.50
Patrician Land Co., Ewald Ter. No. 4, Detroit, Mich.	110,800	1,662.00
Harvey G. Brackett, El Camino and Aragon Blvds., San Mateo, Calif.	92,500	1,387.50
Brooks Manor, Inc., east line of Brooks Ave. from McKinley Ave. to Esther Ave., Fresno, Calif.	269,900	5,800.00
Forest Boulevard Apartments, Inc., Columbia Dr. and Forest Blvd., Decatur, Ga.	160,000	2,535.00
Bayard Apartments, Inc., South Bayard St., East Point, Ga.	1,023,000	15,345.00
Battle Courts Apartments, Inc., southeast section near Moreland Faith, Atlanta, Ga.	223,900	3,358.50

Investors Diversified Services, Inc., FHA 608 loans made during period Jan. 1, 1947, through June 25, 1954—Continued

Name of mortgagor	Amount of loan	Fees received
Berkshire Building Corp., 4305-15-25 Minnetonka Blvd. and Joppa St., St. Louis Park, Minn.	\$121,500	\$1,822.50
Jamshire, Inc., northwest corner Jamison and Devonshire, St. Louis, Mo.	97,200	1,458.00
5522 Delmar Corp., Roy A. Chaffee, president, 6107 Westminster Pl., St. Louis, Mo.	389,900	5,848.50
Ketell Arms Corp., Ketell Arms Apartments, 2175 NW Davis St., Portland, Oreg.	289,700	4,345.50
Ketell Manor Corp., 2174 NW Davis St., Portland, Oreg.	291,600	4,374.00
Magnuson Apartments, Inc., Renton, Wash.	239,000	3,585.00
Portland Tower Corp., SW. 21st Ave. and Salmon St., Portland, Oreg.	1,970,800	29,562.00
Corvallis Plaza Corp., between 15th and 16th on Jackson St., Corvallis, Oreg.	374,300	5,614.50
Dickens Apartment Corp., 15122-39 ¹ / ₂ Dickens St., Sherman Oaks, Calif.	155,700	1,557.00
Valley Homes, Inc., adjacent to Fort McPherson, Atlanta, Ga.	1,210,000	18,150.00
Points Apartments, Inc., 1374 East Rock Springs Rd., N.E., Atlanta, Ga.	440,261	6,225.00
Fort Homes, Inc., Stanton Rd. and Fort McPherson, Atlanta, Ga.	1,865,000	-----
Arnold Court Apartments, Inc., Arnold St., Napeville, Ga.	257,500	3,667.50
Shirley Duke Apartments, Inc. (sections I-VI), Alexandria, Va.	13,846,000	919,298.00
Cleveland Parkway Gardens Corp. (includes 3 projects), Cleveland, Ohio	7,959,000	528,416.00
Total.....	59,797,061	1,689,131.00

Mr. SIMON. Mr. McCartin, I would like to ask two questions to make sure the record is clear:

At the top of page 4, the \$991,298 on Shirley-Duke does not include the management fee or the premium on the mortgage; is that right?

Mr. McCARTIN. Mr. Simon, I think that is correct. I think that figure includes only fees which might be said to have been refunded out of the FHA-insured mortgage.

Mr. SIMON. And the management fees and the premium were an additional \$300,000, roughly?

Mr. McCARTIN. Whatever the figure is, and that is in the record.

Mr. SIMON. On page 3, in the middle of the page, the gross fee of \$1,689,000 does not include either your equity participation in any of these projects, or management fees or premiums received, and you are going to get that information to us?

Mr. McCARTIN. I might say this, Mr. Simon: I think you will find from the statistical data that has already been submitted to us, that there were only nine section 608 loans in which we had either a management agreement or a participation. I think that actually we had no participations. There were nine—

Mr. SIMON. I understood from Mr. Crabb that in virtually all the others you did have participation.

Mr. McCARTIN. I think Mr. Crabb's memory is not correct on that.

Mr. SIMON. We will have to wait until you get that information?

Mr. McCARTIN. That is correct.

The CHAIRMAN. You did participate in this commercial establishment over in Arlington?

Mr. McCARTIN. We did, Senator Capehart, but I would like to call this to your attention: That is not a Government-insured project.

The CHAIRMAN. The land on which it was placed was involved.

Mr. McCARTIN. The details of that I am not familiar with. I have heard testimony here that the land came out of Shirley-Duke, and I assume that the answers that were given under oath are correct, and we do have a participation there.

Mr. PAUL. Mr. Chairman!

The CHAIRMAN. Do you wish to make a statement?

Mr. PAUL. I know you have been very patient with us, and that your attitude has been very fair, and the whole committee has been fair, and one of the things this morning you said was that we would be able to ask questions, by submitting the questions to you and you would permit them to be answered.

The CHAIRMAN. Yes.

Mr. PAUL. I submitted a question to Mr. Crabb, Mr. Simon said "I am going to ask that question." He proceeded, then, to discuss the schedule on the back of a contract.

The CHAIRMAN. Where is the question? We will ask it now.

Mr. PAUL. The question was: Mr. Crabb, to your knowledge, and to the knowledge of anybody that you know with Investors Diversified Services, was there any agreement with the builders of the Shirley-Duke project in advance whereby you and the builders or your concern and the builders would build this project with the knowledge that you were going to mortgage out, as the saying is, and make a distribution on that basis?

Mr. CRABB. To the best of my knowledge there was no such agreement, nor was there any assurance of any kind that that would be possible. We were working on estimates, and I think that that is evidenced by our commitment to contribute any difference in the form of second preferred stock in case the cost ran in excess.

The CHAIRMAN. Let me ask you this question: The contract required that the fee be paid immediately. The fee was \$900,000-odd. You did pay the fee, of course, shortly thereafter. You paid it in 4 or 5 different checks.

Let me ask you this question: You loaned the company the money to pay the fee—your fee. Where did you expect the money to eventually come from since there was only \$6,000 in the corporation?

Mr. CRABB. Those fees were a legitimate part of the cost of the project, and we charged them against our commitment at the beginning of the loan. It was one of the advances. If a bank had to handle the construction loan, they would have done the same thing.

The CHAIRMAN. Your fee of 6 percent was legitimate—six and a half?

Mr. McCARTIN. Senator Capehart, may we have just a minute?

Mr. PAUL. Will you ask that question of the other builders, too? I would like to find out for the record whether there was any agreement as to this price that has been charged.

Mr. SIMON. I take it you mean by your question any agreement other than the extent to which such agreement can be inferred from exhibit A?

Mr. PAUL. I take it as that, and I think the builders will explain that exhibit.

The CHAIRMAN. My question is: How did you expect to be paid this fee unless you got the money from the proceeds of the mortgage to eventually be guaranteed by the Government?

Mr. CRABB. Mr. Capehart, I would like to amend my previous answer to this extent: We felt that there was a profit there, a builders' profit, and in our participation, to the extent of advancing practically all of the money to build the project, we felt that there would be sufficient to cover a builders' profit, which is, again, a legitimate part and

factor in establishing the fair value of a completed and going property.

The CHAIRMAN. Let me ask you this, and I ask you this as a matter of legislation: Do you think that the Federal Government ought to guarantee mortgages for more than 90 percent of the actual cost?

Mr. CRABB. Yes, sir. I think actual cost is not—it is an important factor, but it is not final. In some instances the actual cost would be in excess of fair value. The appraising of profits, the conversion of brick and mortar and land into an income-earning property, is an altogether different matter, and—

The CHAIRMAN. Let me put it the other way around: Do you think a man ought to be permitted to make a profit, and put into his pocket on a mortgage guaranteed by the Government, and still continue to own the property?

Mr. CRABB. I think there is a good deal to be said for it.

The CHAIRMAN. You do?

Mr. CRABB. Yes, sir.

The CHAIRMAN. Do you really mean that?

Mr. CRABB. Profits are made under our economy by enterprise and by ingenuity, and if a man can build a better property—

The CHAIRMAN. I appreciate that, but he continues to own the property. I don't care how much money they make if they build it and sell it to a third party, or if they build it without a Government guaranty, but here you gentlemen are building with Government guaranties, meaning that if the one that is obligated to pay doesn't pay, the Federal Government will, which means the taxpayers. Or it will be paid out of the reserve fund.

Under those circumstances, do you feel that a man ought to be permitted to make a profit, and at the same time continue to own the project?

I can well understand that if you build a house for \$10,000, and you can sell it for \$15,000, you have made a \$5,000 profit, but I cannot understand how you can build a house for \$10,000 and get a mortgage from the Government for \$15,000, and take a \$5,000 profit, and at the same time continue to own the house.

That is exactly what you people have been doing, and that is what it looks like hundreds and hundreds of people have done under section 608's, 213's, and under 207's.

Mr. CRABB. A house, Senator, is a different proposition than rental property.

The CHAIRMAN. I am trying to find out because we are in conference right now on this matter. That is one of the things I would like to know.

Do you feel we ought to permit a man to get a \$12 million mortgage on a \$10 million project, and immediately pocket \$2 million?

Mr. CRABB. I don't want to commit myself on any specific example.

Let me say it this way: I do feel that the Government-guaranty program, insurance program, ought to be based on an analysis of the fair value of a property. That may be more, it may be less than cost. It might be that abuses could arise. It might be that the promoter and builder would have the skill, the know-how, and the ingenuity to produce greater value.

The CHAIRMAN. Suppose he does have. I agree with you, and I think it wonderful that he has the know-how and ingenuity. I agree with that. I think he ought to use the know-how and ingenuity, of course, to reduce his mortgage.

It seems to me that you investors and you people in this business are taking the position that you ought to build something, a project, and immediately have a profit on it, put it into your pocket, still own the property, and still have the Federal Government guaranteeing the mortgage; not only what you still owe on it, but what you put in your pocket.

Are you advocating that?

Mr. CRABB. I don't think so.

The CHAIRMAN. Good, if you want to.

In the next week we are going to have to settle this problem in the conference on the new housing bill.

Mr. CRABB. Stated that way, I would agree with you, but, on the other hand—

The CHAIRMAN. Would you have any objection—you are chairman of the executive committee of this company, and you have been its president in the past, and, according to the statement here you have been vitally interested in housing and have done a fine job. You have handled nearly \$620 million worth of projects here—what do you think of the idea, when a builder is finished, he certifies his costs and he gets 90 percent of it, of his costs.

Mr. CRABB. If he is an unskilled builder, you might run into some trouble on that.

The CHAIRMAN. What?

Mr. CRABB. If he is an unskilled and incompetent builder, you might run into some trouble on that.

I feel, Senator, that the sound basis is to establish fair value of the completed property on the basis of the factors that we understood the FHA used.

The CHAIRMAN. What do you build these projects for? Do you expect to make your money on mortgaging out, or do you expect to make your money on the rentals?

Mr. CRABB. Generally, we expect to make our money out of the interest return, while we have got the money in it, and out of our ability to sell the mortgage for profits.

The CHAIRMAN. I am talking about a man that builds. Take this Shirley-Duke. They built 2,200 units. The mortgage, I think, was \$13,800,000, and it cost something less than that. Now, didn't they build that for the purpose of making money off of the rentals?

Mr. CRABB. Well, off both the rentals and the enhancement in value or appreciation in value.

The CHAIRMAN. There is only enhancement in values when you sell something to the other fellow. How can you have any enhancement in values if you continue to own it?

Mr. CRABB. In business you have enhancement in values on inventories constantly, enhancement and depreciation in values.

The CHAIRMAN. You have it for book purposes. That is all. You don't convert it into profit and pay a profit on it until you have disposed of your inventories, do you?

Mr. CRABB. Well, probably the realization of the profit is a different proposition.

The CHAIRMAN. I don't know; Senator——

Mr. CRABB. I think we are getting into rather——

The CHAIRMAN. No; we are having to wrestle with it, you see. We have been wrestling with it every day. How to avoid what looks like a lot of problems here. We are trying to stop them in the future, and you builders tell us that if we do—if we don't let you continue as you have been, then you won't build. We have had a lot of them tell us that.

In other words, it looks to me that what you want on this rental property, sections 213's, 207's, and 608's, is to make a profit on the project. You want to rent it and make money out of renting it, and you want to continue to own it. Is that the only way we can get rental properties?

Mr. CRABB. The Shirley-Duke property, we were quite fortunate in a number of respects for the amount of profit realized there is not indicative of the profits that builders ordinarily realize.

The CHAIRMAN. Let me start all over again. I wish I had a blackboard.

What we are wrestling with here—and that is why we are having this investigation—we believe that what you ought to do is to take all your costs. You ought to add them up. You get all through with a project, and it costs \$10 million, let us say, and we think that the Government ought to insure it for \$9 million. You say it won't work.

Mr. CRABB. I am not sure that it won't work. I do think this: That in establishing costs you have to allow as part of the legitimate cost a reasonable contractor's profit.

The CHAIRMAN. We want to allow everything. There are two kinds of contracts: One is where you are the project owner, and you hire me and give me a contract to build it for \$8 million—everything complete—every conceivable cost. Your cost is \$8 million.

Now, there are cases, on the other hand, and in all fairness I want to say that is true of this one, in which the project owner is also the builder, and he is entitled to a builder's profit. When he gets all through, however, the total cost ought never to be more, or ought never to be less than 90 percent of the mortgage.

Now, can't we get housing on that basis?

Mr. CRABB. I am no authority on that, but that would mean someone would have to put up 10 percent of his cost, and on large projects——

The CHAIRMAN. Let me ask you this: We have some experts around here. At least you fellows are pretty good. Let me ask you this:

Is one of the weaknesses of the projects in the past the law or regulations, that the rents have been based upon the amount of the mortgage plus the actual cost rather than the rents being based upon a fair value for the rents?

Mr. CRABB. Basic rental rates on either costs or the investment—I am speaking personally—is a fallacy. Rents are always eventually going to find the level of competition, and they are susceptible to the law of supply and demand.

The CHAIRMAN. Don't you primarily build these buildings in order to make money on the rents?

Mr. CRABB. Yes, sir.

The CHAIRMAN. So that at the end of 30 years your rents are sufficient to cover all of your expenses, amortize your mortgage, and pay

the interest; so at the end of 30 years, or whatever it is, you own the building. Isn't that primarily what you go into it for?

Mr. CRABB. That is primarily the interest of practically all builders of rental properties.

The CHAIRMAN. Now, why can't it be handled on the basis, then, that that is the thing that you build for, and that the Government guarantees 90 percent of your actual costs. When you know what your actual costs are you certify to them, and the Government either adjusts the mortgage up or down, depending upon what 90 percent is of actual costs. I don't know; I am asking you gentlemen, because we will be up against it next week.

Mr. PAUL. We have a builder. Maybe he would like to suggest what the trouble of that approach would be.

The CHAIRMAN. Go ahead and answer.

Mr. GORDON. The problem with setting it up—

The CHAIRMAN. Talk into the microphone there.

Mr. GORDON. The problem with setting that up on the basis of cost only would run into difficulty, because that would eliminate any reason for the builder to try to be efficient and save money. If he is going to get 90 percent of his cost, right off the bat you are going to run into builders who are not going to try to build a good product, and not try to build a good product as cheap as they can, but they are just going to build it.

Senator BENNETT. Mr. Chairman, may I make an observation?

The CHAIRMAN. Yes.

Senator BENNETT. It seems to me—and I have been in a business that has served the building industry for 30 years—it seems to me it is a little difficult to say that that is an evil, and then turn around and say it is a blessing, it is a good thing; that you get an efficient builder who will build a building at the lowest possible price, and put the difference between that and the Federal Government guaranty in his pocket.

I think that is also an evil, and this argument has been made many, many times, that when you suggest that there should be some relation between the Federal Government's guaranty of the mortgage and the actual cost, that you are penalizing the efficient builder.

I cannot accept that as being binding against a situation here, where evidently the people knew before they started to build that building that they were going to build it for \$12,000 a unit less than the figure which was supposed to be 90 percent of its value.

Mr. PAUL. That I challenge, Senator.

The CHAIRMAN. Will the Senator yield?

For example, if I build a factory, I would build that factory for one purpose, and one purpose only, and that is to make money manufacturing things in it. When you build an apartment house you build it for one purpose, and one purpose only, and that is to rent it to other people, to make money from your rents.

Are you telling me that when I build a factory for myself out here, that I ought to make a lot of money on it just when I first build the factory, out of the mortgage? I am going to hold the mortgage. I have got to pay it back.

Mr. McCARTIN. Senator—

The CHAIRMAN. And you gentlemen won't do it either, if the Federal Government made you put up instead of \$6,000 in these little cor-

porations—if they made you endorse the mortgages. If you had to personally endorse the mortgages, you wouldn't do it, either. You would only do it because the Federal Government endorses it and you get completely out.

Mr. McCARTIN. That is right.

I wonder, Senator, if what you are asking is whether the Government was wise in trying to stimulate speculative rental housing building? That is something I think you get down to. That is your ultimate question.

Mr. SIMON. Except, Mr. McCartin, in 1947 Congress changed the law and said that in estimating the necessary current cost, the Housing Commissioner should use every feasible means to assure that such estimates will approximate as closely as possible the actual cost of efficient building.

Mr. McCARTIN. I know that, Mr. Simon. I wouldn't expect a regulation to say that the Commissioner shall throw discretion to the wind. I wouldn't expect to find that in a Government regulation, but—

Mr. SIMON. What you are saying is he didn't.

Mr. McCARTIN. I am speculating in economics with you, yes, and I think that is what we are talking about. I have read a number of things, it seems to me it was testimony either before this committee, or a similar committee, where the practices that were indulged in in this particular area were justified by saying that this was done to accomplish a purpose that the Government was fostering, and I think that the difference between what the question that you are asking is that these projects were not being developed by persons who were investing a life savings in a project from which they expected to receive rents the rest of their lives, and that it was really a capital investment, but it was done on a speculative basis.

The CHAIRMAN. You think they were doing it out of the goodness of their hearts?

Mr. McCARTIN. No. I don't think that, Senator. I think they were doing it for a purpose, to make money.

The CHAIRMAN. In other words, they were doing it as you said in your statement, they were doing it to get housing.

Mr. McCARTIN. That is why we did it. That is why we advanced the money. We are not builders.

Senator BENNETT. Mr. Chairman, my father used to recite a little old rhyme:

What do you think,
I should shave you for nothing and give you a drink?

These people have been shaved for nothing, and they have had their drink, too, without risking a penny of their own money. They have title to a wonderful piece of property, and then in addition to that they have had the privilege of putting X hundred thousand dollars into their pockets.

I think they have been shaved and had their drink.

Mr. RICHARD. Mr. Chairman, can I make just a very short statement?

The CHAIRMAN. Yes.

Mr. RICHARD. In listening to this testimony here —

The CHAIRMAN. You are an attorney for—

Mr. RICHARD. Mr. Hutman, Mr. Gordon, and the four corporations.
The CHAIRMAN. Yes. If you can add anything to it we are glad to have it.

Mr. RICHARD. It seems a little strange to me, and I would like to ask you, Mr. Chairman, and members of your committee to answer this to help me out in my thinking.

The CHAIRMAN. Ordinarily, we ask the questions, but this time we will reverse it.

Mr. RICHARD. We have a situation here, as far as the Shirley-Duke projects are concerned, that the project analysis by FHA in their commitments gave their estimate of the replacement value of these projects.

Jumping over Investors Diversified for a minute, their loan was subsequently sold to Institutional Securities. Now, they are in the investment business, and unless they felt that the full value and the security for that loan was there, they wouldn't have been interested.

Mr. SIMON. Don't you think they paid attention to the security of the United States Government?

Mr. RICHARD. At least, we have written to them and have recently received the refusal, trying to make arrangements to pay them off and making some arrangement about this prepayment privilege.

Mr. SIMON. Of course, and the reason, as you know, is they have got a United States Government bond paying them 4 percent interest, and all you can get from the Secretary of the Treasury is a 3-percent bond.

Mr. RICHARD. I am sure we would be glad to pay them off if we could do something about that prepayment privilege. If you are in conference, gentlemen, on this housing bill, I think that is one area in which you really could consider.

The CHAIRMAN. Is this prepayment arrangement true in all the mortgages under sections 203, 207, 213, and all of them?

Mr. RICHARD. I think on the section 608's, the ones I am more familiar with, I think it is very general that there is a prepayment privilege. I am not sure about the other classifications.

The CHAIRMAN. You gentlemen from Investors buy bonds under sections 203 and 213. Do you write anything into them denying the right to pay them off except through virtue of a penalty?

Mr. CRABB. You said we buy bonds?

The CHAIRMAN. No, mortgages. Do you insist in these FHA mortgages that they cannot pay them off without paying a penalty?

Mr. CRABB. We insist on the mortgage containing such prepayment penalties as are permissible. That doesn't mean we will ever collect them in case of prepayment. Many times we pay the prepayment.

The CHAIRMAN. But you do write them into the contract?

Mr. CRABB. Yes, sir; and there is a reason for it.

The CHAIRMAN. Why?

Mr. CRABB. On a mortgage, particularly a large mortgage, the lender, in the case of a prepayment, can very easily have a large uninvested cash amount for a while until he can get that reinvested. He may have a change in interest rates that would prevent him reinvesting the money at a 4-percent rate. He might have to take 3½ percent. He has got the burden—

Mr. SIMON. To make it more important, nobody would ever pay you a premium for a mortgage if there was no penalty for prepayment, would they?

Mr. CRABB. I think that is a factor.

The CHAIRMAN. I think it is a factor we are going to look into a lot, I will tell you that, as far as FHA is concerned.

I don't know why the Federal Government should guarantee these mortgages, and then you gentlemen write into these mortgages that the poor devil out here that holds one of them and wants to pay it off has to pay you a big penalty for the privilege of doing it.

Mr. CRABB. Not a big penalty.

Mr. PAUL. You not only have to pay that, but you have to pay the——

The CHAIRMAN. FHA?

Mr. PAUL. FHA. FHA is insuring these mortgages, and not the Federal Government. The builder pays the fee, and the Federal Government sets up the Federal Housing Insurance Agency, and the builder pays the fees, and is out of that insurance, and it is not the credit of the United States that insures these. It is the Federal Housing Administration.

The CHAIRMAN. The most the fellow who buys this mortgage is entitled to, is the man who pays it off ought to be just charged for the expense he is put to in putting it on his books, if the Federal Government is to guarantee it.

I would say that wouldn't necessarily be true if it was a private transaction.

Mr. PAUL. Would it be possible for the builders to answer Senator Bennett?

The CHAIRMAN. Yes.

Mr. PAUL. There are 3 builders here, and they would each like to say if they had an agreement what this \$60,000 relates to.

I would like to ask Mr. Gordon a question.

Senator BENNETT. I will ask it of Mr. Gordon.

Did you know of the existence of these schedules in the contract between Shirley Duke and Investors?

Mr. GORDON. Yes, sir.

Senator BENNETT. What are they in there for?

Mr. GORDON. They are a formal schedule that you will find in almost any construction loan agreement, whether it be for 5,000 individual houses, or whether it be for a large project like this. The normal practice is for the lending institution to either make up a schedule like that, or percentage schedule, whereby they advance, usually only 70 percent of that amount, until you have completed your building.

Senator BENNETT. Then what you are saying to me is that on this schedule A that I am looking at, which adds up to something like \$60,000, normally they would only have advanced 70 or 80 percent of the \$60,000?

Mr. GORDON. No, 70 or 80 percent of the total amount of the final loan.

Senator BENNETT. You are saying to me that there is, then, no fundamental relationship between this list, which purports to be an actual list of the materials and services that would go in the building; you say that they wouldn't take that into consideration on their advances? They would take the amount of their final loan into consideration?

Mr. GORDON. No. I didn't say that. I said that they would take the amount of the final loan into consideration, and take usually 70, sometimes 75, in this case I believe it is 80 percent——

Senator BENNETT. We cannot find 80 percent anywhere.

Mr. GORDON. No. I think that is just what Mr. Simon said.

Senator BENNETT. That is right.

Mr. GORDON. But they take that percentage of the total loan, and they agreed to advance that amount during the construction, and after the construction has been completed, then they will advance the balance of the loan, and that is the usual practice.

Senator BENNETT. What purpose is this schedule, which adds up fortuitously to 80 percent of the final value of the loan? Of what validity is there to the schedule?

Mr. GORDON. All right. Suppose we had turned in requests for advances for one of the items on there, which exceeded that amount. Then they would want to know "Why are you spending more money for this brickwork or this carpenter work?" or whatever it is, and they immediately get into that picture to see why there was a greater expense on that than some other items.

In other words, it is merely a schedule to go by.

Senator BENNETT. Yet it actually turned out to be the cost of the property, and that is just luck?

Mr. GORDON. No. I don't think you would find that to be anywhere near an accurate breakdown of the cost of a building out there.

Senator BENNETT. I will ask Mr. Simon, it has been my understanding that these units cost approximately \$60,000.

Mr. GORDON. The total comes close to some of the figures we have been discussing here, but the breakdown itself——

Mr. SIMON. You mean you might have spent a little more for lumber and a little less for bricks?

Mr. GORDON. Yes.

Mr. SIMON. But the total comes out very accurately, doesn't it?

Mr. GORDON. If I may say so, from recollection, I believe that our estimated cost of the units out there was between \$5,500 and \$5,600 per unit, per apartment. Now——

Senator BENNETT. That is right. Your 11 apartments, and you take that times—take \$5,500 times 11, and you approximate \$59,906.

Mr. GORDON. That was our estimate of only the direct construction cost.

Mr. SIMON. It included entertaining.

Mr. GORDON. It didn't include any of that.

Senator BENNETT. Unfortunately, you put that into your schedules.

Mr. GORDON. I am not talking about that schedule at all. I am telling you now about our original estimates.

Senator BENNETT. Do you have any documents that would indicate those were your original estimates?

Mr. GORDON. I don't know whether we could produce the worksheets on that or not, but it is possible, and if we have them we would be glad to give them to you.

(The worksheets referred to were not received for the record.)

Senator BENNETT. Who made this schedule A? Did you?

Mr. GORDON. No.

Senator BENNETT. I would like to ask somebody else.

Mr. GORDON. This is again relying on supposition, but I believe Investors Syndicate's engineer made that up.

Senator BENNETT. Did they consult with you before they made it?

Mr. GORDON. In all possibility—in all probability, I should say—the items on that schedule that pertain to the construction of the buildings, themselves—not entertainment, or anything in the way of overhead, but pertaining to the actual direct cost of construction, were probably based on our estimated cost.

Senator BENNETT. Didn't you probably give them your schedules, and didn't they use them as a basis for their schedules?

Mr. GORDON. We worked directly with them.

Senator BENNETT. So, then, when you say that this wasn't your schedule, it was their schedule, you are saying they may have put these figures down, but they got them from you?

Mr. GORDON. They got information from us in all probability that helped them to make it, certainly. That is only as far as the construction of the building themselves.

Senator BENNETT. Then on that basis the actual construction of the buildings was calculated at less than \$60,000 per unit?

Mr. GORDON. No. You are twisting that around.

Senator BENNETT. I am not twisting it. You have just said to me that they got their figures from you, and you are not responsible for the inclusion of entertainment, and other things, in the list.

Now, the list, including entertainment, including contingencies, and interest on the loan, etc., only adds up to \$60,000.

Mr. GORDON. But you forget that I said that list was only a percentage of what we estimated our cost. Actually, at the time we went into this transaction there was considerable concern on the part of my associates and myself as to whether or not we could do it, and whether or not we wouldn't waste all of the money we put in it, and all of the time we put in it, and Investors Syndicate, because of that agreement, end up having the whole thing.

Mr. SIMON. Mr. Gordon, are you contradicting or disagreeing with Mr. Crabb, when he said that represented 100 percent of the estimated cost?

Mr. GORDON. Absolutely.

Mr. PAUL. I don't believe Mr. Crabb said that.

Mr. SIMON. I believe he did, twice.

Mr. GORDON. If he said that I imagine he made a mistake in saying that, and I don't believe Mr. Crabb ever saw that before, and knows nothing about how it was made up.

I am saying that was not an estimate of the entire cost, but was an estimate of a percentage of the cost.

Mr. SIMON. Are you saying the written document does not reflect your agreement?

Mr. GORDON. I didn't say anything of that sort.

Mr. SIMON. Was your agreement with Investors as set forth in this piece of paper?

Mr. GORDON. Absolutely.

Mr. SIMON. There is nothing in there about 80 percent?

Mr. GORDON. I didn't say there was anything in there. You are the one that brought up the 80 percent. I said that was a percentage of it.

Senator BENNETT. Let me ask you a question: This schedule is a

part of this written document, so you could not have been ignorant of it.

Mr. GORDON. That is right.

Senator BENNETT. So you signed this contract with the knowledge that Investors was assuming that the buildings were going to be built at roughly \$60,000 per unit.

Mr. GORDON. No.

Senator BENNETT. Well, you made a contract with them to supply 72.

Mr. GORDON. I didn't make that agreement. There is no intention of that agreement anywhere in there, and I will reiterate that that was not the estimated cost of the buildings at that time. That was the amount that they were going to advance prior to the completion of the buildings, and we had to hold back from our suppliers and our subcontracts a certain portion of all of the money that they had coming to them in order that we could continue and build within the amounts that they agreed to advance.

Senator BENNETT. There is nothing in the contract that says that is the amount they agreed to advance, or that they are going to hold back any percentage?

Mr. GORDON. It says that is all they are going to advance, the amount shown on that schedule, and I just got finished telling you that they do 1 of 2 things: They either set it up as a percentage, and so state—10 percent, 15 percent, etc., and then they have as the final balance, upon completion, 30 percent, 25 percent, which will be paid after completion, and in this case they didn't use that because that was a little bit too vague. In this case they broke it down to actual apartments.

The CHAIRMAN. I have got to go here in a minute, but I want to ask some questions here before we go.

I hold in my hand a check in the amount of \$83,000, paid by Investors to Davis-Ruffner Title Co.; another check in the amount of \$90,000 by Investors Diversified Services, paid to this Davis-Ruffner Title Co.; another one of \$5,000 paid to the Davis-Ruffner Title Co., and Mr. Crabb, my question is: Do you know why you gave them those checks?

Mr. CRABB. I would have to check the record on that.

The CHAIRMAN. Then I will hand up the record. Here are the checks.

Mr. PAUL. In the meantime, while he is looking that up, could we have it stipulated that Mr. Preston and Mr. Hutman will testify the same as Mr. Gordon about there being no agreement, and that this was—

The CHAIRMAN. You have already testified for them. You said they are going to testify to that effect. They can do it in a minute. I will be very happy to have you do it. I don't know what it means, but we will be very happy to have you do it.

Mr. CRABB. Those 3 checks add up to \$178,000.

The CHAIRMAN. Yes.

Mr. CRABB. That was the payment to the title company which handled the closing of the deal.

The CHAIRMAN. That was their payment to the title company for what?

Mr. CRABB. For buying the land.

The CHAIRMAN. For the land?

Mr. CRABB. Yes. The title company delivered the money—

The CHAIRMAN. The title company was handling this in trust for whom?

Mr. CRABB. Well, jointly for both parties to the transaction—the purchaser and the seller.

The CHAIRMAN. But to whom did the title company credit this? To whom did they pay it?

Mr. RICHARD. I think the record shows that; Allen Hills Corp. They were the sellers of the land.

Mr. SIMON. Who got the money? That is what the Senator wants to know. Who got this \$178,000?

Mr. RICHARD. Allen Hills Corp., the seller of the land. Mr. Simon, I think there was turned in to you at your request a settlement sheet.

Mr. SIMON. No, sir.

Mr. RICHARD. From Davis-Ruffner?

Mr. SIMON. No, sir. We have been unable to get that.

The CHAIRMAN. Do you know to whom Davis-Ruffner Title Corp. paid this money, Mr. Crabb?

Mr. RICHARD. If you will give me just a minute, I think I have a copy of that settlement sheet here in my file, Mr. Simon.

Mr. HILL. We don't know that.

The CHAIRMAN. Do any of you gentlemen know who received the money?

Mr. GORDON. We prepared a copy of the settlement sheet which I thought was turned in.

The CHAIRMAN. All right. Suppose you did. To whom did you pay the money?

Mr. GORDON. The settlement sheet, I believe, will show it went to Allen Hills.

The CHAIRMAN. Your memories are awfully good on some things and awful poor on others. It seems to me that when \$187,000 was involved, my memory would be pretty good.

Mr. CRABB. Senator, the voucher from our files indicates that the first payment of \$5,000 was to the credit of Allen Hills Corp., as a deposit on the purchase of the land. We would have to check with the title company as to the disbursement of the rest of the purchase price of the land, but I think it is quite obvious that it went to the then owners of that raw land of 98 acres.

The CHAIRMAN. Who did get the final payment to the land?

Mr. CRABB. The Allen Hills Corp.

Mr. RICHARD. Mr. Chairman, that is a settlement sheet, copy, which was obtained from Davis-Ruffner Title Co., and shows the purchase price, \$178,000, and at the bottom shows the distribution of the \$178,000, to whom paid.

The CHAIRMAN. Calvin O. Black got \$6,000, George J. Josephs, \$50,000, Calvin O. Black \$7,686.55, and Reilly again, \$6,678.50.

Then this Calvin O. Black is the vice president of the Davis-Ruffner Title Corp.; is that correct?

Mr. RICHARD. No; that isn't correct. He was a stockholder in Allen Hills Corp., who was the vendor of the land, and I believe vice president of Allen Hills Corp.

The CHAIRMAN. Then the Allen Hills Corp. received this money. Is that what you gentlemen testified?

Mr. RICHARD. Mr. Chairman, I will certify that that is a copy of a settlement sheet prepared by Davis-Ruffner Title Corp., of which I have a copy, and I think it would speak for itself who received the money.

The CHAIRMAN. We have already subpoenaed Mr. Alan David, or whatever his name is. We will subpoena the checks and records, primarily because today I understand they refused to tell us without a subpoena.

We will return to you the dividend checks. They are very valuable checks.

Mr. RICHARD. Thank you.

The CHAIRMAN. And we will return this penciled copy to you.

Mr. RICHARD. I believe that was Investors Diversified.

The CHAIRMAN. And we will return your rent application to you.

Mr. RICHARD. Fine. Thank you.

The CHAIRMAN. Do we have anything else to return to these gentlemen?

Now, as to this gentleman, was there any understanding between you, Mr. Gordon, Mr. Preston, or Mr. Hutman and the Investors Diversified Services—any understanding there in respect to this mortgaging out, that you were going to get more money than the cost, or 90 percent of the cost of the project?

Mr. GORDON. No, sir.

Mr. HUTMAN. No, sir.

Mr. PRESTON. No.

The CHAIRMAN. There was none.

Mr. SIMON. May I ask two questions, Senator?

The CHAIRMAN. Yes.

Mr. SIMON. Did each of you sign a contract with Investors, which contained a paragraph reading as follows:

Attached hereto, marked "Exhibit 'A'," is a payment breakdown for each unit of construction with estimated costs, amounts, assigned to the several construction items, for which advances and construction moneys are to be expended: such payment breakdown shall constitute a guide in the determination and the allocation and disbursement of loan funds available for construction costs. Advances on account of material and equipment which are not required for immediate installation in the construction shall be limited to amount and to material and to equipment as lender may approve and all such material and equipment shall be stored and maintained as lender may require. The stage of any development and construction and materials on hand for which advances are requested shall at all times equal or exceed the advance payable therefor on the basis of the payment breakdown as determined by lender's construction engineer or such other examiner as approved by lender. The work in construction included for payment in any request shall have been acceptably completed to be evidenced by such certificate and inspection as lender may acquire—

and the exhibit A is \$58,906 to \$60,000 in each contract.

Is that correct, Mr. Gordon?

Mr. GORDON. What was your question?

Mr. SIMON. Whether you signed a contract containing that provision and that exhibit A?

Mr. GORDON. It sounds to be equal or similar. We have a copy of it over here.

Mr. SIMON. Mr. Preston, did you sign a contract with that provision?

Mr. PRESTON. Yes, sir.

Mr. SIMON. Mr. Hutman, did you sign a contract with that provision in?

Mr. HUTMAN. Yes, sir.

Mr. SIMON. Did you have any subsequent agreement amending, changing, or altering that provision, Mr. Gordon?

Mr. GORDON. Not to my knowledge.

Mr. SIMON. Mr. Preston?

Mr. PRESTON. Not to my knowledge.

Mr. SIMON. Mr. Hutman?

Mr. HUTMAN. Not to my knowledge.

Mr. SIMON. Does that provision reflect your agreement with Investors? Mr. Gordon?

Mr. GORDON. As far as I know, it is.

Mr. SIMON. Mr. Preston?

Mr. PRESTON. I believe so. It was the understanding it was 80 percent.

Mr. SIMON. Mr. Hutman?

Mr. HUTMAN. Yes, sir.

Mr. RICHARD. Mr. Chairman, I think it is only fair that the one portion of this loan contract which was read by Mr. Simon—I think it should be pointed out that the provision that Mr. Simon read should be read also in connection with paragraph 5 (c), which gave the right to the lenders to call upon the borrower for additional funds, if necessary.

Mr. PAUL. Mr. Chairman, may I make this statement—

The CHAIRMAN. Call on them to the extent of what—\$6,000?

Mr. RICHARD. No, sir, Mr. Chairman. There is no limitation on that—any amount necessary in order that—

The CHAIRMAN. I mean the corporation only had \$6,000.

Mr. SIMON. \$1,000.

The CHAIRMAN. \$1,000.

Mr. RICHARD. They had the builder's work and time in there which they could call upon.

May I make this observation—

Mr. SIMON. How would you pay the builder's time to Investors?

The CHAIRMAN. How would you pay other than \$1,000?

Mr. PAUL. I would say they would put the money in. The builders stood ready to put the money in.

Mr. SIMON. Did they ever agree to do that?

Mr. PAUL. No; but they certainly would have done it.

Mr. SIMON. How can you say today, in 1954, that they would have put it up in 1949?

Mr. PAUL. I don't know. Let me make this observation. Investors Diversified Services is an institution which has constructed section 608 projects to the extent of \$600 million.

The CHAIRMAN. It is \$59 million.

Mr. PAUL. There was some \$600 million of mortgages.

The CHAIRMAN. Of all sorts.

Mr. PAUL. In connection with this contract, if there had been any agreement, I submit that Investors Diversified Services would not have been agreeable to taking one-third of the divvy. It doesn't make good sense.

The CHAIRMAN. Of what?

Mr. PAUL. Investors Diversified Services would not have been willing to say "we are going to mortgage out to this \$12,000 a unit and we will just put up all the money and we will take one-third of the divvy." They just don't work that way.

Mr. SIMON. You think they would have been more greedy than that?

Mr. PAUL. I am sure of that, had there been any such agreement.

The CHAIRMAN. Did you want to say something, this gentleman here?

Mr. HILL. No, sir.

The CHAIRMAN. Are there any other questions or statements that anybody wants to make?

Mr. McCARTIN. Yes, Mr. Chairman. I would like to ask if you are going to need us any more this week?

The CHAIRMAN. No. But I wish you would remain under subpena. We may want you later, but we will not need you any more this week.

Mr. McCARTIN. No fear of that?

The CHAIRMAN. We hope Mr. Loftus will be with us tomorrow.

Mr. PAUL. You requested some exhibits in connection with subpoenas. Did you want these? I don't know what they are, but I think it represents the division of the mortgage funds, a breakdown by an accountant.

Mr. SIMON. I think we will not need that.

The CHAIRMAN. Unless someone wishes to make a statement or say something—

Mr. RICHARD. Mr. Chairman, I would like to ask—

The CHAIRMAN. I hope you all feel you had a fair opportunity to be heard today.

Mr. RICHARD. We certainly have and thank you.

I would like to ask on behalf of Mr. Gordon and Mr. Hutman whether they will be required—

The CHAIRMAN. No more this week, but stay under subpoena. We may want you later.

Mr. RICHARD. We will be notified in ample time?

The CHAIRMAN. After hearing Mr. Loftus, we may want to hear you.

Mr. PAUL. Is that true of Mr. Preston and Mr. Bros?

The CHAIRMAN. That is true of all of you.

Mr. GORDON. Mr. Chairman, I am operating down in Oklahoma. I just got down and came right back.

The CHAIRMAN. You go on down. We will give you enough time to fly back.

Mr. GORDON. That is all you gave me this time.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 5:35 p. m., the hearing was recessed until 10 a. m., Thursday, July 1, 1954.)

FHA INVESTIGATION

THURSDAY, JULY 1, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Payne, Maybank, Sparkman, and Lehman.

Also present: Mr. William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Andrew Frost, of Albuquerque, New Mex. Is Mr. Frost present?

Mr. Frost, will you be sworn, please? Hold up your right hand. Do you solemnly swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. FROST. I do.

The CHAIRMAN. Thank you, sir. Be seated. Our general counsel, Mr. Simon, will start the questioning this morning.

Senator MAYBANK. Mr. Chairman, I wish the witness could give his name and address for the record, and tell where he originally came from.

The CHAIRMAN. We are going to bring that out. Will you please give your full name and address?

TESTIMONY OF ANDREW FROST, ALBUQUERQUE, N. MEX.

Mr. FROST. Andrew Frost, 7920 Cutler Avenue, Albuquerque, N. Mex.

The CHAIRMAN. And what is your business?

Mr. FROST. I am, or was, the assistant director of FHA in Albuquerque, N. Mex.

The CHAIRMAN. Was that the State office? You are assistant director?

Mr. FROST. No, sir. We in FHA have eliminated the name or the State portion.

The CHAIRMAN. But you were for many, many years the State director, were you not?

Mr. FROST. No, sir.

The CHAIRMAN. Assistant State director?

Mr. FROST. Yes, sir.

The CHAIRMAN. When were you employed by FHA?

Mr. FROST. September 17, 1934.

The CHAIRMAN. September 17, 1934?

Mr. FROST. Yes, sir.

The CHAIRMAN. And you were discharged on what date, or resigned or whatever it was? Were you discharged or did you resign? Were you suspended?

Mr. FROST. Yes, sir.

The CHAIRMAN. You were suspended on what date?

Mr. FROST. Last Thursday.

The CHAIRMAN. Thursday of last week?

Mr. FROST. Yes.

The CHAIRMAN. But you were with FHA for some 20 years?

Mr. FROST. Yes, sir.

The CHAIRMAN. And was all your work in New Mexico?

Mr. FROST. No, sir.

The CHAIRMAN. Where else did you work for FHA?

Mr. FROST. Washington, D. C.

The CHAIRMAN. Washington, D. C.—How long were you in Washington, D. C.?

Mr. FROST. I was—from September 17, 1934, until just a month or so before I entered the Army.

The CHAIRMAN. That would be possibly in 1941?

Mr. FROST. No, it was in 1943.

The CHAIRMAN. In other words, you worked for FHA here in Washington from 1934 until you went into the Army, about 1943?

Mr. FROST. That is correct, sir.

The CHAIRMAN. What department did you work in here?

Mr. FROST. I first started working in the messenger pool, then went to work with the Comptroller's division, and I was with the Comptroller's division all the time, up until I left to go——

The CHAIRMAN. In the service?

Mr. FROST. No, sir, until I left to go with the Office of Civilian Defense. It was an immediate transfer.

The CHAIRMAN. Then you were in the Army?

Mr. FROST. Yes, sir.

The CHAIRMAN. How many years were you in the Army?

Mr. FROST. Two years—my discharge papers show 2 years, 5 months, and 30 days.

The CHAIRMAN. You came out of the Army about 1945?

Mr. FROST. Some time in October, as I recall.

The CHAIRMAN. Did you go back then with FHA?

Mr. FROST. No, sir.

The CHAIRMAN. When did you go with them?

Mr. FROST. When I was discharged from the Army, I was discharged from the hospital at the same time. I had been wounded in Germany, about my legs, and the doctors advised that I go out and do some manual labor in order to revive the strength of my legs, which I did. I went to California and I worked in a frozen-food plant, where I was trucking vegetables, preparatory to their being processed.

The CHAIRMAN. Then where did you go from there?

Mr. FROST. Then I returned to the FHA in 1946.

The CHAIRMAN. In 1946 you returned to FHA, here in Washington or in New Mexico?

Mr. FROST. Yes, sir.

The CHAIRMAN. Here in Washington?

Mr. FROST. Yes, sir.

The CHAIRMAN. Then how long did you remain in Washington at that time?

Mr. FROST. I do not recall exactly.

The CHAIRMAN. One year, would you say, or 2 years?

Mr. FROST. No, sir. It was a matter of a month or so.

The CHAIRMAN. A month or so, and then where did you go?

Mr. FROST. I went to South Carolina.

The CHAIRMAN. How long were you there in South Carolina?

Mr. FROST. Eighteen months.

The CHAIRMAN. What did you do in South Carolina?

Mr. FROST. I was the administrative assistant in the office.

The CHAIRMAN. You mean you were assistant to the State Administrator?

Mr. FROST. The terminology—

Senator MAYBANK. What?

Mr. FROST. I say the personnel terminology was "administrative assistant."

Senator MAYBANK. You were in South Carolina 18 months?

Mr. FROST. Yes, sir.

The CHAIRMAN. What office and what town?

Mr. FROST. Columbia, S. C.

The CHAIRMAN. What were your duties there?

Mr. FROST. Administrative assistant.

The CHAIRMAN. I mean what were your duties as administrative assistant? Handling everything that had to do with FHA?

Mr. FROST. Yes, sir.

The CHAIRMAN. All phases of it?

Senator MAYBANK. Who were you assistant to?

Mr. FROST. Judge Bailey.

The CHAIRMAN. Judge Bailey was your immediate superior?

Mr. FROST. Yes.

The CHAIRMAN. Was he the State FHA Director?

Mr. FROST. Yes, sir.

The CHAIRMAN. You were there 18 months?

Mr. FROST. Yes, sir.

The CHAIRMAN. Then where did you go?

Mr. FROST. To San Francisco.

Senator MAYBANK. I think Judge Bailey was appointed in 1934. Am I wrong?

Mr. FROST. I understand he was one of the original State directors.

The CHAIRMAN. Where did you go from South Carolina?

Mr. FROST. To San Francisco.

The CHAIRMAN. How long were you there?

Mr. FROST. Approximately 18 months.

The CHAIRMAN. What did you do there?

Mr. FROST. I was what they referred to as an administrative supervisor.

The CHAIRMAN. For FHA?

Mr. FROST. Yes, sir.

The CHAIRMAN. Where did you go from San Francisco?

Mr. FROST. To Albuquerque, N. Mex.

The CHAIRMAN. That was when?

Mr. FROST. I entered on duty in Albuquerque January 22, 1950.

The CHAIRMAN. You began January 22, 1950, and remained until last Thursday?

Mr. FROST. Yes, sir.

The CHAIRMAN. What were your duties in Albuquerque?

Mr. FROST. I was Assistant State Director.

The CHAIRMAN. Prior to the reorganization, what were your duties?

Mr. FROST. I don't understand the question, sir.

The CHAIRMAN. What did you do? Did you handle title I and section 608's?

Mr. FROST. No, sir.

The CHAIRMAN. What did you do?

Mr. FROST. I was the assistant to the administrative head of the office, and had the duties attendant thereto.

Senator MAYBANK. Let me ask a question or two about South Carolina. I don't know who the Director is there now.

Mr. FROST. I don't either.

Senator MAYBANK. You were in South Carolina 18 months?

Mr. FROST. Yes, sir.

Senator MAYBANK. And I know Judge Bailey. I don't know who is there now. He was appointed in 1934 or 1935. He was appointed, long before I came here, but anyhow what did you do for Judge Bailey? Did you look after section 608's?

Mr. FROST. That was part of my functions.

Senator MAYBANK. Did you approve any of them?

Mr. FROST. As of the record, I was authorized to as an authorized agent. I don't recall whether or not I actually went through the formality of signing any of the commitments.

Senator MAYBANK. You had a right to?

Mr. FROST. Yes, sir.

Senator MAYBANK. And you don't know whether you approved any or not?

Mr. FROST. I do not recall, sir.

Senator MAYBANK. What did you approve in Columbia?

Mr. FROST. The authorized agent—I was authorized to commit the Federal Housing Administration on contractual obligations.

Senator MAYBANK. How many did you authorize?

Mr. FROST. Sir—

Senator MAYBANK. Do you remember any of the projects that you authorized? I never knew you were in South Carolina. I don't know who is there now.

Mr. FROST. Sir, I do not know. Speaking of section 608's, I would doubt, although I do not know for sure, whether I actually signed any commitments.

Senator MAYBANK. You don't think you signed any?

Mr. FROST. No, sir. I don't—

Senator MAYBANK. What about any other sections—203 and 207 and some of these others, that are worse than 608's, as you well know. You agree on that? There are some bad messes in sections 203 and 207.

Mr. FROST. Sir, I have not been back there and I don't know anything about the section 203's in South Carolina.

The CHAIRMAN. Mr. Simon.

Mr. SIMON. Mr. Frost, from January 23, 1953, to January 27, 1953, were you on a deep-sea fishing trip to Matzatlan, Mexico, with Harry

Frank, of the Atlas Lime Co., and George Walters, sales manager of E. J. Mankin, Inc.?

Mr. FROST. Gentlemen, I am without counsel. I have not contacted counsel. As I understand my constitutional rights, I do not wish to jeopardize anything—

The CHAIRMAN. In other words, you do not wish to answer the question on the basis that it might incriminate you?

Mr. FROST. That is correct, sir.

The CHAIRMAN. You have a perfect right to do so. Proceed to ask the rest of the questions.

Let me say this now: You may answer any question that we ask you or you may refuse to answer any question on the ground that it may incriminate you.

Senator MAYBANK. There wouldn't be any questions about South Carolina you would refuse to answer, would there?

Mr. FROST. Sir, at this point, as I say, I am without counsel.

Senator MAYBANK. I know that. I appreciate you have certain rights. You said you didn't know anything about section 608's in South Carolina?

Mr. FROST. Yes, sir, I think that is correct, and I have—

The CHAIRMAN. Let me say all the questions we wish to ask you have to do with New Mexico. Will you proceed, Mr. Counsel?

Mr. SIMON. Mr. Frost, being a lawyer, I should say to you that the law is that if you answer one question, you then lose your immunity as to anything related to that question. I wouldn't want to put you in a position where you answer the question without knowledge of the fact that you thereby lose your immunity for things related to that question.

Mr. FROST. Sir, inasmuch as you are counsel, I would appreciate then if you would indicate to me any questions that might be related to—

Mr. SIMON. I can't act as your counsel, Mr. Frost, but I don't want you to be misled into believing you can pick and choose, answer one question and not the other. If you go into a subject you are required to answer them all. I am not in the position of being your counsel.

Senator MAYBANK. Who is the fellow we had here the other day who had a lawyer and who seems to have been the worst violator of all the laws?

Senator SPARKMAN. Powell.

Senator MAYBANK. In justice to this man, since he hasn't got a lawyer, I don't know what it is all about—I mean I know what it is all about but I don't know what his answers would be one way or another to incriminate him, but I think he ought to be given, as the chairman suggested, protection, because of all the people I have seen here the worst has been Powell. He wouldn't say anything.

The CHAIRMAN. I just said to this gentleman that if he does not care to answer any questions, he will not be forced to do so and all you need to say is that "I refuse to answer on the ground that it might incriminate me."

Mr. FROST. Thank you, sir.

The CHAIRMAN. You can say that to any question that we ask you, and when you do so that will end it as far as we are concerned.

Will you proceed?

Senator LEHMAN. Mr. Chairman, I want to commend our counsel Mr. Simon, for explaining the law to this witness. I think it was a fair thing to do, a proper thing to do. I wish it was done in all cases.

Mr. SIMON. Thank you, Senator.

The CHAIRMAN, Proceed, Mr. Simon.

Mr. SIMON. Mr. Frost, did you file travel vouchers with the United States Government, and claim reimbursement for travel and per diem for traveling from Albuquerque, N. Mex., to El Paso, Tex., and returning, for a fishing trip to Mexico in January 1953?

Mr. FROST. I decline to answer that question based upon my constitutional rights.

Mr. SIMON. Did the contractors whom I have previously mentioned pay the expenses of the fishing trip from El Paso, Tex., to Matzatlan, Mexico?

Mr. FROST. I decline to answer the question based upon my constitutional rights.

Mr. SIMON. From October 16 to October 18, 1953, did you take a fishing trip to Chihuahua, Mexico, with contractors doing business with the Federal Housing Administration?

Mr. FROST. Sir, I refuse to answer that question based upon my constitutional rights.

Mr. SIMON. Again, did you claim Government reimbursement for travel to and from El Paso, and did the contractors pay all of the expenses from El Paso, Tex., to Chihuahua, Mexico?

Mr. FROST. I refuse to answer that question, sir, based upon my constitutional rights.

Mr. SIMON. In 1950, did you receive two truckloads of concrete blocks from the Superlite Co., a contractor doing business with the Federal Housing Administration, for use in your own home without the payment of anything therefor except a few dollars paid to the truckdriver who delivered the blocks?

Mr. FROST. Sir, I refuse to answer that based upon my constitutional rights.

Mr. SIMON. With respect to the ground breaking for the Holloman housing project in New Mexico, on or about March 31, 1953, did you ask the contractor who was putting up the project, or suggest to the contractor putting up the project, that a party be given for you the night of the ground breaking with girls furnished by the contractor?

Mr. FROST. I refuse to answer that question based upon my constitutional rights.

Mr. SIMON. In fact, on that night, and either the night before or the night preceding, was there a party at the Motel Alamogordo, at Alamogordo, N. Mex., at which there were three girls who were paid a total of between \$400 and \$500, and the cost of which was charged to the construction job?

Mr. FROST. I refuse to answer that question, sir, based upon my constitutional rights.

Mr. SIMON. In December 1952 were you present at a poker game which was attended by yourself, Gary Grisham, James Carnes, Edward Snow, Sam Brown, Dick Scalf, O. D. Pronps, and Sellars, all of whom were either contractors doing business with FHA or employees of FHA?

Mr. FROST. I refuse to answer that question, sir, based upon my constitutional rights.

Mr. SIMON. At such a poker game did you suggest to Gary Grisham, superintendent of construction for E. J. Mankin, Inc., then engaged in the construction of the Lovington Homes project, and Wherry project, being financed by the Federal Housing Administration, that Mr. Grisham gamble with you by matching coins, and in such a gambling contest did you win \$800 from Gary Grisham?

Mr. FROST. I decline to answer that question based upon my constitutional rights.

Senator MAYBANK. Was the gambling on the up and up?

Mr. FROST. I decline to answer that question based upon my constitutional rights.

The CHAIRMAN. Well, that is all. Thank you, Mr. Frost. You do not need to remain under subpoena any longer, and if we want you later, we will subpoena you.

Mr. FROST. Sir, I am driving and I will be en route for some time.

The CHAIRMAN. That is all right. We won't need you for a couple of weeks at least. I wish you would keep in touch with us.

Mr. FROST. Yes, sir.

The CHAIRMAN. We may find you will be helpful to us because you did testify in executive session.

Mr. SIMON. No; he didn't.

The CHAIRMAN. He did not?

Senator MAYBANK. No; he didn't testify.

Mr. FROST. Sir, should I notify you?

The CHAIRMAN. Keep us advised as to your address; yes. Thank you very, very much.

Now Mr. Burton Bovard, Lorton, Va. Will you come forward please? Mr. Bovard, will you please be sworn? Do you solemnly swear that the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF BURTON C. BOVARD, LORTON, VA., ACCOMPANIED BY CLAYTON M. BURWELL, COUNSEL

Mr. BOVARD. I do.

The CHAIRMAN. Will you have a seat? Will you give your name and present address to the reporter, please?

Mr. BOVARD. Burton C. Bovard, Lorton, Va.

The CHAIRMAN. Let me ask you a few questions.

You were formerly with the FHA?

Mr. BOVARD. I am still with the FHA.

The CHAIRMAN. You are still with the FHA. When were you employed by FHA?

Mr. BOVARD. In, I think it was, August 1935.

The CHAIRMAN. You were employed in August 1935, and you take the position that you are still with them? However, they have suspended you, haven't they?

Mr. BOVARD. No; I have not been suspended. I have been put on annual leave.

The CHAIRMAN. I see, but you are no longer working?

Mr. BOVARD. No; that is right, and have not been—

The CHAIRMAN. You no longer have any duties or responsibilities?

Mr. BOVARD. That is right.

The CHAIRMAN. You did go to work for FHA in 1935?

Mr. BOVARD. That is right.

The CHAIRMAN. You worked continuously for them up until the time that you got into this trouble or whatever you care to call it?

Mr. BOVARD. That is right.

The CHAIRMAN. You were with them continuously?

Mr. BOVARD. That is right.

The CHAIRMAN. You were the General Counsel for how many years?

Mr. BOVARD. Well, since 1945.

The CHAIRMAN. You were General Counsel of FIA from 1940 up until a couple of months ago?

Mr. BOVARD. That is right. And, of course, I still am technically, at any rate, General Counsel.

The CHAIRMAN. You still maintain you are the General Counsel?

Mr. BOVARD. I don't maintain anything. I have not as yet been separated.

The CHAIRMAN. Didn't they ask for your resignation?

Mr. BOVARD. They did, but I refused.

The CHAIRMAN. On what grounds did you refuse to resign?

Mr. BOVARD. Because of the veterans' rights. You see, veterans' preference—

The CHAIRMAN. Do you think you have a right to be General Counsel regardless?

Mr. BOVARD. Well, the Veterans' Preference Act requires an agency to prefer written charges before they take an adverse action against the veteran.

The CHAIRMAN. They could transfer you to some other position as long as they paid you the same wage, could they not?

Mr. BOVARD. Yes, indeed.

Senator MAYBANK. No charges have been preferred against you?

Mr. BOVARD. Yes. Charges have been preferred against me. I have answered the charges. The matter is now pending before the agency, and, of course, that is one of the reasons why I wrote to Senator Capehart and felt that this—

Senator MAYBANK. I understood that.

The CHAIRMAN. This gentleman is your attorney?

Mr. BOVARD. He is my attorney.

Senator MAYBANK. You said you hadn't resigned because of your veterans' rights.

Mr. BOVARD. That is right.

Senator MAYBANK. Charges have been preferred and you answered the charges?

Mr. BOVARD. That is right.

Senator LEHMAN. Are you still receiving pay?

Mr. BOVARD. Oh, yes, indeed; on annual leave, of course.

The CHAIRMAN. This gentleman—will you give your name?

Mr. BURWELL. My name is Clayton L. Burwell. I am a member of the Supreme—

The CHAIRMAN. You are an attorney for Mr. Bovard?

Mr. BURWELL. I am an attorney for Mr. Bovard.

The CHAIRMAN. Do you wish to make a statement?

Mr. BURWELL. I wish to request permission—

Senator MAYBANK. Would you give your background just for the record?

Mr. BURWELL. Yes, sir. My name is Clayton M. Burwell. I am a member of the firm of Murphy, Duiker, Smith & Burwell, of the Southern Building, a member of the bar of the District of Columbia, and the State of North Carolina.

Senator MAYBANK. Where do you come from in North Carolina?

Mr. BURWELL. Charlotte. I wish to read very quickly a short letter into the record at this time, Mr. Chairman.

The CHAIRMAN. You may proceed to do so.

Mr. BURWELL. It is dated June 28, 1954, Washington, D. C., to Hon. Homer E. Capehart, chairman, Senate Banking and Currency Committee, United States Senate, Senate Office Building, Washington, D. C.

MY DEAR MR. SENATOR:

I have received a subpoena requiring me to appear before your committee on July 1, 1954.

In this connection I invite the committee's attention to the pendency of a determination of the truth or falsity of certain charges preferred against me by Mr. Norman P. Mason, Acting Commissioner of the Federal Housing Administration. I enclose a copy of said charges and my reply thereto.

As a veteran of overseas combat service in World War I, I am entitled to the protection of section 14 of the Veterans' Preference Act of 1944, as amended, and of the regulations of the Civil Service Commission thereto. This involves a determination of the truth or falsity of the charges initially by Commissioner of the FHA, a right of appeal from his decision to the Civil Service Commission and a right of appeal from the Civil Service Commission to the courts. A few weeks ago the Federal District Court for the District of Columbia granted an injunction in the Peake case against the discharge of a Federal employee, pending a determination of the charges by the Civil Service Commission.

You will note that the charges preferred against me are so broad and ill defined as to virtually bring under review my Government service as General Counsel for the FHA for 14 years under 5 different Commissioners, including Mr. Guy Hollyday. Charge VII indicts me for testimony given before this committee voluntarily because in the opinion of the Commissioner of the FHIA my testimony did not satisfactorily answer all of the committee's questions. It would be well nigh impossible for your committee to avoid inquiring into the subject matter of these pending charges, if I am compelled to testify at this time.

The effect of requiring me to testify before your committee as to matters contained in the charges is to provide the Commissioner in an adverse action against me with a bill of discovery without providing me with a similar right and to that extent deprives me of a fair hearing. I therefore respectfully request that my testimony not be taken until the charges against me are determined according to the Veterans' Preference Act of 1944, as amended, and according to the Civil Service Commission's regulations issued pursuant thereto.

So far as the indispensability of my testimony at this time is concerned, I respectfully point out (a) that I testified already before your committee on April 28, 1954, (b) that my reply to the Commissioner's charges, a copy of which is enclosed, contains considerable testimony with respect to the charges, and (c) that there are a number of other witnesses, such as the former Commissioners and Deputy Commissioners, who had an equal or greater opportunity of knowing the facts involved who are not at present parties to an adverse action pending before the Commissioner, the Civil Service Commission, and the courts.

Senator MAYBANK. Would you mind stating for the record who they are?

Mr. BURWELL. Who the Commissioners are, sir?

Senator MAYBANK. And the Deputy Commissioners. Is it agreeable to get that in the record?

The CHAIRMAN. Yes.

Mr. BURWELL. I will ask Mr. Bovard.

Senator MAYBANK. I don't want to do anything that would jeopardize his veteran's preference, but I would like the record to show it.

Mr. BURWELL. It would not, sir. Mr. Bovard can state the names of the Commissioners and Deputy Commissioners.

Mr. BOVARD. Mr. Abner Ferguson was Commissioner when I became counsel in 1940. He was followed by Mr. Foley, as I recall, who was later transferred to the position of Administrator of HHFA, and at the time Mr. Foley went as Administrator of HHFA, Mr. Franklin D. Richards became Commissioner of FHA, and at the time Mr. Richards resigned, Mr. Greene became Commissioner, and then following Mr. Greene was Mr. Hollyday, Deputy Commissioner under Mr. Richards was Mr. Greene, and Deputy Commissioner under Mr. Hollyday was also Mr. Walter Greene.

Senator MAYBANK. Thank you.

Mr. BURWELL. I have one more paragraph.

The CHAIRMAN. You may proceed.

Senator MAYBANK. I just wanted to get the record straight. That is, as I understand, his reply to whoever is going to look into his case, about the Deputies and Administrators being more responsible or having a part to do with anything they charge you with, is that correct, or don't you want to answer?

Mr. BURWELL. That is correct, sir. We make that position in our reply.

The last paragraph, Mr. Chairman:

In my letter of May 18, 1954, to the Commissioner of the FHA, as an intermediate reply to his charges and notice of proposed adverse action, I requested access to the files and documents which presumably form the evidentiary basis for his charges. I did this because some of the charges extended to alleged derelictions on my part over a period of 14 years involving countless transactions in the highly complicated position of General Counsel. Obviously, it is impossible for me to recall with particularity these files and documents especially when the charges themselves are lacking in specificity. I am sure that you will appreciate the difficulty of my being any more specific in my answers to your committee than I have been in my enclosed reply without an opportunity of refreshing my recollection concerning these matters from the files and documents of the FHA. If the committee feels, that notwithstanding the pendency of the action against me, I should nevertheless be required to testify before the committee, I respectfully request that you permit me access to the files and documents on which you propose to examine me, in order that my answers may be accurate, specific, and helpful to the committee.

I also request permission that my counsel, Clayton L. Burwell, in the action before the Commissioner and the Civil Service Commission be permitted to appear and sit with me in the event your committee insists upon my testimony.

Senator MAYBANK. Mr. Chairman, I think he should have the files if he is willing to testify. I don't see why Mr. Mason doesn't give him the files. I think he is absolutely right.

Mr. BOVARD. It is necessary, as I see it.

Senator MAYBANK. How can you testify if you don't have the files? How can they put you on leave without even showing you the files?

The CHAIRMAN. How can you say you need the files when you don't know what the questions are going to be? How can he say he needs the files when he doesn't know what the questions are going to be?

Senator MAYBANK. I should imagine, Mr. Chairman, any questions we will ask him, as a former attorney for the organization, he would certainly be concerned with the files of the FHA. Otherwise, if we are going to ask him if he went out fishing—

The CHAIRMAN. Let me say the ruling of the Chair, unless the committee wishes to go into executive session and take a vote on it, is that

this gentleman should testify. Whenever we ask any questions where it is obvious that he ought to have the files to refresh his memory, that we will show him the files, and if he wants more time than can be given here, we will let him take the files and study them and come back at a later date and testify.

Senator MAYBANK. That is quite all right.

The CHAIRMAN. Otherwise, this action that he has against the Administration for suspending him, of course, may go on for months and months and months, long after this hearing is over.

Here is a situation where this gentleman was employed by the Federal Government in 1935, and that was nearly 20 years ago. He has been the General Counsel of the FHA since 1940. I would say since 1940 that FHA has handled through guaranteeing billions and billions and billions of dollars worth of mortgages of all kinds—individual houses, section 608's, 213's, and 207's. It has been a big organization—one of our big governmental organizations, and for 15 years this gentleman was the General Counsel.

Now, a general counsel of an agency as big and far-reaching as FHA, ought to know a lot of things from memory. He ought to be very helpful to this committee in solving many of the problems that have been presented to this committee.

But I want to say this: We want to be perfectly fair with you and we want to show you any and all files, any and all documentary material that you may need in order to give the proper answers. It is not our intention to do anything other than to try to get the facts. It is not a very pleasant duty that we have in this committee to sit here this summer and fall, when we might be resting a little bit, looking into this situation.

The General Counsel will proceed with the questions.

Senator LEHMAN. Mr. Chairman, I want to make very certain that this committee does not do anything which would prejudice the witness' case before such board as may pass on the validity of his suspension, if I may call it that, or his rights under the Veterans' Act.

I think if we examine him at all today, it should be made very clear that if he refuses to answer, or states that he is unable to answer because of any reason that may appear valid to him, that that does not, or will not militate against his rights nor will it prejudice this committee, or the members of the committee, in the consideration of the case. I am not sure we should examine him.

The CHAIRMAN. I think the Senator is correct, but I also wish to call his attention to the fact that this gentleman is a lawyer, that for 15 years he was the General Counsel of this big organization; that he is amply able to take care of himself. He is not only a lawyer, but he likewise has a lawyer sitting alongside him, and I can't conceive of him wanting to withhold any information from this committee. I am sure he doesn't.

Mr. BOVARD. I can assure you I do not want to withhold any information.

The CHAIRMAN. I am certain that everybody will be pleased with the treatment that this witness will receive at the hands of this committee.

Senator LEHMAN. Certainly if he has no objection to testifying under the reservations that have been made by his counsel and by him

I have no objection to it, but I think we must be very careful not to prejudice his case.

The CHAIRMAN. He has the right if he wants to to refuse to answer any question and he has the right, on documentary matters, to ask us to show him the documentary proof that he might refresh his memory. He has that right and we certainly will see that he gets it.

Mr. BURWELL. Mr. Chairman, if I may ask your permission to put the letter which I read, together with the enclosures in the record—

The CHAIRMAN. Without objection, the letter that has just been read, together with the enclosures, which is an office memorandum of charges against Mr. Bovard, and his answer will be made a part of the record at this point.

(The information referred to follows:)

WASHINGTON, D. C., June 9, 1954.

Mr. NORMAN P. MASON,
Acting Commissioner, Federal Housing Administration,
Washington 25, D. C.

DEAR SIR: This is a reply to your letter of May 28, 1954, received by me on June 1, 1954, and also a reply to your Notice of Proposed Adverse Action, dated May 7, 1954.

In my letter of May 18, 1954, I requested that you specify in greater detail your original charges in order that I might prepare a defense or that, in the alternative, you withdraw the charges. With the exception of charge IX you did not change any of the original charges nor did you withdraw any of the charges. The change in charge IX did not make it more specific. In the same letter I requested that you permit me access to the files and documents of the FHA involved in your proposed action, and which are obviously necessary for my defense. With the exception of the documents set forth in your letter of May 28, 1954, you refused me permission to consult these files, extending back over a period of 19 years, and insist upon my filing a defense or else waiving my rights without being able to refresh my recollection from the thousands of records involved. I can see no reason for your refusal to permit me access to the evidence, particularly where the charges themselves are so vague, other than the fact that you have already prejudged my case and are reluctant to permit me to put in a strong defense.

Together with your refusal to make specific charges, as contemplated by section 14 of the Veterans Preference Act of 1944, as amended, and the regulations, requirements, and procedure of the Civil Service Commission issued pursuant to said act, and your refusal to permit me access to the documents on which my defense would rest, you have not permitted a reasonable time for me and my counsel to prepare an answer to sweeping and unspecified charges, extending over a period of 19 years of service in a highly complicated position involving thousands of transactions. Again, this arbitrary refusal of adequate time for the preparation of my defense indicates on your part a prejudgment of the case, a disinclination to receive matters in defense, and constitutes a violation of the Veterans Preference Act, Civil Service Commission regulations, requirements, and procedure, above specified, a denial of due process of law, and a denial of the ordinary standards of impartiality and fair play.

The charges represent conclusions of law in some instances and conclusions of fact or opinion in others. Virtually all of the charges are predicated upon the false premise of an inefficient and wrongful administration of the FHA over the entire period of its existence without reference to the vast benefits to the public from the skillful pioneering in a new field of governmental activity. The law does not contemplate the false indictments of a large and responsible agency over a period of 19 years and an indictment of a significant segment of the lending and building industry through the pretext of an employee discharge procedure under the Civil Service Act, the Veterans Preference Act, and regulations issued pursuant thereto.

I cannot believe that a man of your position would sign charges as destructive of a man's honorable career, his standing and his associates, without being convinced on a responsible basis that they and each of them are true. Nor can I believe that a man would sign these charges without the manliness to personally

sponsor them. Some of the charges are libelous but for such protection as the law may give you by virtue of the office which you hold. I reserve for further consideration my rights in this connection.

You say in your letter of May 28, 1954, that the second paragraph of the original notice of proposed adverse action "* * * is descriptive of the general nature of the charges against you. These charges are specified in the following paragraphs, in specifications Nos. I through IX. It is on the basis of these specifications of events and dates that your removal from the service is proposed, and it is on the basis to your answers to these specifications that my decision will be based."

While I deny that the second paragraph in question is descriptive of anything except the lack of specificity and responsibility with which the charges were drawn, in the light of your statement that they are not charges I will not attempt to answer them.

With respect to the charges I through IX, they do not charge me with a single act of commission. This alone speaks well of a Government career servant after a record of 19 years. Unable to find any acts of commission, you have taken refuge in your opinion of derelictions. Needless to say, these alleged derelictions, all of which are omissions, constitute an opinion on your part given long after the transactions involved. This opinion, if true, constitutes an even greater indictment of several commissioners who preceded you, together with a large number of highly placed and responsible officials of the FHA and the housing industry over a period of years.

Your opinion of my professional competence cannot be based upon personal observation, inasmuch as you never had any dealings whatsoever with me, except to place me upon involuntary annual leave and later present me with charges. It cannot be based upon personal experience as a lawyer since the records fail to disclose that you are a lawyer at all. Your opinion cannot be based upon any reprimands or instructions to me which I failed to carry out, since you never gave me any. It cannot be based upon any personal and expert knowledge of the FHA since you had not worked for the FHA during the times in question and have not yet worked for it more than a negligible period of time. Your opinion cannot be based upon any tangible objective criteria since you have not set out any way by which my performance of duty can be measured.

Notwithstanding the motivation with which these charges were brought, the vague and unspecific character of the charges, the refusal to permit access to evidence, the refusal to permit adequate time for the preparation of a defense, and the opinion character of all of the charges, I am compelled to answer them to the best of my ability, based upon personal recollection almost entirely, going back as far as 19 years. The charges are so sweeping, and it is so obvious that you have prejudged the case, that I expect that, no matter what the answer, you will say that it does not meet part of the charge. In other words, you will not disclose the charge until the answer is made in order that you may say the answer does not meet the charge.

With respect to the charges I through IX, and subject to the restrictions you placed upon my defense over my protest, I answer with the following:

CHARGE I

An examination of the entire agency files, consisting of the Washington administrative office files and the insuring office files at San Francisco and Los Angeles will show a considerable volume of administrative inquiries and reports concerning loans in which the Enterprise Construction Cos. were involved and will establish that the loan transactions of these companies were examined carefully over a long period of time and efforts were made to obtain facts concerning alleged improper or fraudulent action. The files of the local insuring offices will show that such loans were watched carefully by the local director and members of his staff assigned to duties concerning title I loans. The files of the Legal Division will also show that the facts and data developed by the Administrative Offices in Washington and in the field were likewise examined to determine if administrative or legal action, or both, were warranted.

It is my recollection that the files and testimony of the employees, both in the Legal and Administrative Divisions will show the difficulties encountered to establish evidence to support specific actions. The records of the Legal Division and the Washington Administrative Division (Mr. Frentz, Mr. James Hobbs, Mr. Edward Walsh, and Mr. McCallum, all members of the administrative office in charge of title I loans) will disclose that when I received the memo

of April 29, 1953, from Mr. Cole to Mr. Hollyday, referred to in your charge, a memorandum was sent from my office to Mr. Frenz, the administrative official with responsibility, requesting a current report from the directors of the insuring offices in California. This memorandum was dated some time in the early part of May 1953 and suggested, as I recall, that further reports should be obtained so that the position of the Administration could be reexamined from the standpoint of possible investigation and prosecution. The records will further establish that at a subsequent date, either later in May of 1953 or June of 1953, one or more conferences took place between Washington administrative officials of the FHA and representatives of the Legal Division as a result of which the decision was made to send investigators to California as soon as the schedule of other assignments would permit. The records will disclose a memorandum in June or July of 1953 from Mr. Hillock, Chief of the Section of Investigation, setting forth the final decision, and identification of the scope of the proposed investigation and the assignment of the personnel to conduct the investigation. As I recall, Mr. Hillock accompanied the two investigators to California for the purpose of coordinating the investigation and to discuss procedures and methods with the United States attorney. Mr. Hillock was also to make inquiry into certain rumors concerning a Mr. Pendergast, the title I representative in the San Francisco FHA office.

I believe the record also will disclose that Mr. Hillock, while in California, discussed with the United States Attorney at San Francisco a proposal to submit information on at least some of the cases directly to the United States Attorney for presentation to the grand jury prior to the preparation of a formal report, in order to obtain indictments within the period of the statute. This proposal was discussed because of the time necessary to prepare the formal report, have it reviewed in Washington, and the referral to the Department of Justice in Washington, and ultimate referral by the Department of Justice to the United States attorney with jurisdiction. The record will further disclose that since the United States attorney did not feel he could deviate from prescribed procedure in this regard, representatives of my office called on the Department of Justice to request approval of such proposal. Further, the Department advised the FHA that the Department officials with responsibility declined to approve the proposal. No specific reasons were given. While you have been Commissioner only a few weeks and the extent you may have been able to examine the records of the Administration has been necessarily limited, I am confident that you have become aware of the complexities of the various operations of the Administration. You must have become aware of the fact that the operations of the Administration are controlled by budgetary limitations and it is not always possible to have available all the personnel you or your staff officials may believe needed or required to perform a particular function or assignment. "Prompt action" to persons familiar with the problem of investigation is a relative matter and necessarily dependent on the facts and complexities of particular cases. The California cases, as I understood, covered a considerable area and many transactions, and time was consumed not only in gathering the evidence but also in preparing a formal report containing all the exhibits in such form as to present to the Department of Justice. As I recall, the Enterprise Construction Cos. cases, my staff forwarded the report to the Department of Justice within a matter of hours from the time it was sent to my office. The fact that the investigation started the latter part of July 1953 and the report finished in November following would not of itself establish that such period of time was unnecessarily long or that the work could have been completed sooner. I was advised by my staff that every effort, consistent with the number of persons available to work on the cases and the volumes of material to go into the reports, was being made to complete the reports to transmittal to the Department of Justice. I believe the record will disclose this was done. You undoubtedly have found that the operations of the FHA are rather extensive and that you as well as your Division heads must rely on staff members to perform a great volume of the detail of your functions. Your judgment to rely on decisions and actions taken by subordinates must necessarily be influenced by your experience with those employees. I had years of favorable experience with my staff to back up my belief that the work was being handled competently and adequately. Under all the circumstances which were in existence at the time the particular cases came to the attention of the FHA, namely, the personnel available, the quality of the evidence developed through the field offices, and limitations on expenditures, I deny that I "failed to initiate prompt action adequately to investigate" the complaints involving the Enterprise Construction Cos.

CHARGE II

It is my recollection that the reference to the report concerning Tom Arafe had a direct relation to other reports sent to the Department of Justice concerning the investigations in California. It is to be noted that you only make reference in this charge to a letter dated October 21, 1953, from the FHA to the Department of Justice and do not identify the date of the Department's letter from which the quotations were made, nor state if the Department's letter was answered. The impression is left that my office took no action and otherwise had no explanation to offer in response, and consequently the suggestions constituted proven facts. The fact that the Department of Justice raised certain questions concerning the report does not itself establish that the report was inadequate and unsatisfactory, or that evidence of a more substantial nature could have been produced. An examination of the records would have revealed these conclusions and implications to be incorrect. I submit it is unfair and unjust to present only one part of the file when you knew or should have known there were additional facts concerning the case in the official records under your control, showing that no claim was filed by the lender against the FHA and no loss was sustained by the Government. The manner in which this charge is stated, particularly in view of the existence of further information in your possession, demonstrates again the unfairness of your refusal to give me access to the records.

CHARGE III

In connection with title I operations in the Puerto Rico FHA office, your charge fails to specify what irregularities you have in mind and over what period of time such irregularities occurred. I am confident the files of the administration under your control will disclose reports were submitted to Mr. Frentz, Assistant Commissioner in charge of title I operations, by the Director in Puerto Rico, Mr. Carpenter, as well as correspondence between Mr. Frentz and representatives of the lending institutions, particularly J. Andrew Painter, vice president of the National City Bank and other officials of the Puerto Rico branch of that bank. It is my recollection that conferences were held in Washington with representatives of the National City Bank and Mr. Frentz, and in some of these conferences Mr. Carpenter, the Director in Puerto Rico and a member of his office staff were also present. It was following these conferences that Mr. Frentz, Assistant Commissioner in charge of title I operations, and Mr. Nelson Hillock were sent to Puerto Rico to investigate the situation and to determine what actions were needed. It was apparent that the situation was complex and presented many problems, both from an administrative approach and from possible further investigative activities. The general scope of the possible misuse of loan proceeds was discussed with the then United States attorney. From an investigative standpoint it was recognized there were present many practical prosecution problems by reason of the number of borrowers who would probably be involved in any prosecution even though they may not have been aware of any possible wrongdoing. It is clear that this general subject was not handled haphazardly by the FHA officials but was given very careful and serious consideration. It is my understanding that Mr. Frentz, while in Puerto Rico, obtained agreements from the lending institutions, including the National City Bank, under which those institutions would immediately inaugurate positive actions to strengthen and control the handling of loans in Puerto Rico with the objective of minimizing, if not eliminating, the type of transactions under discussion. Subsequently, after Mr. Frentz and Mr. Hillock returned to Washington, I know that the general situation concerning title I loans in Puerto Rico was discussed with Mr. Greene, Deputy Commissioner at that time, and with Mr. Starr the regional administrative official. Mr. Frentz reported the actions which had already been taken administratively as well as the further proposed action which he would require the lending institutions to take. The general prosecution problems were also discussed as well as the time and personnel requirements to conduct an exhaustive investigation. I was not instructed to make any further investigation. In view of the lack of instructions, the insufficiency of personnel, the inordinate amount of time and the practical obstacles to prosecution, together with the positive measures adopted to eliminate such irregularities in the future, no further investigation was made at this time. A full and complete examination of the record will not therefore support the charge or place on me the responsibility for the manner in which this situation was handled nor will the record justify any conclusion that the FHA action was not taken in good faith in the light of all the circumstances.

With respect to the charge concerning an alleged illegal use of the proceeds of a title I loan by Mr. Harley A. Miller, former United States attorney in Puerto Rico, I do not believe the records of the FHA will disclose that "it was reported" to me that such a loan had been obtained by Mr. Miller. I was told of the rumor to that effect entirely as a rumor and not as a fact. I believe the same rumor also reached the Department of Justice and that informal discussions took place between the Legal Division and representatives of the Department of Justice concerning the rumor, and that the rumor was discussed with Mr. Miller at or about the time he submitted his resignation. The Department of Justice may be able to supply further information on this matter and it is assumed Mr. Miller can be reached for his comments.

It is to be again emphasized that I was not the Commissioner, and that the general effect of this charge is a conclusion on your part at this date, as to the action which you might have taken if you had been the Commissioner at the time the matter was up for consideration.

CHARGE IV

As I recall without access to the documents, a report of February 20, 1953, from the Department of Justice involved one loan of the Phil Davidson Construction Co. I referred this memo over my signature to Mr. Frenz, the administrative official in charge of title I operations, for action. Mr. Frenz was not part of the Legal Division. The records in your possession will disclose correspondence between his office and the local insuring office and an investigation of the facts by the local insuring office. Following this investigation, Mr. Frenz and the local insuring office advised the lender to apply certain precautionary measures against the Phil Davidson Construction Co., the substantial effect of which was to preclude the Phil Davidson Construction Co. from securing further loans under the FHA title I program. The Phil Davidson Construction Co., the dealer in question, repurchased the loan involved, thereby relieving the Government of any liability, actual or potential. I believe further that the records of the administrative office will disclose that the particular salesman in the Phil Davidson Construction Co. involved in this loan was fired. It was generally recognized by the Commissioners that in a case involving one loan, no loss, actual or potential, to the Government, where effective administrative corrective measures were enforced, no constructive purpose was served in insisting on prosecution in the light of the inadequate investigative force and funds available to the FHA at that time. This was the situation in respect to the case of the Phil Davidson Construction Co. The fact that a report was received from the Department of Justice did not establish a violation and did not establish that criminal prosecution was the only proper or desirable action.

In this charge you failed to state all of the material facts and refused me access to the records in an effort to prevent me from stating the material facts. It is apparent that this distortion of the records indicates a desire on your part to create an erroneous implication with the public.

CHARGE V

The files of the Department of Justice disclose that the letter of complaint from Congressman Schafer referred to in your charge was submitted to the Attorney General and not to the FHA, with the request for investigation by the FBI. The letter was sent to the FHA by the Department of Justice not for the purpose of making the final decision as to investigation but to develop such facts as the FHA could from its records or from inquiry and to report them back to the Department of Justice. In many instances the Department of Justice has referred to the FHA through me as General Counsel information or allegations involving construction complaints for the purpose of enabling the FHA to collect such facts as are disclosed by its records or by inquiry. In these cases the decision to take further action or to request the FHA to take further action was retained by the Department of Justice.

Congressman Schafer's letter contains specific complaints concerning claimed construction deficiencies in the construction of a home purchased by a Mr. Confer together with certain allegations of rumors of an improper tieup between the director of the insuring office and the building companies controlled by the director's brother. In view of the fact that the director's brother was the builder of the home purchased by Mr. Confer, my staff discussed the matter with the administrative officer in Washington in charge and it was agreed to send an underwrit-

ing supervisor from Washington to make an investigation in order to avoid any possible criticism. This was a special procedure because of the rumored tieup between the director and his brother. Mr. Carl Whitney, underwriting supervisor attached to Washington headquarters, was sent to Grand Rapids and did investigate the construction complaints and through his efforts an adjustment of the construction complaint was effected between the builder and Mr. Confer. Mr. Whitney made a special trip to Battle Creek, Mich., to interview the two informants referred to in Congressman Schafer's letter. He did interview one of the informants who was unable to give any substantial evidence concerning the rumor. His name, as I recall it, was Mr. Welch. He attempted to interview the other informant but was unable to do so because of his absence from Battle Creek.

In respect to the wider rumors of irregularity between the director and his brother as a builder, the record will disclose that all applications for mortgage insurance covering property constructed by the director's brother was especially reviewed in Washington before the commitments for insurance were issued. The letter of August 17, 1951, referred to in your charge recites most of the facts outlined above. However, you have distorted the letter by paraphrasing only an unrepresentative portion of it. A fair hearing of this problem requires that I have access to the documents involved.

With access to these documents it can be demonstrated from the files that the decision to conduct a formal investigation was not expected to be made by the FHA and was not made by the FHA. The letter in question said in effect to the Attorney General that if you desired to investigate further, I would appreciate your keeping me advised. The FBI did investigate and as a result indictments and convictions were secured. The Departments of Justice records together with the records of the Federal court in Grand Rapids, Mich., an interview with the then United States attorney, Joe Deeb, will disclose that my staff cooperated fully in the investigations and prosecutions involved. In fact, the chief investigator of the FHA and the Assistant Commissioner in charge of underwriting in Washington were sent specially to Grand Rapids to assist the Department of Justice and the grand jury in the examination of this matter.

CHARGE VI

The informal agreement represented by the copies of the exchange of correspondence between the FHA and the Department of Justice was not known to me and I doubt if this material was in the files in my office. It is to be noted that the last correspondence with the Department of Justice on this subject was in 1937 and was directed to the Collection Section of the title I administrative division, which is not a part of the Legal division. As you know, I did not become General Counsel until December of 1940. It is presumed that such an arrangement was predicated on the presence in the National Housing Act itself of a separate penal provision. This separate provision was identified as section 512 and was repealed at the time of the 1948 revision of the United States Criminal Code. The wording of section 512 in substance appears in section 1010 of title 18, United States Code. As I recall, the FHA was not consulted or informed of the proposal to repeal section 512, and it is assumed that the decisions in this regard were made with the knowledge of the Department of Justice. It would have seemed logical and reasonable for a new understanding to have come into being upon the repeal of section 512 but there was no such reexamination to my knowledge. I believe an examination of the files of the Administration will disclose many instances in which the Department of Justice and the FBI did, in fact, make investigations of violations under section 1010 and did, in fact, make investigations of allegations against FHA employees and with respect to other FHA business without reference to the discussed agreements or understandings of 1935-37, and in some instances investigations were initiated without any prior notice to, or advice to the FHA. Whether or not the alleged agreement contained in the 1935-37 correspondence was formally abandoned or not, I do not know. As a practical matter it was not followed in any sort of rigid way by either the FHA or the Department of Justice and in no sense could be called an operating agreement after 1948. You have produced from the files a relic of antiquity that would be known to few people in either the Department of Justice or the FHA. If the agreement allegedly set forth in this correspondence was ever at any time followed, it was abandoned by the mutual practice of the Department of Justice and the FHA and had no practical effect at such abandonment.

Your statement in charge VI that investigations by the staff of the FHA resulted from this old informal agreement is untrue. It was the result of the policy of the Commissioners and not of the informal agreement that the FHA did maintain a small investigative staff and did perform some investigative work primarily for the purpose of policing to the best of their ability with an inadequate staff the contracting parties involved in FHA transactions. This policy prevailed during the entire period that I was General Counsel. Consequently, the statement in your charge that "it needed only a recommendation by you to the Commissioner to amend the early agreement and turn back the investigation of these complaints to the FBI" is completely incorrect. The investigations were within the framework of the Commissioner's policies and were not controlled by nor dependent upon informal correspondence between the Collection Division and representatives of the Department of Justice between 1935-37. In addition, your conclusion based upon a few weeks in office as to what recommendation to which unnamed Commissioner would have changed this well-established policy borders on the absurd. In this connection the least you could do is to specify by dates the period to which you refer, and to specify by name the Commissioner to which you refer and ask that particular Commissioner whether such a recommendation would have changed his policy at that time in the light of his knowledge of the circumstances at that time. As evidence of the policy of the several Commissioners since I became General Counsel in 1940, the records of the FHA will show that I was requested to submit budget estimates to maintain an investigation staff and that agency requests for funds were made to the Bureau of the Budget and to the committees of Congress, all of which evidence clearly negatives any purpose or intent on the part of the Commissioners to change or modify their policy.

It was my understanding that neither the policy of the Administration or any informal correspondence with the Department of Justice had the effect of excluding the FBI from jurisdiction to investigate violations of criminal statutes arising out of FHA transactions. The investigative staff of the FHA was primarily for the purpose of disclosing facts on which administrative procedures for the protection of Government's insurance liability could be developed and perfected and thereby reduce the possibility of criminal violations. It was also the policy and practice to cooperate as fully as possible with the FBI and the Department of Justice in the discharge of their responsibilities.

Your presumption as to what recommendation an unnamed Commissioner would have accepted at an unspecified time and acted upon is no less purely speculative than your presumption as to what unnamed officials of the Department of Justice at an unnamed time would have accepted and acted upon as the other party to the informal agreement which you alleged was operative.

The fact that you apparently disagree with the policies maintained by the six previous Commissioners under whom I served as General Counsel would hardly seem the proper basis for a charge against me on this account.

CHARGE VII

Charge VII finds fault with my testimony before the Senate Banking and Currency Committee on April 28, 1954, during which period I was on involuntary annual leave shortly after I had been advised by you that I was to be discharged. The first shortcoming in my evidence before the committee, according to you, was that I did not know how many attorneys were in the Legal Division. I believe that a fair reading of all my testimony will show that I did answer this question with substantial accuracy. You cite my statement that I never heard of nor saw a list of 500 or 600 items approved as eligible for insurance under title I in an effort to make me appear ridiculous. The true facts are that the list was compiled after I was placed on involuntary annual leave and accordingly I had never seen it nor heard of it. This list was compiled from separate rulings made over the years and each ruling was based on particular facts and subject to particular conditions, and such rulings did not constitute "approval" of any items for insurance by the Legal Division. All of the information in regard to this subject is contained in the files in your possession to which I have been denied access.

It is not clear just what particular charge is made against me in your reference that I advised the Senate Banking and Currency Committee that a television aerial would be eligible for a title I loan. The question is strictly a matter of the interpretation of the statute and my opinion was confined to an expression that a loan to install a television aerial as part of a system in an apartment building

as a permanent improvement to the structure would be eligible. I did not intend and the record will not support any view expressed by me as to the eligibility of a title I loan to purchase a separate detachable antenna to be attached to a chimney or roof of a dwelling in such manner as not to be a permanent improvement to the structure. It seem fair to ask if you hold a contrary view. It is interesting to note in this connection that you include in charge VII as a dereliction of duty the expression by me of an honest legal opinion impromptu before a Senate committee without however stating in the charge that this opinion was erroneous.

You go on to cite as a dereliction that I required suggestions and prompting from a member of the committee in order to explain why it was the FHA required that the mortgagor in a multifamily housing project be a corporation, after first giving the reason that this was because "this corporation should own their individual projects and not be engaged in another business." This discussion in question involved a highly complex area of the statute and practices of the FHA. The members of the committee asking the questions did not make it clear and specific what their questions were. It was necessary through suggestions and prompting to clarify the question before I could give an honest and effective answer. You further say that unspecified portions of my testimony evidenced a lack of knowledge of the congressional intent concerning the 608 program. I submit that even the Supreme Court is at times uncertain what the congressional intent is underlying certain statutes. The congressional intent of the section 608 program is certainly a subject of debate as most congressional statutes. Perhaps, as a nonlawyer with a few weeks' association with the act in question, you feel qualified to speak dogmatically of the congressional intent underlying the section 608 program. If so, you fail to state in your charge your understanding of this clear congressional intent and wherein my testimony departed from your clear understanding of the congressional intent. It seems appropriate comment that even the membership of the committee before which I was testifying was not the same that reported out the bill in question.

CHARGE VIII

This charge seems to me to be particularly unfair and unreasonable and again represents an attempt to express the action you now state you would have expected of the General Counsel if you had been the Commissioner and considered the facts and evidence presented to the then Commissioner. The fact remains, however, that I was not the Commissioner and of course, you can only surmise what I told him or what I failed to tell him. The then Commissioner was informed of the material facts needed to reach a decision, and undoubtedly he reached the decision he did in good faith and in the exercise of his best judgment under all the facts before him. The fact that you, in your capacity as the present Commissioner, apparently disagree with the decision of the Commissioner at that time does not establish that he was wrong, or that I could have caused the Commissioner to have taken some other action, even assuming I disagreed with the decision as made. I consider it my function to give the Commissioner the highest quality of advice and counsel of which I am capable, but the final decision and responsibility is properly the function of the Commissioner, as head of the agency. I deny that I failed in any particular in the performance of my duties to the Commissioner in this matter.

CHARGE IX

In my letter of May 18, 1954, I requested that charge IX, as contained in the notice of proposed charges be withdrawn for the specific reason that said charge fails to comply with the requirements of section 14 of the Veterans' Preference Act of 1944, as amended, and with the regulations, requirements, and procedure of the Civil Service Commission pursuant to said act. I further requested that if you should deny such request that I be given access to all the records, files, documents, or data considered in the preparation of this charge and that I be furnished with further specific information. You denied this request and presumably after serious consideration and with a design to be more specific and otherwise comply with the requirements of the Veterans' Preference Act and the regulations of the Civil Service Commission pursuant to said act, to which your attention was called, you elected to submit an amended charge IX. A comparison between the original charge and the amended charge will clearly show that instead of making the charges more specific or detailed or more reasonable from

the standpoint of better informing me of the nature of the charges I am expected to meet, your amended charge is even less specific and is even more general and broad in its scope. It attempts to hold me responsible for the complete operations of the FHA since some date in 1948. Why you decided to relieve me from responsibility for the operations of the FHA for the years 1940 to 1948 is not stated and I can only assume that your examination of the records of the FHA for the period from 1940 to 1948 must have disclosed that my work was satisfactory or that perhaps some of the Commissioners in office during that period may have exercised more fully, in your opinion, the authority and responsibility placed upon them by the statute.

A lack of specificity is apparent from the reading of the charge, and I submit that no employee could reasonably be expected to properly defend himself against such generalities. Any attempt to do so would expose me to some incident, be it ever so trivial or inconsequential an error, which had not been specifically answered, explained, or denied. The generality of this sweeping charge indicates that you will not disclose the charge until the answer is made in order that you may say the answer does not meet the charge.

My only contacts with you personally were to receive from you a notice placing me on annual leave and subsequently to receive from you the notice of charges as outlined in your letter of May 7, 1954, at which time you had prejudged my case as evidenced by your remark at that time that I was being discharged. Surely you do not represent that from your experience or knowledge I failed "to execute with reasonable diligence the duties of General Counsel of the FIA." I served for many years under the supervision of many Commissioners. The records will disclose that Mr. Ferguson, a former Commissioner, appointed me General Counsel in 1940 after I had previously served as his Assistant General Counsel during the period when Mr. Ferguson was General Counsel. Mr. Foley, a former Commissioner, retained me as his General Counsel when he became Commissioner in 1945. Mr. Richards became Commissioner in 1947 and retained me as General Counsel after having had many prior opportunities to observe the quality of my performance during the period he was Zone Commissioner and Assistant Commissioner. Mr. Greene became Commissioner in 1952 and kept me as General Counsel after having had close association with me and my work in his capacity as Assistant Commissioner and Deputy Commissioner for several years. I was retained as General Counsel under Mr. Hollyday. At no time did any one of these officials ever indicate or imply that my services were not wholly and completely satisfactory and in accordance with their requirements. I specifically invite your attention to my efficiency ratings over a period of 19 years with the FHA as further and official evidence of a satisfactory performance of my duties. In this connection I also invite your attention to my annual-leave records. I respectfully submit that my performance record with the FHA should in all fairness and justice be judged by the opinions of the Commissioners and officials under whom I actually performed services as General Counsel over a period of 14 years, and by the quality of the day-to-day performance and the record of the Legal Division in the handling of the numerous and complicated functions covering all programs of the FHA during that period, rather than by an official who apparently has no personal knowledge or experience upon which to form an opinion.

As to part (a), have you reviewed a majority of the rulings, decisions, and actions taken by me, or have you reviewed the overall operations of the FIA since some date in 1948 and up to April 15, 1954, and can you honestly and fairly state, as a responsible official of the Government of the United States, that from your considered and careful review and analysis of the operations of the FHA for that period, that firstly, there was a "breakdown of administrative and criminal law enforcement" in connection with the operation of the title I program. If so, how many cases have you examined in relation to the entire program, wherein and in what specific cases did I fail in my responsibilities. Surely you must have specific details and data upon which to base such a serious charge, not only against the operations of the FHA for that period and the particular officials who served in the office of Commissioner, but against me in my capacity as General Counsel in the performance of my duties and responsibilities under the leadership of such officials.

I will state affirmatively that subject only to budgetary limitations which controlled the personnel and money available for investigative work, including travel, that the Legal Division carried on an active and aggressive program to investigate alleged fraud and irregularities in the title I program, as well as initiating the development of ways and means to strengthen the regulations

and collaborating with the administrative officials in discussions with lenders and others, and in the improvement of policies and procedures designed to eliminate unscrupulous and dishonest persons from the title I program. Your records will disclose the many investigations completed and referred to the Department of Justice and upon which successful criminal prosecutions were sustained. The references to the title I program contained in items (1) through (6) are too vague and indefinite to permit me any opportunity to properly defend myself. For example, in item (5), I am charged with a failure "to limit by proper legal decision and interpretation the scope of the title I, property-improvement-loan program, so that its administration would be in conformity with the intent of Congress." I must presume therefore that you as Commissioner since April 13 or 14, 1954, have found that the title I program has been administered at least since some date in 1948, not in conformity with the intent of Congress which may have been in office during those years. What proof is there to support such a conclusion and would an expression even of the present Congress be determinative of the congressional intent in years past. It is my belief that the title I program was at all times administered in conformity with the understanding entertained by myself and the Commissioners in office, of the intent of Congress. If there was any deviation from the intent of Congress, it was the result of an honest and reasonable difference of opinion as to what was or may have been the intent of Congress.

Under part (b), did you determine there were "abuses" under the Section 608 program, and upon what records, cases and incidents did you conclude such abuses were "at the expense of FHA, of tenants of 608 housing, and of the public," and what legal rights and obligations did you conclude existed which were violated. What is the amount of expenses to the FHA, to tenants, and to the public disclosed by your review of the cases to which you make reference. Upon what facts and legal reasoning did you conclude that there was a "consequent frustration of the intent and purpose of Congress in enacting section 608 of the National Housing Act." Upon what reasoning do you conclude that the so-called mortgaging-out could have been avoided "by the exercise of reasonable administrative diligence on the part of the FHA," but "which was not avoided." Are you saying that if you had been Commissioner at that time when those alleged abuses took place that you would have done these things, and consequently the then Commissioners proceeded contrary to the intent of Congress and failed to take administrative action of a character which you would have taken if you had been Commissioner at the date in question. Surely you do not intend to imply that I was the Commissioner, since you must know that I occupied the position of General Counsel exercising only the authority and functions delegated to me by the Commissioner, who alone held the authority to speak for the Administration.

Your further charge that I knew or should have known "of collusion between mortgagors and mortgagees which resulted not only in defrauding the United States Government" but also caused high rents in section 608 projects. Surely, as a responsible official of Government, you would not charge mortgagors and mortgagees with cooperating to defraud the United States Government without having proof positive in the nature of investigation of the facts, an indictment and a finding by a court of the guilt of the parties. You must, therefore, have information of which I am not apprised and will be able to give citations of specific cases in the records of the courts, State or Federal. Collusion between mortgagors and mortgagees contemplated in law an affirmative action between the parties and where such cooperation defrauds the United States Government, a serious offense against the United States has resulted, and it must be assumed that your statement of the fact has been established.

Since you have not identified specific mortgagors and mortgagees, it must be assumed that every mortgagor of a mortgage insured under section 608 as well as every mortgagee which made such a loan is guilty of such collusion or at least is under suspicion. I would further assume that you have or intend to withhold payment of the benefits of any insurance contract where you have information of the nature you state you have, where there was collusion between the mortgagors and mortgagees, since no mortgage could properly receive the benefits of an insurance contract to which the mortgagee was a defrauding party. Was such a statement made on the basis of proven facts or in the political atmosphere of the internal controversy within the Housing agencies which many persons believe was the real reason for the dismissal of Mr. Hollyday as Commissioner. Unless there are proven facts to present, shouldn't you as the Acting Commissioner and the person responsible for all acts taken in your name, be concerned that all mortgagors and mortgagees of loans insured under section 608 would

feel justified in demanding an identification of the specific mortgagors and mortgagees you have found to have been guilty of collusion to defraud the United States Government. In the absence of such identification, would any mortgagee of any loan insured under section 608 have any assurance of obtaining the benefits of the insurance contract to which such mortgagee had assumed it would be entitled as a matter of contract under the applicable laws.

You further charge me with the knowledge of the "disregard of statutory requirements by the FHA in its practice of increasing commitments under section 608," without any identification of the instances, cases, and the particulars. You can appreciate that no one person can in the FHA or any other Government agency know what actions were taken in each and every official action of the agency over a period of years, and particularly an agency exercising functions such as the FHA insurance operations. You have probably found from your short association with the FHA that a great deal of authority is exercised in the field offices, operating under general and specific instructions from Washington headquarters and that considerable latitude for discretion and judgment must be placed in the hands of the persons actually taking the official action. If you have found that I issued a specific ruling or approved any instructions which were in disregard of statutory requirements in "its practice of increasing commitments under section 608," I believe it only reasonable that I be given the specific facts, since only then could I have an opportunity to defend my action. I submit that the so-called specific items numbered "(1) to (6)" do not present specific reasons or details to support such a charge, but to the contrary are themselves predicated on the general and unsupported conclusions contained in paragraph (b).

This charge represents on its face a series of conclusions of fact and legal interpretation of the National Housing Act. No cases are cited; no proof is given to support such conclusions and I submit they do not afford me any reasonable opportunity to defend myself. I know of no action taken by the FHA which was contrary to statutory requirements governing the legal authority of the FHA, under section 608, and certainly none are presented in the conclusions contained in this charge to which I can be expected to answer.

Part (c) likewise begins with a conclusion for which no proof is presented, and your records will not support any failure on my part as General Counsel to initiate investigations and otherwise take affirmative actions to enforce the requirements of section 212 of the National Housing Act within the budgetary limitations under which the agency was operating. Your records will disclose the many cases investigated, the thousands of dollars paid in wage adjustments through efforts by the FHA, and the development of policies, procedures, and requirements designed to enforce the payments of labor standards applicable to FHA projects. The records will show that the Legal Division under my supervision took an active and effective part in these developments. It seems ironical that this charge is made in conjunction with the title I cases, when it is a matter of record that the first real difficulty in making title I investigations resulted from an agreement made in 1950 or 1951 between Mr. Tobin, then Secretary of Labor, and Mr. Richards, then FHA Commissioner, and Mr. Foley, then HIFA Administrator, that all the then staff of investigators of the FHA would be assigned to labor cases until a number of alleged violations were investigated and more adequate enforcement procedures put into effect. It is my understanding that prior to that date the FHA proceeded on the premise that such violations were matters within the jurisdiction of the Labor Department. The man-hours spent by Legal Division personnel alone on this subject and the results achieved are entirely inconsistent with any attitude of disinterest by the FHA or by me. The records will also disclose the efforts made to obtain additional funds to meet the expense of those activities but without substantial results, even though conferences were held with representatives of the Bureau of the Budget and the Labor Department for the specific purpose. It is my recollection that the Labor Department wanted to make investigations with its own staff but was unable to obtain sufficient funds for that purpose. The budget problems and requirements of the Legal Division on account of this work were presented to the proper officials and are matters of record in the files of the FHA, as well as in the budget presentations to the Bureau of the Budget. The files under your control will also disclose copies of the written reports submitted by the FHA to the Secretary of Labor twice each month over a considerable period of time. These reports were requested by the Secretary of Labor so his office would have current information of the investigations conducted by the FHA and the amount of wage adjustments effected.

So far as the public hearing before the agency is concerned, your reply of May 28, 1954, refusing to make specific charges and refusing a reasonable time for preparing a defense indicate a prejudgment of my defense and a lack of good faith on your part. Without your subjecting yourself to cross-examination with respect to the basis of your opinions of my professional competence, as contained in the charges, your motivation and other matters, the hearing would be a farce. I cannot forget your statement when you handed me the notice of proposed adverse action in your office on May 7, 1954, to the effect that I was going to be separated. This statement made prior to any opportunity by me to read or rebut the charges indicated to me a prejudgment of this case and the purpose of the public hearing under the conditions you propose is for the sole purpose of attempting to strengthen the wrongful actions you have taken. I accordingly decline the public hearing under the conditions imposed by you.

If this action against me prevails, the Civil Service Act and the Veterans' Preference Act of 1944, as amended, are a mere sham.

This action on your part and the unreasonable and unfair manner in which it is attempted is hardly a fitting reward for 19 years of conscientious public service as a Government career employee during which I received good efficiency ratings and during which my services met with the approval of my superiors. Certainly, it does not inspire or encourage qualified men to seek employment in Government service on a career basis.

Very truly yours,

BURTON C. BOVARD, *General Counsel.*

Attorney for Burton C. Bovard: Clayton L. Burwell, 920 Southern Building, Washington 5, D. C.

OFFICE MEMORANDUM—UNITED STATES GOVERNMENT

MAY 7, 1954.

To: Mr. Burton C. Bovard, General Counsel, GS-15, Washington office.

From: Norman P. Mason, Acting Commissioner.

Subject: Notice of proposed adverse action.

This is a formal notice of a proposed adverse action in accordance with the provisions of section 14 of the Veterans' Preference Act of 1944, as amended. You are charged with certain offenses against the interests of the Federal service listed below. If your reply to these charges is not satisfactory, it is proposed to remove you from the service, effective not less than 30 days from the date of receipt of this notice.

It is charged that you failed: (a) to take prompt or adequate action, or to recommend and initiate action, concerning complaints made to the Federal Housing Administration in respect to title I operations and other operations and activities of the FHA, which were forwarded to you in your official capacity; (b) to recommend to the Federal Housing Commissioner the transference of investigations of these complaints indicating criminal offenses affecting or involving FHA operations to the Federal Bureau of Investigation; and (c) to advise the Commissioner upon receipt of information of a derogatory and suspicious nature concerning a key official of the FHA of the desirability of referring the matter to the Department of Justice for thorough investigation. You are also charged with having failed, over a period of many years, adequately to inform yourself concerning or to obtain an understanding of the operations of the Legal Division of the Federal Housing Administration, and of the duties of General Counsel, FHA; and further that you failed to exercise the degree of professional competence and application to duties requisite to the proper performance of your functions. Your dereliction has substantially contributed to inadequacies and failures of the Federal Housing Administration, bringing discredit on the entire organization, and making it possible to rely further on the exercise of your administrative and professional judgments and recommendations.

Specifically—

(1) In the case involving the Enterprise Construction Co., the records show that, notwithstanding the receipt of complaints beginning May 8, 1951, concerning the misleading and high-pressured tactics of these companies, including use of the model home technique to induce persons to sign home-improvement contracts, you failed to initiate prompt action adequately to investigate these complaints; and that this failure persisted even after the receipt of a memoran-

dum to the FHA Commissioner from the Administrator of the Housing and Home Finance Agency, dated April 20, 1953, to which was attached a report of an investigation of irregularities in title I operations by an official investigative agency. The records show that it was not until some time in July 1953 that you directed your staff to undertake an investigation and that even then, the referral to the Attorney General on November 23, 1953, for criminal prosecution, on the basis of this investigation, against approximately ten persons was made only 7 days, in some instances, before the date of the statute of limitations would bar prosecutions.

(II) The report concerning Tom Arafe, which you submitted to the Department of Justice on October 21, 1953, recommending criminal prosecution, was inadequate and unsatisfactory. The inadequacies and unsatisfactory nature of the said report are illustrated by six separate suggestions made to you by the Department of Justice as to the proper completion of the investigation in order to institute criminal prosecution. These suggestions were made by the Department of Justice in the following language:

In our opinion the following matters should be developed:

(1) In support of a possible prosecution of Arafe for a substantive violation, there should be a substantiation of the alleged representations which he made.

(2) Arafe was not interviewed. Since he plays so prominent a role in the Draper transaction, and possibly others, he should be fully questioned. Presumably he was present at the conferences between Scott Draper and the Enterprise representatives when the previous Draper obligations were discussed.

(3) As you are undoubtedly aware, Enterprise Construction Co. is a substantial firm, which reportedly in 1951 did a business of \$10 million in home-improvement construction. We are advised that many complaints of sharp or irregular practices by the company have been made with your agency and with local law enforcement agencies in California and elsewhere. Accordingly, your investigators may deem it helpful to communicate with the State district attorneys of Los Angeles and Alameda Counties, Calif., both of whom have received numerous complaints with reference to Enterprise. The office of the State Contractors License Board, Department of Professional and Vocational Standards, Los Angeles, Calif., may be of assistance also.

(4) It is suggested that other present and former representatives of Enterprise as well as present and former salesmen should be contacted. It cannot be presumed that only one person knew of the transaction. Extensive interviews with present and former employees and salesmen of Enterprise may not only strengthen the evidence in this matter but could possibly develop other complaints made to your agency.

(5) Mr. Al Riskin, it is reported, disclaims intimate knowledge and responsibility as to this loan and refers to a Mr. J. W. Jespersen who, at the time of the loan, was comptroller of the Oakland office of Enterprise Construction Co. Mr. Jespersen was not interviewed. The report merely states he was not available for interview. If Mr. Draper's allegations are true, it would appear that the other person who would know most about the payment by Enterprise of Draper's previous obligations would be Jespersen. In the interest of a thorough investigation, prompt and vigorous efforts should be made to locate Mr. Jespersen for interview.

(6) In connection with this transaction involving the Draper loan, we would suggest expeditious interviews with persons responsible for the loan at the day and night branch of the Bank of America. It is noted that a Mr. Wilson, who approved the loan for the bank, was not interviewed because he is on vacation. His temporary absence should not preclude the taking of his potentially valuable testimony.

"You will appreciate our concern with the paucity of the presently developed investigation. In spite of the imminency of the bar to prosecution in the Draper transaction, we feel that this transaction is not an isolated one and that a full investigation will reveal other or similar transactions fully within the prosecutive period and implicating Enterprise and/or its officers as well as salesmen. If additional investigation is conducted we will be pleased to reconsider the matter."

(III) In connection with the title I operations in the Puerto Rico FHA office, you failed to require a full investigation by your staff, notwithstanding receipt of numerous preliminary reports, including reports of November 14, 20, 21, 27, 29, and 30, 1951, of widespread violation of regulations and the existence, during that period of the highest loss ratio in the Puerto Rico office of any State or Territory. In your letter of November 23, 1951, to your investigator in Puerto Rico you admitted "that a most serious view is taken of the entire situation." In addition,

you failed to order an investigation when it was reported to you that Harley A. Miller, then United States district attorney for Puerto Rico, had illegally used the proceeds of a title I loan to purchase an automobile.

(IV) In the case involving the Phil Davidson Construction Co. you took no action to initiate an investigation by your staff, notwithstanding the receipt of a report from the Department of Justice, dated February 20, 1953, indicating possible forgery by the dealer of a completion certificate.

(V) In a case in which you had information as a result of a copy of a letter sent to Congressman Shafer of Michigan from a constituent of his, named Robert E. Confer, dated June 23, 1951, concerning favoritism and other irregularities on the part of the officials of the Grand Rapids, Mich., FHA office, in relation to their dealings with certain manufacturers of dwelling units, a thorough investigation should have been ordered by you. You failed, however, to order or cause to be conducted a thorough investigation, and notwithstanding such failure, you wrote a letter to the Attorney General on August 17, 1951, in which you stated that on the basis of an examination made, it was your considered opinion that a further investigation looking toward possible violation of criminal statutes was not warranted and that there was no evidence indicating that the State director was wrongfully interested in his brother's building operations. This letter was relied upon by the Commissioner as the basis for his refusal to comply with the request of the Acting Administrator of the Housing Home Finance Agency, on January 23, 1952, for a thorough investigation to be conducted of the Grand Rapids office. The Commissioner also referred to the letter from the General Counsel to the Attorney General as an indication of the thoroughness with which the complaint had previously been handled.

It was not, however, until sometime after the chief underwriter and chief architect of the Grand Rapids Office were indicted in December 1952 on 20 counts of irregularities, that a full and thorough investigation of the activities of the Michigan office and of its director was ordered by you, and it became clearly evident after such investigation, that the director as well as other officials were involved with his brother and with the director's reported girl friend in certain corporations obtaining FHA insured mortgages and in other irregular practices.

(VI) While not having sufficient personnel to investigate the increasing number of complaints with respect to operations under title I, you failed to take any steps to refer the complaints and investigations to the Federal Bureau of Investigation. Since such investigations by your staff resulted from an informal agreement with the Department of Justice under the terms of which your Department would investigate complaints, it needed only a recommendation by you to the Commissioner to amend the earlier agreement and turn back the investigation of these complaints to the FBI.

(VII) In your sworn testimony before the Senate Banking and Currency Committee on April 28, 1954, you testified that you did not know how many attorneys were in your Legal Department and that you never heard or saw a list of 500 or 600 items approved as eligible for insurance under title I. Further, in advising the committee that in your opinion a television serial would be eligible for a loan under title I, you said that "It would seem to be a permanent improvement to the existing structure". In your testimony on the section 602 program, you required suggestions and prompting from a member of the committee in order to explain why it was the FHA required that the mortgagor in a multifamily housing project be a corporation, after first giving the reason that this was because "this corporation should own their individual projects and not be engaged in another business." Elsewhere in your testimony, you evidenced a lack of knowledge and understanding of the full implications of the section 608 program and of the congressional intent concerning this program, despite the fact that in 1949 you allegedly participated in the drafting of this legislation and testified with respect to it before committees of Congress. Your testimony resulted in the following colloquy between you and the chairman:

"CHAIRMAN. What other duties did you have? Are there any duties over there that you had where you're positive as to what did go on? I am serious about it. It is kind of funny. I don't want to get too critical about this. Here you are the General Counsel. You have been there since 1934, and you can't even answer the simple questions. I know you're not avoiding them.

"Mr. BOVARD. You mean as to the number of attorneys?"

"CHAIRMAN. Yes, and as to whether you handled these lists or not.

"Mr. BOVARD. I have never seen the lists. I can give you a positive answer to that.

"CHAIRMAN. You, as General Counsel, didn't have a system where certain legal matters had to be cleared by you before they could act? You know, I am beginning to realize why this FHA Agency is in the trouble it is in. It looks to me like it was such a loosely operated and administered organization."

(VIII) There was presented to you a report dated March 14, 1952, from your Investigative Section regarding personal activities of the Assistant Commissioner, Rental Housing Division, which contained information that such Assistant Commissioner had in a single night's gambling lost an amount of money in excess of half of his yearly salary; and that following receipt of such report a conference was held March 17, 1952, in the Office of the Commissioner of the FHA with the Assistant Commissioner, at which you were present. Although your investigators failed and neglected to obtain written statements from the persons furnishing such information or to otherwise take steps to perpetuate such testimony, you nevertheless permitted the employee charged with such conduct to be fully apprised of all of the information thus obtained. Upon this employee's unsworn and unverified denial of losses in that amount and upon his admission that his losses did not exceed \$700 or \$800, the matter was permitted to be dropped without any recommendations or suggestions by you to the contrary. In the light of the serious implications of these charges, particularly the fact that they came from persons who did or tried to do business with the FHA and in whose presence the gambling took place, you nevertheless failed to advise the Commissioner of the desirability of referring reports of that nature to the Department of Justice for an intensive and thorough investigation. Your failure to do so evidenced a lack of that degree of awareness which a person in your official position should have exercised to avert a situation which potentially was serious enough that, if true, could cause severe criticism and embarrassment to the Agency and to the Federal service generally. From a technical aspect alone, the failure to have substantiated by sworn testimony, the information furnished when the opportunity to obtain the same existed, indicated a lack of comprehension on your part as head of the Investigative Section of the requisites of an adequate investigation and also a lack of perception on your part as to what steps should have been taken to protect the interests of the Agency.

(IX) From the time you became FHA General Counsel in 1940 until the present Commissioner placed you on annual leave on April 15, 1954, the FHA gradually developed a policy and procedure of callous disinterest toward the victims of abuse and misuse of the name and facilities of the FHA and toward actual frauds. A large degree of the responsibility for this policy and practice is yours, both because of the failure to use the influence and prestige of your position as General Counsel and as a member of the Executive Board, to oppose that policy and the practices which arose under it, and because of your participation in that policy and practices.

You will remain on annual leave, pending final action in connection with the charges or until restored to duty by competent authority, it having been administratively determined that it is inadvisable from an official standpoint to retain you in an active duty status, pending disposition of these charges.

You have a right to answer these charges within 14 days from the receipt of this letter to show cause, personally and in writing, why you should not be removed from the service. You have the right to submit affidavits in support of such reply. If additional time is needed, it may be granted upon written application to me, showing the necessity for such additional time. Failure by you to answer by the time allowed or any extension thereof granted, will result in the charges being considered sustained. You may also, in reply to these charges (but not in substitution of a reply to these charges) request in writing a public hearing to be held at the Office of the Commissioner not later than the 21st day following receipt of this notice, or if any extension of time is requested and granted, not later than 7 days following such extended date, providing you agree in your written request to testify under oath and to be subject to cross-examination.

NORMAN P. MASON,
Acting Commissioner.

MAY 28, 1954.

AMENDED NOTICE OF PROPOSED ADVERSE ACTION

Specification IX in the notice of proposed adverse action addressed to you on May 7, 1954, is amended to read as follows:

(IX) During the more recent years of your term as General Counsel and particularly from 1948 until April 15, 1954, when you were placed on annual leave,

and while you were responsible for the direction and supervision of criminal and administrative investigations into matters within the jurisdiction of FHA, and for other functions and duties of the FHA General Counsel, including recommendations to the Department of Justice for criminal prosecutions, and while you were a member of the Executive Board, you knew or should have known by the exercise of the degree of competence and application to duties reasonably to be expected of the General Counsel of FHA, of the—

(a) widespread abuses of the title I property improvement loan program involving the defrauding and victimization of small homeowners by unscrupulous persons misusing that program, and of the breakdown of administrative and criminal law enforcement in connection with the operation of that program ;

(b) the abuses under the section 608 program at the expense of FHA, of tenants of 608 housing, and of the public, and the consequent frustration of the intent and purpose of Congress in enacting section 608 of the National Housing Act, and particularly the widespread mortgaging-out involving huge sums of money, which by the exercise of reasonable administrative diligence on the part of the FHA could have been avoided, but which was not avoided, of collusion between mortgagors and mortgagees which resulted not only in defrauding the United States Government, but also caused high rents in section 608 projects, and of the disregard of statutory requirements by the FHA in its practice of increasing commitments under section 608 ;

(c) an attitude of disinterest by FHA toward the functions imposed on it by section 212 of the National Housing Act relating to the protection of labor and by reason of the inadequate enforcement or initiation of prosecutions by FHA for noncompliance with the labor standards provided for by section 212.

It is specifically charged in connection with the foregoing that you neglected and failed—

(1) to take necessary and proper remedial measures which it was your duty to take ;

(2) to recommend legislative and administrative measures to bring about a correction and to promote the public interest in connection with the foregoing ;

(3) to propose recommendations to prevent windfalls to builders operating under section 608 ;

(4) to refer promptly to the Department of Justice cases which required civil and criminal prosecutions ;

(5) to limit by proper legal decision and interpretation the scope of the title I, property improvement loan program, so that its administration would be in conformity with the intent of Congress ;

(6) to execute with reasonable diligence the duties of General Counsel of the FHA.

In view of the foregoing amendment, I hereby withdraw that part of the first paragraph of the notice of proposed adverse action dated May 7, 1954, which states that it is proposed to remove you from the service effective not less than 30 days from the date of receipt of that notice. You are hereby notified, in accordance with the provisions of the Veterans Preference Act of 1944, as amended, that if your reply to the charges preferred against you in the notice of proposed adverse action dated May 7, 1954, as amended by the foregoing paragraphs, is unsatisfactory, it is proposed to remove you from the service, effective not less than 30 days from the receipt of this amendatory notice.

You are also hereby granted an extension of time within which to answer the charges against you. You are accordingly given an additional 10 days from the date of receipt of this letter to show cause, personally and in writing, why you should not be removed from the service on the basis of the charges contained in the notice of proposed adverse action dated May 7, 1954, and this amendment thereto. You have the right to submit affidavits in support of such reply.

Except to the extent that it is modified hereby the notice of proposed adverse action dated May 7, 1954, remains in full force and effect.

NORMAN P. MASON,
Acting Commissioner.

The CHAIRMAN. You may proceed, Mr. Counsel, with your questioning.

Mr. SIMON. Did your duties as General Counsel of FHA include supervision of the investigative branch of FHA ?

Mr. BOVARD. Yes, it did.

Mr. SIMON. And the investigators worked for you?

Mr. BOVARD. Yes.

Mr. SIMON. You were the recipient of such charges as came to the attention of FHA?

Mr. BOVARD. Yes. Of course, I delegated the supervision of the—the immediate supervision of the investigative division—to others on my staff.

Mr. SIMON. In prior years, and particularly in 1949 and 1950, did there come to your attention charges of malfeasance or dishonesty involving Clyde Powell? I say charges, not proof.

Mr. BOVARD. No. There did not at all as I recall.

Mr. SIMON. Were memoranda ever received by you during that period alleging that substantial sums of money had been spent by him in excess of—far in excess of—his income?

Mr. BOVARD. No. I recall no such charges or statements to me.

Mr. SIMON. Did a man named Hillock work for you as an investigator?

Mr. BOVARD. He was head of the investigating section.

Senator MAYBANK. How many investigators did you have?

Mr. BOVARD. I think about 9, Mr. Hillock and probably 9 others. That was as of 1954 as I recall.

Mr. SIMON. Did you ever ask Mr. Hillock to investigate charges that had come to you respecting Mr. Powell?

Mr. BOVARD. No, I did not.

The CHAIRMAN. Mr. Bovard, I would like to remind you that you are under oath.

Mr. BOVARD. Yes, I am quite aware of that.

The CHAIRMAN. I say that purely as a friendly gesture.

Mr. BOVARD. Now in the first place, of course I recall the information. I didn't see it in any written form at all, that Mr. Powell had gambled something and had lost a sum of money—I had forgotten what it was, five thousand, three thousand, or something of that sort—and I know that our investigating section did look into that—did go down and investigate. They interviewed, I think, the gambling house down there to see whether he did. As I recall there was no charge.

Senator MAYBANK. Let me get the record straight here. When I was chairman of this committee, the clerk of this committee called that to the FHA's attention, did they not?

Mr. BOVARD. I think so. I don't know who—

Senator MAYBANK. Absolutely. I just want this record to show it and, Mr. Chairman, if you don't mind—Mr. McMurray, is that correct?

Mr. McMURRAY. That is correct.

Senator MAYBANK. I sent you to Virginia Beach.

Mr. McMURRAY. That is right.

Senator MAYBANK. And told you about it.

Mr. McMURRAY. That is right.

Senator MAYBANK. And asked them to stop it.

Mr. McMURRAY. That is right.

The CHAIRMAN. The witness testified at no time had any of these matters come to his attention concerning Mr. Powell. Now he is saying that they did, and that is why I reminded him as a friendly gesture

that he was under oath and as I said before, he can refuse to answer a question or if he doesn't know, he can say "No."

Mr. BOVARD. It is my intention to give the committee every bit of information that they desire——

The CHAIRMAN. Counsel asked you if in any of your investigations it had ever come to your attention that Mr. Powell was under suspicion. He did not say guilty, but had any charges been made, and your answer was "No."

Mr. BOVARD. Charges, yes. I had assumed he referred to charges——

The CHAIRMAN. Counsel made it very plain he was talking about charges.

Mr. BOVARD. But not suspicion.

The CHAIRMAN. You remember the general counsel, Mr. Simon, said "I am talking about charges now, not proof."

Mr. BOVARD. Yes.

The CHAIRMAN. He was honest and said "I am referring to charges and not proof."

Mr. BOVARD. I think I corrected that.

Mr. BURWELL. Mr. Chairman, do I have the privilege? I don't want to coach the witness, but do I have the privilege?

The CHAIRMAN. Yes. You have the privilege of doing anything that will help us get the facts.

Mr. BURWELL. I appreciate it, sir, and I am sure he wants to be perfectly candid about this. If I may suggest the cause of the misunderstanding, counsel was very fair about it, but charges to him have the technical connotation of civil service charges, within the FHA.

The CHAIRMAN. Now wait a minute. Here is a gentleman who is a lawyer, good enough to be general counsel of a tremendous organization, for 15 years, and you are trying to make us believe that he is a little innocent fellow that doesn't know the difference between charges——

Mr. BURWELL. No, sir, I am not trying to make you believe anything, Mr. Chairman. I merely suggest that if he is given an opportunity that he will not try to mislead this committee.

The CHAIRMAN. You will notice I was kind to him, and reminded him that he was under oath. We happen to know a lot about this matter, and so does he.

Mr. BURWELL. He is willing to talk about anything with respect to Mr. Powell. He is not trying to mislead the committee, sir.

The CHAIRMAN. I appreciate that, sir.

Senator MAYBANK. Who is the investigator you sent up here to see Mr. McMurray?

Mr. BOVARD. I think it must have been Mr. Hillock.

Senator MAYBANK. Is that his name?

Mr. McMURRAY. I don't recall that name. I believe it was an investigator from the HHFA compliance staff. I turned over all the information that had been transmitted to me. I think the FHA made a thorough investigation.

Senator MAYBANK. You got the information from Virginia Beach?

Mr. McMURRAY. Yes, sir.

Senator MAYBANK. When I sent you down there.

Mr. McMURRAY. Yes, sir.

Senator MAYBANK. Because I heard about it.

Mr. McMURRAY. Yes, sir.

Senator MAYBANK. I asked the investigator to go further into it.

The CHAIRMAN. You say it was turned over to HHFA. Suppose you be sworn.

Mr. McMURRAY. Yes.

The CHAIRMAN. Suppose you be sworn. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. McMURRAY. I do.

The CHAIRMAN. You say you turned it over to HHFA. Who was the Director of HHFA at that time?

Mr. McMURRAY. Mr. Foley.

The CHAIRMAN. Mr. Foley was the Director?

Mr. McMURRAY. Yes, sir.

The CHAIRMAN. Thank you very much. Will you proceed?

Mr. SIMON. Mr. Bovard, matters about which we have been talking happened more than once, did they not?

Mr. BOVARD. Not to my recollection, Mr. Simon.

Mr. SIMON. We have been talking about a matter in Virginia. Wasn't there another such gambling matter in Chicago?

Mr. BOVARD. Not to my knowledge. There may have been.

Mr. SIMON. Do you recall sending Mr. Hillcock out to Chicago to check on a gambling matter involving \$10,000?

Mr. BOVARD. I do not recall it, no. And I probably wouldn't, because my Associate General Counsel was the man who was in charge of the investigation. Mr. Hillcock and his investigators were under the supervision of the Associate General Counsel.

The CHAIRMAN. You mean Mr. Murphy?

Mr. BOVARD. That is Mr. Murphy, and he might recall it clearly, whereas I wouldn't.

Mr. SIMON. The point I was leading toward, Mr. Bovard, did you ever turn over to the FBI the information which you had with respect to alleged gambling by Mr. Powell?

Mr. BOVARD. I don't know, sir.

Mr. SIMON. Isn't it the function and the duty of the FBI to investigate charges of irregularity against Government officials?

Mr. BOVARD. I would imagine so.

Mr. SIMON. And if your agency had charges against one of its top officials, wouldn't the customary and proper thing be to refer them to the FBI for investigation, rather than to make the investigation within your agency?

Mr. BOVARD. If it was a charge relating to an irregularity, the FHA should investigate for purposes of administrative action, and it is only if the charge indicated violation of a criminal law, as I understand it, that it should be turned over to—

Mr. SIMON. Wouldn't you consider the fact that a man on a relatively modest salary was able to lose large sums at gambling would indicate a possible violation that the FBI should inquire into?

Mr. BOVARD. I don't think that gambling would be a crime.

Mr. SIMON. I wasn't referring to the crime of gambling, but the possible crime that might be inferred from the fact that a man of modest salary was able to lose thousands of dollars in gambling.

Mr. BOVARD. Well, I wouldn't think that would be a crime either, Mr. Simon.

Mr. SIMON. You don't think that warranted checking by the FBI?

Mr. BOVARD. I wouldn't think so.

Mr. SIMON. In my next question, Mr. Bovard, I do not intend to mention the man's name and I would be grateful if you didn't, because we have no positive evidence of his guilt, but did you receive charges—and I don't mean charges in the civil service sense, but allegations—that an FHA inspector in New York about 3 or 4 years ago was on the payroll of a contractor at \$500 a week?

Mr. BOVARD. Yes. I would be very happy to tell you about that incident because I do have some personal recollection with respect to it.

Mr. SIMON. Did you ever—

Mr. BOVARD. Could I continue and tell you the facts of that case?

The CHAIRMAN. Yes, you can; but wait for a couple of questions.

Mr. SIMON. Except I would be grateful if you didn't mention the man's name because we are not satisfied that the charges are well founded. The point I wanted to make is whether you ever turned that charge over to the FBI for investigation?

Mr. BOVARD. No, we did not because we were investigating it for purposes of administrative action, and I think the answer to that question will come out, if you will permit me to explain.

Mr. SIMON. I just want to ask one more question: Isn't that the kind of charge of dishonesty of a Federal employee that the FBI is supposed to investigate?

Mr. BOVARD. Well, it depends on the nature of the charge.

Mr. SIMON. Well—

Mr. BOVARD. Let me explain and you will find we didn't have a charge.

The CHAIRMAN. The charge was he was on the payroll of a builder of projects, at the rate of \$500 a week. Now you proceed to tell us what you know.

Senator MAYBANK. What was the fellow's name?

Mr. SIMON. I would be glad to tell you, Senator—

Senator MAYBANK. I beg your pardon. Strike the question.

Mr. BOVARD. Can I explain what I know about that incident now?

The CHAIRMAN. Yes. You proceed, because we want to know why you didn't turn it over to the FBI.

Mr. BOVARD. Yes. I think I can explain that to you.

The information came to us direct from Mr. Foley, who had heard it, who was Administrator of HHFA, and had heard of it—heard of the indication—that is, he called, I think, our Commissioner, Mr. Richards, to say that someone had told him that a man in New York—you have no objection to my naming him, I presume?

Mr. SIMON. The president of the bank?

Mr. BOVARD. Yes, Mr. Thurmon Lee, I think is president of the Dime Savings Bank.

Mr. SIMON. Dry Dock Savings Bank.

Mr. BOVARD. Dry Dock Savings Bank in New York, had some information which he thought we ought to have with respect to one of our inspectors on the job he thought might involve something. I don't know whether he said at that time that he thought there was somebody being paid off, or something or not.

Mr. SIMON. Didn't he send you some private detectives investigating reports?

Mr. BOVARD. I was going to mention that a little later. Mr. Richards, who was then Commissioner, called me in and asked me to make an appointment, and to call Mr. Thurmon Lee in New York, to see what he had, because we didn't know. We didn't know whether there were charges against anyone or not. I did, and told Mr. Lee that I would send one of the members of my staff—we didn't have an investigator available at that time—send immediately, one of the members of my own staff in whom I had great confidence, to New York, and hoped that Mr. Lee would give him such information as he had.

Now up to that time you see there was no charge.

I sent a member of my staff with a letter of introduction to Mr. Lee, and Mr. Lee gave him all the documents which he had relating to the matter. He had employed a private firm of detectives, I think it was a Mr. Shindler and he had been working on the case and following the Inspector and possibly others around for several months, as I believe.

Senator MAYBANK. May I interrupt, Mr. Chairman? The appropriations committee has a very important meeting to pass a joint resolution. They want to take care of those people whose bills have not been passed. So will you excuse me?

The CHAIRMAN. Thank you, sir.

Mr. BOVARD. The representatives of the Legal Division got this material, brought it back to the office and by the way, listened to tape recordings which Mr. Lee had had there for several hours, and then came back. We immediately photostated the material, all of the material that Mr. Lee had and sent the originals back to Mr. Lee, and then, since we did not have any investigator to make an immediate investigation, we borrowed a man from the Administrative Section, who was formerly in our Investigating Section, and was a very qualified, trained investigator—sent him up there, and he made a thorough investigation.

Now all those—and we found nothing, no charge was ever made to my recollection.

It was merely a suspicion that someone had been paid——

The CHAIRMAN. That what?

Mr. BOVARD. That someone must have been paid off, because the work was so shoddy.

Now that was the sum total of the results as I recall them.

Now under those circumstances, we don't feel that we should turn over to the FBI all rumors, or charges of suspicion unless there is some substantial evidence in support of them.

Mr. SIMON. Mr. Bovard, do you think that when the president of a large and respectable bank makes such charges, of such a serious nature, amounting to \$25,000 a year in bribery if the charges were true that the agency should itself investigate it and not turn it over to the FBI?

Mr. BOVARD. Well, bear in mind, you keep using the word "charges." I don't think, from my recollection, that Mr. Thurmon Lee made any charges against the investigator.

Mr. SIMON. Maybe the word "charges" is the wrong word. He told you that his investigating—his private detective—had led him to that conclusion?

Mr. BOVARD. No. I don't think—well, at any rate I haven't got the records here. The records are in the office of the FHA.

The CHAIRMAN. What were the conclusions?

Mr. BOVARD. I think they will show that we got right onto that job, and that there was no reason to suspect, or to take any administrative action, or criminal investigations.

Mr. SIMON. Is that the same reason that you didn't advise the FBI of the accusations against Mr. Powell?

Mr. BOVARD. I would think it might be. I don't recall the Mr. Powell incident so clearly. I merely heard of the rumors of gambling. I heard no rumors that Mr. Powell was spending more than he had. It didn't seem to be a proper matter to turn over to the FBI.

The CHAIRMAN. May I ask this question: Did the matter that Mr. McMurray just testified to under oath, that he turned over to either the investigator—your investigator—or to the FHA Administrator or to the HHFA Administrator, Mr. Foley; did that ever come to your attention?

Mr. BOVARD. What was that matter that you referred to?

Mr. McMURRAY. That was the matter—

Mr. BOVARD. Is that the matter we were just discussing about the New York case?

Mr. McMURRAY. No, sir. That related to the allegations about gambling in the Virginia Beach area, as I recall it, in early 1952.

Mr. SIMON. The Dune Club, wasn't it?

Mr. McMURRAY. That is correct.

The CHAIRMAN. At the direction of the chairman of the committee at that time, Senator Maybank, Mr. McMurray, a member of this staff, collected certain information and turned it over to the Agency.

Mr. McMURRAY. Senator, I believe it was an investigator for the HHFA, Compliance Division. They had a Compliance Division, too.

The CHAIRMAN. Yes. Now my question is, Did you ever see that complaint?

Mr. BOVARD. No. I don't recall that I ever saw it but I heard about it verbally.

The CHAIRMAN. And as the General Counsel, when you heard about it verbally of course, you being responsible as the top legal man, you immediately got busy on it and had all the facts brought to you?

Mr. BOVARD. My Associate General Counsel was busy on it even before that, and had instructed Mr. Hillock to make an immediate investigation and a thorough investigation, which he did for purposes of administrative action.

The CHAIRMAN. Why did you not turn—

Mr. BOVARD. And then we disclosed all that information to the Commissioner, who was the head of the Agency, and who certainly was the man to decide whether or not the facts warranted administrative action.

The CHAIRMAN. Who was the head of the agency at that time whom you turned it over to?

Mr. BOVARD. Yes, indeed.

The CHAIRMAN. Who was the man?

Mr. BOVARD. Mr. Richards.

The CHAIRMAN. You turned it all over to Mr. Richards?

Mr. BOVARD. When you say we turned it all over, we disclosed all the facts to him.

The CHAIRMAN. You disclosed all the facts and your position is that the decision as to whether it should have gone to the FBI was up to Mr. Richards and not yourself?

Mr. BOVARD. No question was raised as to whether or not it should go to the FBI.

Mr. SIMON. Mr. Bovard, you said a minute ago you made a thorough investigation. My recollection is that 2 witnesses told your people that they were present when Mr. Powell lost \$7,500 in 1 night. Did your investigation disprove that?

Mr. BOVARD. I can't recall that.

Mr. BURWELL. Mr. Chairman, if I may interrupt just for a second, I think this is the type of thing that is reflected in the files. Now if he could be permitted to look at it, I think he could be more specific.

The CHAIRMAN. We will turn over to him the files on this Powell matter, and he may refresh his memory and then we will call him back for further testimony on this particular subject. So then we will proceed on another subject.

Mr. SIMON. Mr. Bovard, are you familiar with the printed form application for a section 608 loan?

Mr. BOVARD. Well, in general terms.

Mr. SIMON. I am handing you one. I do not mean that the typing on it should be of any consequence but merely for the printed form.

The CHAIRMAN. Let me ask a question here. You were General Counsel for 15 years for FHA?

Mr. BOVARD. That is right.

The CHAIRMAN. As the General Counsel, did you not approve all such printed forms as this?

Mr. BOVARD. Well, I think either I did, or the Division, to see that there was no legal—of course, these application forms were worked up not by me.

The CHAIRMAN. You were the General Counsel?

Mr. BOVARD. That is all I was; yes. I was not the Commissioner.

The CHAIRMAN. Isn't that the highest legal department in the FHA?

Mr. BOVARD. Yes.

The CHAIRMAN. Now my question is, here is a form that was printed and used—it is form No. 2013-W, revised 6-47. I presume that means the year 1947. Were you General Counsel for FHA in 1947?

Mr. BOVARD. I was.

The CHAIRMAN. Did you approve this form?

Mr. BOVARD. We approved it as far as legal factors were involved. I think it was drawn up chiefly by the Administrative and Underwriting Sections, to see whether or not it contained—

The CHAIRMAN. As General Counsel didn't they bring all those things to you for final approval or did you have the responsibility for them?

Mr. BOVARD. Merely for legal—

The CHAIRMAN. That is what we are talking about.

Mr. BOVARD. Legal effect—that is right.

Mr. SIMON. Mr. Bovard, in your opinion, is it a crime, a violation of section 1010, for a man to make a false certification to the United States Government of a material fact in an application filed with the Government?

Mr. BOVARD. I would think so.

The CHAIRMAN. You would think so?

Mr. BOVARD. Yes. I would think so. Whether it is that particular section that you have in mind—I think that is the general section of representations.

Mr. SIMON. False representations.

Mr. BOVARD. It is not the one that applies to FHA in particular.

Mr. SIMON. Without regard to the section—

Mr. BOVARD. That is 1010.

Mr. SIMON. Without regard to the section is it a crime to make a false representation to the United States Government?

Mr. BOVARD. Of course.

Mr. SIMON. On the form you have before you on page 3 there is a provision for the estimated requirements of the construction job on which the FHA loan is sought. It is on the left-hand column there, about the middle—estimated requirements—and one of the items there is "Architect's fees." You will notice that in the application you have before you, the architect's fees are filled in at 5 percent.

We have had testimony from a very great number of builders that they always put in an architect's fee of 5 percent, even though in fact the fee was only a half of 1 percent. The application you have before you is the Shirley-Duke application. Yesterday the owners of the project admitted that the actual fee was only a half of 1 percent.

If, in advance of filing the application the sponsor knew that his architect's fee was only to be a half of 1 percent, and in spite of that knowledge he put in his application an estimated 5 percent for architect's fees, in your opinion would that be a criminal offense?

Mr. BOVARD. No. I don't think it would be a misrepresentation at all.

Mr. SIMON. You don't?

Mr. BOVARD. No, because we are talking about the form now. Now it doesn't certify or indicate that they have paid on architect's fee of so much. It is estimated requirements. Bear in mind you will see the heading at the top, it is "Estimated Requirements." Now they estimate that they will make an allowance for architect's fees of 5 percent. That is typical.

Mr. SIMON. Can a man honestly and truthfully say that he estimates his architect's fee at 5 percent when he already has a contract with the architect at a half of 1 percent?

Mr. BOVARD. I think for the purposes of this application here, this is not a statement that he is going to pay, or that he thinks he is going to pay 5 percent.

The CHAIRMAN. Why did he put the 5 percent in then?

Mr. BOVARD. I didn't put the 5 percent in.

The CHAIRMAN. I didn't say you did. I said why did he put the 5 percent in.

Mr. BOVARD. Five percent is printed.

Mr. SIMON. No, sir, it is typewritten.

The CHAIRMAN. Why did he put it in if he didn't expect to spend it?

Mr. BOVARD. Undoubtedly because the insuring offices and underwriting division, and it was the policy of the FHA in calculating the estimated cost, to estimate architects' fees at 5 percent, regardless of whether they were less or more than 5 percent.

Mr. SIMON. Even though the contractor had a firm commitment with the architect at a half of 1 percent?

Mr. BOVARD. I think that is true, but I think you can find that out much better from the divisions that process applications.

The CHAIRMAN. You were General Counsel, Mr. Bovard.

Mr. BOVARD. That is just why I am saying it.

The CHAIRMAN. You had an opportunity to advise all these fellows.

Mr. BURWELL. Mr. Chairman, will you let him finish that explanation? I don't think he did.

Mr. SIMON. All right.

The CHAIRMAN. Go ahead.

Mr. BURWELL. Make your point.

Mr. BOVARD. Well, I think that this has to do—the question has to do with whether or not it is a misrepresentation, is directly concerned with the requirements of underwriting, and the policy requirements as to what they should put in there—whether they should put in there what they are going to pay or whether these are items entering into a calculation, and that it was the custom and practice known that architects' fees were figured at 5 percent, regardless of whether 5 percent was actually paid.

That is why I think there is probably no crime involved.

Mr. SIMON. And isn't it a fact, Mr. Bovard, that in August or prior to August 1951, the Attorney General contemplated criminal proceedings against people for what he thought was a false allegation in their application with respect to architects' fees, and on August 14, 1951, you wrote the Attorney General, giving him your opinion that even though the architects' fee was known to be less than 5 percent, that representation was not unlawful?

Mr. BOVARD. That, of course, is the opinion that I have just been explaining to you, the reasons for it.

Mr. SIMON. I show you that letter. You gave that opinion to the Attorney General in 1951 when he contemplated criminal proceedings for such a false representation, isn't that true?

Mr. BOVARD. Undoubtedly it is so.

Mr. SIMON. Mr. Chairman, may that letter be made part of the record?

The CHAIRMAN. Without objection that letter will be made part of the record.

(The letter referred to follows:)

FEDERAL HOUSING ADMINISTRATION,
OFFICE OF THE GENERAL COUNSEL,
Washington 25, D. C., August 17, 1951.

Re Shelby Claiborne Towers & Shelby General Claiborne Towers, New Orleans, La: Your reference—JMM: JAM: mmm, 46-32-63.

The honorable the ATTORNEY GENERAL,
Department of Justice, Washington 25, D. C.

DEAR SIR: This is in reference to your letter of July 13, 1951, enclosing a copy of a letter addressed to your office from Mr. John N. McKay, United States attorney, New Orleans, La., dated July 6, 1951, in reference to the above subject.

Shortly after the receipt of your letter an administrative officer attached to the Washington staff was in New Orleans and discussed the matter personally with Mr. McKay, and at the same time, went over the subject matter of the complaints with the local insuring office and requested the local insuring office to submit a detailed report in regard to the particular complaint items. The local insuring office has now submitted its report and based upon the data submitted it is our opinion that there is no substantial evidence to support a complaint of fraud against the United States nor do we feel that a more complete investigation is indicated.

The local insuring office made a personal inspection of a dwelling now under construction and owned by one of the officers of the owning mortgagor-corporation and reports that the materials, bricks, water heaters, and kitchen equipment were entirely dissimilar to the materials being used on Claiborne Towers and Governor Claiborne Apartments, and that the subcontractors constructing this residence were not the same as those for the insured mortgage projects. The particular residence is owned by Mr. Paul Kapelow and is the only residence within the knowledge of the insuring office which is being built by an official of either Claiborne Towers, Governor Claiborne, or Shelby Construction Co. A most complete examination was made and no evidence was disclosed indicating a diversion of materials from the captioned projects to the private residence of Mr. Kapelow.

In regard to the rumors that these projects are to be converted from apartment buildings into a hotel, attention is directed to the fact that this Administration is in complete control of any such change in construction or in the use of the buildings, as well as the rent schedules. Any action taken by this Administration will, of course, be consistent with the statutory authority of the Federal Housing Commissioner.

The situation with respect to the architect and the fees to be paid is a matter more properly for investigation and prosecution, if any, under the laws of the State of Louisiana insofar as the requirements of the Louisiana laws are concerned. Our files indicate that as far as this Administration can determine the requirements of this Administration have been met, or at least we find no evidence of violations of our requirements nor any evidence indicating any fraud against the United States in connection therewith. As you know, the determinations made by this Administration with respect to the maximum insurable mortgage must necessarily be based upon estimates. The commitment for insurance which is issued to the lending institution covers the insurance of a mortgage in a specified amount subject to completion of construction in accordance with the FHA requirements and there are no reexaminations of the actual costs which would in any way affect the amount specified in the commitment. The fact that an architect may not have been actually paid the amount of fees included in our estimates would not of itself indicate the existence of fraud or the possibility of fraud any more than the fact that the actual costs of physical improvements may be less than the estimates of costs made prior to the issuance of the commitment and upon which the mortgage amount specified in the commitment was determined.

This Administration is, of course, vitally concerned with any possibility of fraud or improper action concerning any matters within the responsibility of this Administration, but as heretofore outlined, our examination of the complaints discussed by Mr. McKay does not indicate any substantial evidence indicating existence of any fraud against the United States nor any irregularities or improper actions in connection with the insurance of these projects. Nevertheless, we very much appreciate your action in calling this matter to our attention and giving us an opportunity to examine the complaints and satisfy ourselves with respect thereto.

Very truly yours,

B. C. BOVARD, *General Counsel.*

Mr. SIMON. Now, Mr. Bovard, in 1947 the Congress amended the Housing Act by adopting an amendment, which is in part as follows—this is the act of December 27, 1947, and it reads:

Title 6 of the National Housing Act as amended shall be employed to assist in maintaining a high volume of new residential construction, without supporting unnecessary or artificial costs. In estimating necessary current costs for the purposes of said title, the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual costs of efficient building operations.

Now I ask you, sir, how the congressional purpose expressed in that act could be complied with by allowing a man a 5-percent builder's fee when he and FHA and the architect all knew the fee was only one-half of 1 percent.

Mr. BOVARD. I don't think that that language of that act meant that we were to limit each builder to the actual amounts, or rather fix

our mortgage amount with respect to what a particular builder may have had to pay, but aside from that, I can't tell you on those procedures.

The CHAIRMAN. Did you ever advise the Administrator, Mr. Richards, or any of the others that you were General Counsel for that in your opinion, after the Congress passed this law, that they were violating the law by permitting such things as that to go on?

Mr. BOVARD. I don't think that they were violating the law.

The CHAIRMAN. You do not?

Mr. BOVARD. No. It would be a matter of policy.

The CHAIRMAN. Mr. Bovard, I can only come to one conclusion. I can well understand why we are in the mess we are in when FHA had a man as General Counsel that performed and answers the questions as you are answering.

Mr. BOVARD. Well, Senator, I would like to explain to you—

The CHAIRMAN. I want to be fair and I want to be equitable, but I can't for the life of me understand how you, after you know the law—the law was read to you—that you can say that when you knew that they were paying only one-half of 1 percent, it was perfectly legitimate to pay 5.

Mr. BOVARD. Senator, the National Housing Act is a rather complicated act, and as you say, it is a big insurance company.

The CHAIRMAN. And you were the General Counsel of it and it was a tremendous job and a big job, and a far-reaching organization that handled billions and billions and billions of dollars.

Mr. BOVARD. Let me read to you, Senator, the different programs that are in the National Housing Act, so you can see the complexity of the thing.

The CHAIRMAN. Yes.

Mr. BOVARD. We have a program of repair and improvement loans under section 2 of title I; a single-family mortgage insurance program, under section 8 of title I; a 1- to 4-family mortgage insurance program under section 203; a multifamily program under section 207; a cooperative housing program under section 213; a 1- to 4-family housing program under sections 603, that was, up until 1948, and of course we still have some work on that in connection with reissues; a multifamily housing program under section 608; a prefabricated insurance of loans to manufacture prefabricated houses under section 608; a program for the insurance of mortgages under sections 603 and 608, pursuant to section 610, to assist in the sale of Government-owned housing; and we have the insurance of blanket mortgages under section 611, on groups of single-family dwellings, not less than 25 homes for sale.

Then under title VII, an investment yield insurance program; under title VIII, a military housing insurance, multifamily housing program; and under title IX, a defense housing insurance program, which is divided into the 1- and 2-family under section 903 and a multifamily under section 908.

Now, to handle all that—

The CHAIRMAN. I want to ask what is your point?

Mr. BOVARD. We had a Legal Division of Associate General Counsel, Assistant General Counsel; Rental Housing Section, composed of a Chief Attorney, and a staff of 4; a Home Mortgage Insurance Section, who have a Chief Attorney and a staff of 3; Assistant General

Counsel also had supervisory duties over 3 staff attorneys assigned to legal matters in regard to title I; and we had 1 section 213 attorney, and a Section of Investigation, consisting of a staff of a—a chief and staff of 9 investigators.

My point is that it was absolutely necessary for me to operate through a staff. No one man could have knowledge of all these points that you have been bringing me. I had to rely on my staff, and—

The CHAIRMAN. You are not admitting that the job was too big for you, are you?

Mr. BOVARD. It would have been much too big for me to handle without a staff.

The CHAIRMAN. Of course.

Mr. BOVARD. I have to handle it through a staff.

The CHAIRMAN. I couldn't be chairman of this committee without having a staff.

Mr. BOVARD. You do not have personal information and knowledge of each of these matters that you are referring to?

The CHAIRMAN. Senator Beall wants to ask a question.

Senator BEALL. Mr. Chairman, I would like to know just what the witness, as General Counsel, did from day to day. What did you do specifically? What time did you go to work in the morning?

Mr. BOVARD. 8:45.

Senator BEALL. What did you do in the morning when you went in there?

Mr. BOVARD. I usually have a lot of letters to answer, and—

Senator BEALL. Were they on legal matters?

Mr. BOVARD. Oh, yes, matters with legal aspects—mortgagees writing in for interpretations of various sections of the act, problems arising, and I would have questions from my staff, and from the administrative—

Senator BEALL. When the staff came in what did you talk about when you had staff meetings? Did you talk about the law, amendments to the law, things of that kind?

Mr. BOVARD. Yes, and particularly the application of laws to a particular set of facts, and circumstances.

Senator BEALL. If anything would come up at variance and needed discussion, a lawyer would come in and you would discuss it with him?

Mr. BOVARD. We would discuss the facts and find out if it did violate any law, or was contrary to the clear intent of the Congress—all kinds of legal problems.

The CHAIRMAN. Will you yield just a moment? Is Mr. Loftus present? Is Mr. Loftus' attorney here?

Mr. MURPHEY. There is a lady here representing Mr. Loftus who has a statement concerning him.

The CHAIRMAN. She has the doctor's certificate?

Mr. MURPHEY. Yes, sir.

The CHAIRMAN. We will get to it just a little later.

Were you finished, Senator Beall?

Senator BEALL. No. I will relinquish—

The CHAIRMAN. No. Go ahead.

Senator BEALL. I was trying to find out as General Counsel, what you did. I was wondering, the law is there. The General Counsel

should advise the Commissioner just how they were doing, and how to proceed, shouldn't he?

Mr. BOVARD. Well—

Senator BEALL. When you drew up a contract, the lawyer drew up the contract and brought it in to you as to its legality and legal form?

Mr. BOVARD. No.

Senator BEALL. They would not?

Mr. BOVARD. Not to me personally. They might have to my staff, members of my staff.

Senator BEALL. Wouldn't your staff talk about these things with you as their chief?

Mr. BOVARD. If they were in doubt as to any point they certainly would. If they weren't, they wouldn't.

Senator BEALL. That is all.

The CHAIRMAN. Senator Payne?

Senator PAYNE. Now, Mr. Bovard, counsel has just read the provisions of the law that went into effect, I think, in 1951.

The CHAIRMAN. 1947.

Senator PAYNE. In 1947 and you were Chief Counsel at that time?

Mr. BOVARD. That is right.

Senator PAYNE. When that law was passed by the Congress, Mr. Bovard, did it then become your duty as Chief Counsel of the agency to interpret the provisions of that law?

Mr. BOVARD. Yes.

Senator PAYNE. And after interpreting the provisions of that law did you then give to all of the staff members and all of those interested parties in the agency your opinion as to what that law meant?

Mr. BOVARD. If they asked for it, yes.

Senator PAYNE. Now just a minute, Mr. Bovard. Isn't it customary for the head of the division, a person who is General Counsel, and required to appraise the effect of a law passed by the Congress, to be carried out by an agency, for that Chief Counsel to interpret that law and to pass down in written form to his staff members that which he feels should be carried out in keeping with the law itself?

Mr. BOVARD. If it should have any effect on their operations. Bear in mind, however, that the act says that:

In estimating the necessary current costs for the purpose of said title, Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual cost of efficient building operations.

Our cost estimates were always so designed.

Mr. SIMON. Not as far as architects' fees though.

Mr. BURWELL. Would you let him finish on that point, please?

The CHAIRMAN. You may finish.

Mr. BOVARD. In addition to that the Commissioner—of course we advised the Commissioner of this law, and of what we thought its effect was—and the Commissioner in his letter to all directors and chief underwriters, dated December 19, 1947, which is shown on page 196 of the former hearings, states:

Title 6 of the National Housing Act, as amended, shall be—

That was the quotation. It quotes this act, and then states:

Therefore, you are directed to take such steps as may be appropriate to make certain that necessary current cost estimates do not reflect costs of inefficient building operations.

Now that is——

The CHAIRMAN. Did you write that for the Administrator?

Mr. BOVARD. I did not.

The CHAIRMAN. Did you approve it?

Mr. BOVARD. I don't recall, sir. Some members of my staff did. I didn't see this personally.

The CHAIRMAN. When the Congress passed the law—the amendment—in 1947, do you have any recollection of ever advising the Commissioner as to what he should or should not do in respect to it?

Mr. BOVARD. I have no recollection other than that I know that——

The CHAIRMAN. Yes, but that doesn't do what the law directed you to do. What you have just read doesn't do what the law directed you to do.

Mr. BOVARD. It was intended to assure that every feasible means would be taken.

The CHAIRMAN. Then I again get back to this question: Would you consider "feasible" means then in an application, where you and everyone concerned knew that the architect's fee was going to be one-half of 1 percent for them to charge 5?

Mr. BOVARD. Well, that is out of my field.

Mr. SIMON. Mr. Bovard, without regard to whether your staff made an erroneous interpretation of the law, sitting here today as a lawyer with vast experience in this field, would you say it was contrary to the 1947 amendment for the Federal Housing Commissioner to allow a 5 percent architect's fee, when every efficient builder, and even some inefficient ones, were able to hire architects for a half of 1 percent?

Mr. BOVARD. That would depend on the use which would be made of the information, or in what way this architect's fee would figure in the overall cost. I don't know. I would have to consult with the administrative section.

The CHAIRMAN. I will ask you the question then: Do you know that the rents were based in many, many instances, in cases that we have examined, on the basis of a 5 percent architect's fee when they paid one half of 1 percent, and I give you one specifically, the one we had yesterday, of the Shirley-Duke.

Under those circumstances do you think that was a violation of the law, a violation of the intent of Congress in the 1947 amendment?

Mr. BOVARD. I couldn't answer that without the records in the particular case.

The CHAIRMAN. I just gave them. Let me repeat it again. If the builder, the contractor and FHA, if everybody knew that the architects' fees were one-half of 1 percent, were they then justified and was it legal to charge 5 percent? You can understand that language, can't you?

Mr. BOVARD. Yes.

The CHAIRMAN. Those are the facts.

Mr. BOVARD. If the Commissioner determined that all feasible means had been used, as to whether all feasible means had been used——

The CHAIRMAN. What could be more feasible than the facts?

Mr. BOVARD. I don't know, sir. It would depend on the procedure, and problems of the processing department.

Mr. BURWELL. Mr. Chairman, may I ask your indulgence just a minute? I haven't objected in any way to an argument—not an argu-

ment--but a discussion about what a highly complex act, the legal interpretation is. I am sure that that is why we have the courts. Some of it is awfully complicated, whether or not his interpretation is erroneous or not, I won't attempt in any way to argue, but if you are going further or desire to go further into the question of what he advised the Administrator on occasion, could I beg of you that we get the files since they will show a number of memoranda and he wants to be completely accurate, sir.

The CHAIRMAN. I understand that.

Mr. BURWELL. I do believe he is being earnest.

The CHAIRMAN. I hope when he gets through reading the files and analyzing them he will understand them.

Mr. BURWELL. I do believe we are in an area that that is exactly why we have the courts.

The CHAIRMAN. Unfortunately he has already written the Attorney General and others to the effect that it is not illegal. Therefore, in some cases before we are through we are going to show where they, FHA, and he as the General Counsel, have estopped and did estop the Attorney General of the United States from prosecuting people because of his actions.

Mr. BURWELL. Yes, sir. May I suggest that if he wrote the Attorney General, the Attorney General, as the Nation's outstanding lawyer, could have of course overruled his legal interpretation, and that I don't believe the Attorney General would be estopped by his legal opinion.

The CHAIRMAN. He certainly would be estopped if the man who is prosecuting had this man's opinion as the General Counsel for FHA, and said it was legal at the time and approved it. You certainly couldn't convict anybody in court.

Mr. SIMON. Mr. Bovard, we have had a number of cases in which FHA's commitment for insurance was predicated upon a firm contract between the sponsor and the builder. It apparently was a phony contract or a fraudulent contract which they never intended to fulfill, and shortly after the FHA commitment was out of the way, they would write a new contract under which the building would be built, and never advise the FHA of the terms of the new contract.

Have you advised the Attorney General that in your opinion there was no impropriety in such conduct and if I may refresh your recollection I would like to hand you some letters which you wrote the Attorney General dated April 30, 1953, and June 25, 1953.

Mr. BURWELL. Could we ask if that is all the correspondence on this matter with the Attorney General or is this a selected letter?

Mr. SIMON. So far as I know it is all of it and I have also handed the witness the letter from the Attorney General to him which came between his two letters.

Mr. BOVARD. Of course it would take some time to read this correspondence. I don't have a recollection of it particularly but as I understand the situation in general there, it is that our mortgage amount was not at all fixed on the contract. The contract between the builder and the mortgagor corporation had nothing to do with the fixing of the FHA amount. We did that on our own estimate of what the costs to the typical builder would be.

Mr. SIMON. Then in your commitment you required them to furnish you with a copy of the contract, didn't you?

Mr. BOVARD. I think it is quite possible they did, for such information as might be available. It wouldn't have any effect on the amount of our mortgage amount.

Mr. SIMON. Why would you ask them to furnish you with a contract, and why would the contractor furnish you with, shall we say, a phony contract, if it didn't make any difference?

Mr. BOVARD. I don't know as to that, sir, at all. There are a lot of reasons. Certainly you wouldn't want us to fix our mortgage amount on the contractor's estimates of costs.

The CHAIRMAN. I am not so sure you wouldn't have done better, after looking at all the records I have been looking at.

Mr. SIMON. My only inquiry here was—

The CHAIRMAN. Have him sign an affidavit that is a true statement and be subject to prosecution had he given you a false statement.

Mr. BOVARD. Well of course—

The CHAIRMAN. It is like you file an income-tax return.

Mr. BOVARD. If our estimate of costs are more than the contractor's estimate of costs, there is, of course the problem of whether or not the mortgagor will have sufficient funds to finish the job without liens. For instance, one of our requirements, as I recall, was that we must insist that the mortgagor put up the difference between the estimate of cost and the mortgage amount in cash, and spend that cash first.

Now, if we estimated costs lower, or fixed a mortgage amount on a lower amount than we thought it would cost, we might very well wind up without enough money to finish the job.

The CHAIRMAN. You mean the contractor wouldn't have enough money?

Mr. BOVARD. The contractor wouldn't have enough money to finish the job.

The CHAIRMAN. It would have been an unpardonable sin for him to put a little of his own money in it, wouldn't it?

Mr. BOVARD. Well, by our sticking to our own estimate of costs, he would have to put in that additional equity up to that amount of our cost.

The CHAIRMAN. Now you are telling us what happened if your estimate, and the amount of the mortgage that you agreed to guarantee, was less than it actually cost. What did you do where it ran considerably more—the costs ran considerably less, that is, than your mortgage commitment? What did you do in that instance?

Mr. BOVARD. There was nothing for us to do there.

Mr. SIMON. Following that up if I may, you had a form, "Articles of Incorporation," and a form, "Bylaws," which you required all these section 608 projects to use?

Mr. BOVARD. That is right.

Mr. SIMON. Did you either prepare those or approve them?

Mr. BOVARD. Undoubtedly they were—that is, we assisted in the preparation of them.

Mr. SIMON. And before a section 608 commitment could be obtained the sponsor had to incorporate under your model form, and his bylaws had to conform to your model form?

Mr. BOVARD. That is right.

Mr. SIMON. And in each case the Federal Housing Commissioner became the owners of \$100 of preferred stock in the sponsor corporation, is that right?

Mr. BOVARD. That is right.

Mr. SIMON. Isn't it true, Mr. Bovard, that the articles of incorporation furthermore contained a provision that no dividend should be paid on any capital stock to the corporation, except with the consent of the holder of the majority of the shares of each class of stock until the mortgage issued, or insured by the Government, had been paid? Wasn't that in the articles of incorporation?

Mr. BOVARD. It may have been. I don't recall.

The CHAIRMAN. Let's show it to him.

Mr. BURWELL. Mr. Chairman, may I suggest that that in substance is in the act itself. If we have time we will pick out the section and read it. That is statutory rather than his policy.

Mr. SIMON. What I was leading to—how all these corporations could distribute these windfall dividends, without the consent of the Federal Housing Commissioner when the articles of incorporation, and as Mr. Burwell says, the law required the Housing Commissioner's consent to the payment of those dividends.

Mr. BOVARD. It would be violating the charter if they did it, I would think.

Mr. SIMON. Isn't it also true that you have the power to require these corporations to file annual audits with FHA under the bylaws?

Mr. BOVARD. That is true.

Mr. SIMON. Most of them did so?

Mr. BOVARD. I think that is true.

Mr. SIMON. The audits which were certified by public accountants always showed the distributions of windfall dividends.

Mr. BOVARD. Very likely.

Mr. SIMON. And as I understand it, the Housing Commissioner had never consented to any of them.

Mr. BOVARD. But the examination of those annual reports to which you refer did not come to the attention of the Legal Division whatsoever. It was entirely another department. I know nothing about those.

The CHAIRMAN. Did you ever consent to a dividend, windfall dividend, being paid?

Mr. BOVARD. Senator, it would not be the Legal Division or the General Counsel that would consent to that. It would be the Administrative Section.

The CHAIRMAN. Did the Commissioner, Mr. Powell, or Mr. Green, or whoever was your boss, ever ask you for an opinion as to whether they could permit them to do it or should permit them?

Mr. BOVARD. Not that I recall.

The CHAIRMAN. You have no recollection of it at all?

Mr. BOVARD. No.

Mr. SIMON. Did you know windfall dividends were being distributed?

Mr. BOVARD. I did not.

The CHAIRMAN. You did not?

Mr. BOVARD. I did not.

The CHAIRMAN. They must have kept everything from you. Did they keep everything from you, Mr. Bovard?

Mr. BOVARD. They probably didn't know it themselves.

Mr. SIMON. If they had read these audit reports they couldn't help but know it.

Mr. BOVARD. Yes, but they didn't read the audit reports.

Mr. SIMON. You mean Mr. Powell—

Mr. BOVARD. Of course I am making a flat statement here and since the Senator has—

The CHAIRMAN. I want to go over this again. You know of course that under the agreement that you had with these gentlemen, that they could not declare a dividend without permission from both classes of stock, and you held, the Government held, all of the preferred stock. That is true; isn't it?

Mr. BOVARD. Yes, the Government held all of the preferred stock.

The CHAIRMAN. We have testimony that so-called windfall profits or dividends have been declared. Are you saying you knew nothing of any of those?

Mr. BOVARD. I can say that I knew nothing of them, yes, but—

The CHAIRMAN. Did you ever hear of any rumors or any gossip about them?

Mr. BOVARD. I think on some occasions, unquestionably I had heard of violations of the charter.

The CHAIRMAN. Had it been called to your attention—had it been called to your attention by Mr. Powell or the Commissioner, whoever your superior was, that so and so company had, without consulting with FHA, in any way, a concern that you had this contract with, where you were holding \$100 worth of the preferred stock, or all of the preferred stock, that they had declared a dividend, what would your advice have been to the Commissioner?

Mr. BOVARD. It would have been to write a letter to that mortgagee—mortgagor—find out why he did it. I know we had some instances which indicated that the corporation at the time of the insurance, had outstanding obligations because their annual reports, in particular instances showed that they had some outstanding notes, possibly to the stockholders, and we suggested that they immediately write and ask why that happened, and require them to correct the situation.

The CHAIRMAN. Well since it was a part of the law and part of your regulations and part of the contract that you entered into with them that they could not declare dividends without permission of both types of stock, and you held—the Government held all of the preferred—why did you permit any of them to declare dividends?

Mr. BOVARD. Well now, you mean why did Mr. Powell permit them?

The CHAIRMAN. Well, or you as General Counsel.

Mr. BOVARD. Well it would not come within my supervision at all.

The CHAIRMAN. Had Mr. Powell asked your permission or asked you to give him an opinion as to whether or not he should permit these people to declare dividends, would you have advised against it?

Mr. BOVARD. Why of course. We would have advised against any violation of the charter. You recall I haven't yet found this particular article in the section 608 charter that requires the consent of the preferred stockholder to the issuance of dividends. I know, however, that dividends—I think there is a requirement in there that dividends can only be paid out of earnings and—

The CHAIRMAN. That is the law.

Mr. BOVARD. A windfall would not seem to be earnings so there would seem to be a violation there. You cannot justify that at all.

Mr. SIMON. Mr. Bovard, doesn't the law also provide that no mortgage may be in the amount of more than \$5 million?

Mr. BOVARD. That is true.

Mr. SIMON. And wasn't that a discretion of congressional intention not to grant the benefits of section 608 to projects which required a mortgage of more than \$5-million?

Mr. BOVARD. It was certainly congressional intent that no particular real-estate entity should be insured by a mortgage in excess of \$5 million. It, in my opinion, had no reference to the stockholders, whether the stockholders of one corporation here were the same or different from another corporation.

Mr. SIMON. Certainly.

Mr. BOVARD. And of course, our requirement was that, regardless of the relationship between these different projects, each one must be a separate real-estate entity?

Mr. SIMON. And isn't it also true that the act provided for what we might call middle-income apartments and not so-called luxury apartments, or hotels?

Mr. BOVARD. Well, it certainly didn't apply to hotels. As to luxury, I don't know. That is a relative term.

Mr. SIMON. How can the Commissioner justify, or did he seek your legal advice in the device of granting mortgages on a building of substantially more than \$5 million, by dividing mortgages into 2 parts and putting 1 mortgage on the right-hand half of the building and another mortgage on the left-hand half of the building, and theoretically separating them by a line drawn on the plans? I specifically refer, if it will help you, to Claiborne Towers Building in New Orleans, which is one building, with a \$9-million mortgage and I refer to the Woodner Hotel here in Washington, which is a hotel with a \$10 million mortgage.

Were you consulted on that?

Mr. BOVARD. I was, after the commitments had been issued, or the mortgagees insured. And we advised that they couldn't do it and of course, corrective measures then—the problem was what corrective measures to take.

Mr. SIMON. Was it your opinion that the mortgages on Claiborne Towers in New Orleans and the Woodner Hotel here were unlawful?

Mr. BOVARD. When you say unlawful they were certainly validly—I mean the insurance contract was a valid insurance contract.

Mr. SIMON. Would it be valid insurance contract if it was issued contrary to the statute?

Mr. BOVARD. Yes, it would certainly be. It would be, in view of the incontestability clause—that is, insofar as the mortgagee is concerned and assuming of course that the mortgagee had made no false representations.

Mr. SIMON. Of course the mortgagee had to know it was one building and the mortgage was—

Mr. BOVARD. When you say one building, there is nothing in the law that requires it to be separate, or require a space between buildings. You can have a wall, a separate wall, and have the other building right up against it, and have one mortgage covering one and one mortgage covering another, as you know—

Mr. SIMON. With the same halls running through each floor?

Mr. BOVARD. That is a question of deciding as to whether or not it was a separate real estate entity. I can assure you that the legal division did everything in its power to protect this \$5 million limitation.

Mr. SIMON. Did you ever write a memorandum to the Commissioner saying that you disapproved of the mortgage on the Woodner and Claiborne Towers?

Mr. BOVARD. I have no doubt that I wrote him memoranda on particular cases. We had many conferences. I recall one extensive conference that we had in connection with Arlington Towers proposition.

The CHAIRMAN. Arlington Towers?

Mr. BOVARD. Yes. I don't know whether that has—

The CHAIRMAN. We haven't gotten into that one yet. We will get into that one.

Mr. BOVARD. And then of course on that, I am confident that the thing is separate but they may be right smack up against each other, but nevertheless, this New Orleans one didn't come to our attention until, as I recall, after it was all over.

The CHAIRMAN. In other words, after it came to your attention it was too late to do anything about it?

Mr. BOVARD. That is right.

The CHAIRMAN. Is that true of the Woodner Hotel?

Mr. BOVARD. No. The Woodner came to us at a time when the building was under construction as I recall, and we found that the bathroom of one project extended over into, across the property lines of the other mortgage, and we required extensive alterations to make the thing absolutely separate legal entities.

The CHAIRMAN. How did you make them separate? Are you certain they were made separate?

Mr. BOVARD. I am certain they were made—well, I haven't inspected it.

The CHAIRMAN. Is there a wall between the two Woodner buildings, so that one person can't go from one into the other?

Mr. BOVARD. I think so, Senator, but I—

The CHAIRMAN. You think so?

Mr. BOVARD. I could not decide that.

Mr. BURWELL. Could we see the file on that, Senator?

The CHAIRMAN. You had better correct your testimony on that.

Mr. BURWELL. May I ask at this time that we be permitted to see the files? I do think there is some difficulty in his remembering all these specific documents, and whether he separated or didn't separate a bathroom in New Orleans, and he wants to be perfectly honest and if he can see the files he will be as specific as he can with those on the table.

Mr. SIMON. Isn't it also true hotels were not to be built under section 608, Mr. Bovard?

Mr. BOVARD. It was an administrative policy which we tried to enforce.

Mr. SIMON. And doesn't the Woodner operate as a hotel?

Mr. BOVARD. Of course the law doesn't specify or name hotels or anything of that sort.

Mr. SIMON. But it talks about rental housing projects?

Mr. BOVARD. Yes.

Mr. SIMON. And certainly a hotel isn't a rental housing project?

Mr. BOVARD. Not a strictly commercial hotel, but—

Mr. SIMON. Do you know any reason why the Commissioner has permitted the Woodner to operate as a hotel?

Mr. BOVARD. I didn't even know that it was operating as a hotel. I think that that is a question that is disputed as to what is a hotel, but I am confident that the Commissioners will probably be able to tell you better on those points.

The CHAIRMAN. Unfortunately Mr. Powell who handled all this refuses to testify so we have to try to get the information from the other people.

Mr. BOVARD. He was Assistant Commissioner.

Mr. BURWELL. Sir, he was an assistant and I don't think either Commissioner has either appeared in this particular phase of the proceeding or has refused to testify.

The CHAIRMAN. We will have them.

Mr. BOVARD. There are many memoranda in the file.

Mr. SIMON. In other words, it would in your opinion, be unlawful to permit the Woodner to operate as a hotel?

Mr. BOVARD. When you say unlawful, I don't know that it is as a matter of law. I think it is as a matter of policy. It would be contrary to the FHA policy to permit any hotel, any apartment house to operate as a hotel.

Mr. SIMON. Wouldn't it also be contrary to statute?

Mr. BOVARD. I don't think so.

Mr. SIMON. Wasn't the statute limited to rental housing?

Mr. BOVARD. Well, what do you mean by a hotel?

Mr. SIMON. I mean a place where you can walk in with your suitcase and get a room for 1 or 2 days and leave.

Mr. BOVARD. Well—

Mr. SIMON. Transient places.

Mr. BOVARD. Of course the rights of the mortgagor corporation are determined by the provisions of the charter, are they not?

Mr. SIMON. But the charter cannot exceed the statutory authority granted by Congress. Isn't that true, Mr. Bovard?

Mr. BOVARD. Well, the statutory controls on Congress don't have any reference to this matter at all. There is nothing in the statute that would prevent a mortgagor corporation from running an apartment house as a hotel, if he so chose.

Mr. SIMON. Isn't there something in the statute that prevents the Commissioner from issuing a mortgage insurance commitment for a hotel?

Mr. BOVARD. We have never issued a mortgage insurance commitment for a hotel as far as I know.

Mr. SIMON. You don't know that the Woodner is a hotel?

Mr. BOVARD. It wasn't a hotel when we issued the commitment certainly. There is nothing in our commitment that indicates that it is a hotel.

Mr. SIMON. It was a vacant lot when you issued your commitment, wasn't it?

Mr. BOVARD. Yes, so certainly, there was no violation of the statute, so far as I can see.

Mr. SIMON. Certainly they had to build the building first but wasn't your commitment limited to insuring the mortgage to a rental housing project?

Mr. BOVARD. Yes, it was.

The CHAIRMAN. Well, then if it was, can they operate it as a hotel today?

Mr. BOVARD. They might—not without violating FHA policy and possibly violating the charter, but their rights would be governed by the charter.

Mr. SIMON. Mr. Bovard, are you familiar with some conferences that took place in March 1952 with respect to what action should be taken against an approved mortgagee at Minneapolis, Minn., who had filed an application for an FHA mortgage insurance, listing certain named sponsors of a section 608 project, whereas in fact the real sponsor was an FHA employee, who had paid transportation to Miami Beach of another FHA employee and his wife and entertained them at Miami Beach.

Do you recall the meetings in March 1952, with respect to that mortgagee?

Mr. BOVARD. I don't recall it by the information that you have given. I know of course we had some cases where some FHA employees were interested in section 608 projects, and as soon as we discovered it we took appropriate administrative action with respect to it.

Mr. SIMON. What I was leading to, and we should get the file if you want a recollection of it, is that you advised there was no action under FHA rules and regulations which could be taken against that employee. Do you recall that meeting and that advice?

Mr. BOVARD. I do not. I would have to see the files on that.

Mr. SIMON. We will get it.

The CHAIRMAN. Any questions, Senator Payne?
Senator Sparkman?

Senator PAYNE. The only thing, Mr. Chairman, I would just like to try to get cleared up in my mind if Mr. Bovard would be willing to tell me; Mr. Bovard, when you were shown that form earlier, that the chairman has in front of him there, what was that form supposed to reflect?

Mr. SIMON. The Senator is referring to the application form.

Senator PAYNE. The application.

Mr. BOVARD. I am not familiar at all with any of the provisions of it.

The CHAIRMAN. Read what it says at the top.

Mr. BOVARD. I know what its purpose is.

The CHAIRMAN. What does it say at the top?

Mr. BOVARD (reading) :

To the Federal Housing Commissioner: Pursuant to the provisions of section 608 of the National Housing Act and the administrative rules and regulations—

The CHAIRMAN. Read the lead line, the top.

Mr. BOVARD (reading) :

Application for mortgage insurance under section 608 of the National Housing Act.

The CHAIRMAN. That is all I want you to read. It is an application for insurance, isn't it? It is an application for insurance?

Senator PAYNE. That is an application for mortgage insurance?

Mr. BOVARD. That is right.

Senator PAYNE. Let me ask you this, Mr. Bovard. Did you ever know or understand the fact that architects' fees were actually being computed at about one-half of 1 percent? Now in view of the fact that many of these cases must have come to your attention during the course of your activities as chief counsel——

Mr. BOVARD. No, they didn't.

Senator PAYNE. In the work that you did as Chief Counsel, you must have had a tremendous number of contacts with individuals within the agency in which you would discuss the provisions of the forms and what they contained, and what the practices were, et cetera. Isn't that true?

Mr. BOVARD. Well, we may have had some. They were handled mostly by members of my staff. If it was an important legal determination involved, they would probably discuss it with me possibly.

Senator PAYNE. When a member of your staff made a legal determination, didn't he clear that legal determination with you as Chief Counsel?

Mr. BOVARD. If it were a new proposition, they usually did. I am confident of that.

Senator PAYNE. You would have known that the architects' fees were only one-half of 1 percent?

Mr. BOVARD. The amount of the architects' fees and the amount of the cost determinations and estimates wouldn't come to us at all. They would be handled as policy matters, or underwriting matters.

Mr. SIMON. The architects' fee of Claiborne Towers came to your attention before you wrote the Attorney General, didn't they?

Mr. BOVARD. I don't know. It is possible.

Mr. SIMON. You have before you your letter of April 1951, to Attorney General on architects' fees at Claiborne Towers?

Mr. BOVARD. Undoubtedly the architects' fees——

Mr. SIMON. Certainly with respect to that particular project you knew the architects' fees were approximately 10 percent of the amount in the application?

Mr. BOVARD. Let me read the letter and see.

The CHAIRMAN. Why don't you read the letter out loud.

Mr. BOVARD. Sure. This is a letter to the Honorable Attorney General, Re Shelby Claiborne Towers and Shelby General Claiborne Towers, New Orleans, La.:

This is in reference to your letter of July 13, 1951, enclosing a copy of a letter addressed to your office from Mr. John N. McKay, United States attorney, New Orleans, La., dated July 6, 1951, in reference to the above subject.

Shortly after the receipt of your letter an administrative officer attached to the Washington staff was in New Orleans and discussed the matter personally with Mr. McKay, and at the same time went over the subject matter of the complaints with the local insuring office and requested the local insuring office to submit a detailed report in regard to the particular complaint items. The local insuring office has now submitted its report and based upon the data submitted it is our opinion that there is no substantial evidence to support a complaint of fraud against the United States nor do we feel that a more complete investigation is indicated.

The local insuring office made a personal inspection of a dwelling now under construction and owned by one of the officers of the owning mortgagor-corporation and reports that the materials, bricks, water heaters and kitchen equipment were entirely dissimilar to the materials, being used on Claiborne Towers and Governor Claiborne Apartments, and that the subcontractors constructing this residence were not the same as those for the insured mortgage projects. The particular residence is owned by Mr. Paul Kapelow and is the only residence

within the knowledge of the insuring office which is being built by an official of either Claiborne Towers, Governor Claiborne, or Shelby Construction Co. A most complete examination was made and no evidence was disclosed indicating a diversion of materials from the captioned projects to the private residence of Mr. Kapelow.

In regard to the rumors that these projects are to be converted from apartment buildings, as well as rent schedules. Any action taken by this Administration is in complete control of any such change in construction or in the use of the buildings, as well as rent schedules. Any action taken by this Administration will, of course, be consistent with the statutory authority of the Federal Housing Commissioner.

The situation with respect to the architect and the fees to be paid is a matter more properly for investigation and prosecution, if any, under the laws of the State of Louisiana insofar as the requirements of the Louisiana laws are concerned. Our files indicate that as far as this Administration can determine the requirements of this Administration have been met, or at least we find no evidence of violations of our requirements nor any evidence indicating any fraud against the United States in connection therewith. As you know, the determinations made by this Administration with respect to the maximum insurable mortgage must necessarily be based upon estimates. The commitment for insurance which is issued to the lending institution covers the insurance of a mortgage in a specified amount subject to completion of construction in accordance with the FHA requirements and there are no reexaminations of the actual costs which would in any way affect the amount specified in the commitment. The fact that an architect may not have been actually paid the amount of fees included in our estimates would not of itself indicate the existence of fraud or the possibility of fraud any more than the fact that the actual costs of physical improvements may be less than the estimates of costs made prior to the issuance of the commitment and upon which the mortgage amount specified in the commitment was determined.

This Administration is, of course, vitally concerned with any possibility of fraud or improper action concerning any matters within the responsibility of this Administration, but as heretofore outlined our examination of the complaints discussed by Mr. McKay does not indicate any substantial evidence indicating existence of any fraud against the United States nor any irregularities or improper actions in connection with the issuance of these projects. Nevertheless, we very much appreciate your action in calling this matter to our attention and giving us an opportunity to examine the complaints and satisfy ourselves with respect thereto.

Senator PAYNE. What was the date of that letter, Mr. Bovard?

Mr. BOVARD. August 14, 1951.

The CHAIRMAN. The letter was addressed to Attorney General McGrath.

In talking about the fees there, architects fees, you, of course, knew when you wrote that letter that the actual fee paid was one-half of 1 percent? And that the amount that was used in arriving at the mortgage in the setting of the rents was 5 percent, did you not?

Mr. BOVARD. I had no personal recollection. I have no personal recollection of the matter.

Mr. SIMON. You don't have any doubt but that is the fact, though, do you?

Mr. BURWELL. I believe, Mr. Chairman, before you continue on this particular one you would give him the file.

The CHAIRMAN. Let me ask you this question: If the facts are as I stated, and if you had known the facts as I am going to state them, would you then have written the kind of a letter that you did? The facts are that they actually made one-half of 1 percent, and yet they put 5 percent in their application. The mortgage was based upon 5 percent and the rents have been based upon 5 percent. Had you known those facts when you wrote that letter, would you have come to the same conclusion that you did?

Mr. BOVARD. It is possible, but I would have to look at the complete file and see just what the relationship between the 5 percent allowance and how the underwriting department figured their estimate of costs.

Senator PAYNE. Mr. Bovard, that law that I referred to previously was enacted in 1947, is that right?

Mr. BOVARD. An amendment, which was the injunction on the Administrator to use every feasible means to see that our estimates—

Senator PAYNE. There was a reason for that, wasn't there?

Mr. BOVARD. Well, I assume so. No question about it.

Senator PAYNE. That was 1947, and that letter was 1951. I am not a lawyer, but I happen to have been in financial activity as an accountant, and also have a little background on this matter. An estimate is the total compilation of all of the figures that go up to make a total. Is that right?

Mr. BOVARD. I think so.

Senator PAYNE. This amendment that was put in refers to "such estimates," plural. Would you not interpret as a lawyer that in construing the effect of this amendment, that when the word "estimates," plural, is used, it means each and every component part that goes in to make up one estimate? In other words, architect fees, separate masonry fees, land, improvement, and all of the other factors?

Mr. BOVARD. Yes. I would agree with you entirely.

Senator PAYNE. All right, sir. If that interpretation is correct, and it refers in the plural to estimates, then can there be any question in your mind as to the fact that if a person in making an application to secure mortgage insurance from the United States Government placed a figure of 5 percent in that application, knowing full well that it was actually going to be a half of 1 percent, that that wasn't a fraudulent statement on its face?

Mr. BOVARD. I don't think, Senator, that the law would have any reference to the act of the mortgagor. I mean if it was a fraudulent representation, it wouldn't be because of that statute. That statute is a direction to the Commissioner.

Senator PAYNE. That is right, and to protect the United States Government and all of the taxpayers who contribute to it.

Mr. BOVARD. It is a direction to the Commissioners to see that their estimates of costs approximate the actual cost, to the greatest, and to see that they use every feasible means that they do.

Senator PAYNE. They couldn't have called on a feasible means if the cost that was known and was pretty generally known in the trade was one-half of 1 percent, and they continually put down 5 percent—somebody and I don't know who it is—somebody was pretty negligent in protecting the interests of the United States Government and all of the taxpayers at that time. I am just going to say this, Mr. Bovard: As far as I have been able to determine here this morning, the Congress can put into effect, or could have put into effect many laws, but certainly the interpretations that were given to those laws enacted by the Congress, from what I have heard here this morning, were never carried out in the interests of the Government and the people who make up this Government, but were very liberally construed—far beyond what my feeble mind is able to discern—in the favor of those who were constructing and making profits out of these projects.

Mr. BURWELL. Mr. Chairman, may I in the interest of my client in these charges ask that that—that the Senator reconsider that as an indictment aimed at my client, and I can't get in the position of arguing with a Senator as counsel, but I do suggest that if there were frauds, that there should be indictments in our courts. If Mr. Bovard has committed any crime, he should be indicted, but that I am sure the Senator doesn't mean to indict him here, where he has no rights—

Senator PAYNE. I do not.

Mr. BURWELL. In an action before the Civil Service Commission and our courts. I am sure he doesn't mean to be unfair, but I submit it is unfair to indict him before he has had a hearing in any court.

Senator PAYNE. Let me say that I do not want to be unfair in any way on the thing and if anything that I have said there in any way, shape or form would in any reflect on your client, I certainly want it stricken, and I apologize if I have said anything.

Mr. BURWELL. I appreciate your courtesy.

The CHAIRMAN. Let the record speak for itself, because I feel about the same as the Senator from Maine. I want the record to show that, too. I am making no apology for it and I am not withdrawing it, because this is the second time we have had this gentleman before us, and both times we have had the same sort of answers, and he was 20 years with this organization, and 15 years the general counsel.

Mr. BURWELL. Sir—

The CHAIRMAN. I am thoroughly discouraged, and—

Mr. BURWELL. My client has tried to be honest. He has not pleaded the fifth amendment which he could. He has not seen the files. We have been picking out isolated correspondence and picking his memory 3 or 4 years ago, on complicated transactions with no specific questions.

Now, he is a perfectly honest man that wants to answer these questions as honestly as possible, and I again want to protest a prejudgment of this case before the Civil Service Commission and our courts here.

Mr. BOVARD. May I add one—

Mr. BURWELL. I respectfully request that the chairman's remarks not go into the record and to the civil service and the courts, before he has even had a hearing at all—get all that material.

The CHAIRMAN. Well, as far as the chairman is concerned, the record can speak for itself and anybody that wants to can read the testimony of what this gentleman said this morning and what I said and what others said and come to their own conclusion. If they come to any other conclusion than I have, I am happy.

Mr. BOVARD. The only point that I was going to mention, Senator, was in connection with the question with respect to the architect's fees, etc. It may be that the FHA did not use every feasible means to make their cost estimates correspond as closely as possible. I don't know. That was not in my department. If they did, that was a dereliction on the part of the FHA.

Senator PAYNE. You will forgive me, Mr. Bovard—

Mr. BOVARD. It was not a question of interpretation.

Senator PAYNE. Please take this as I give it. From what I have listened to this morning, nothing was under your department.

Mr. BOVARD. Well, I don't know, there has been a lot of questions.

The CHAIRMAN. Every time you didn't know something you blame it on a subordinate.

Mr. BOVARD. Well, bear in mind now, the National Housing Act doesn't require the Commissioner to have a general counsel. What duties are given to him are delegated by the Commissioner, and I am not the head of the agency, never have been.

Senator PAYNE. Was he a lawyer?

Mr. BOVARD. Some of them were. Mr. Ferguson was a lawyer, Mr. Richards.

The CHAIRMAN. Are there any other questions? If not, we will finish with Mr. Bovard.

Senator SPARKMAN. Mr. Chairman, I think the practice was wholly bad—and this is not the first time I have said it before this committee—but in all fairness to the record, I believe the staff ought to go back and examine the minutes of this committee, and you will find that as early as 1949, 1950, 1951, protest was being made before this committee that this very practice was being carried out. Senator Long offered an amendment and the committee refused to accept the amendment.

The testimony at that time was that the architect's fees were being regularly put in at 5 percent and my recollection is Senator Long offered an amendment limiting it to 2 percent, and the committee itself declined to accept that amendment.

I don't say that in trying to cover up the practice. I think it was bad. I was for the Long amendment, but we certainly ought to remember that there may have been some dereliction on the part of Congress and on the part of this committee.

The CHAIRMAN. Well, I don't see how the amendment of 1947 could have been any more clear. It says exactly, I think, what it meant, and I agree a hundred percent with the able Senator here that this committee—

Senator SPARKMAN. I don't quarrel with it—

The CHAIRMAN. This committee from time to time has asked these gentlemen for testimony on this whole subject, any they have never seen fit to give us testimony. Why I am a little disturbed with the witness this morning is because he has been up here before and testified and at no time did he ever call these matters to the attention of anyone. And another reason I am a little bit discouraged is because we are getting the same thing from this gentleman that the Attorney Generals have been getting right straight through from FHA officials, and that is that nothing could be done to prosecute anybody for violating the law; that everybody was within their rights. I am getting a little bit discouraged.

Senator SPARKMAN. I share with you in it and I certainly don't want anything I have said to be interpreted otherwise, but I just don't believe we ought to take a "holier than thou" attitude when the matter was called to our attention and one of our own Members offered an amendment to correct it, not once but several times, and the committee declined to accept the correction.

The CHAIRMAN. That is right.

Well, we have had an abundance of testimony from Mr. Powell and all of them—including this witness, I think, if I am wrong about it we will withdraw the statement—that this mortgaging out couldn't happen. We had testimony from industry it couldn't happen. We had testimony from the head of the Mortgage Bankers Association

it couldn't happen. And there was testimony that was put into the record a few minutes ago from Mr. Powell, that it just couldn't happen, when either 2 days or 2 weeks before that he had written a letter about a project in New York City had written him saying they were going to mortgage out and declare \$1,300,000 in dividends. Yet 2 days later he comes up here and testifies that he never heard of any such thing.

I don't mind telling you that somebody is lying, the big word, see, about all this matter, and the purpose of this hearing is to find out who.

Senator SPARKMAN. I brought out in cross-examination right here it was being done.

The CHAIRMAN. I have no criticism of any Senator that is on the committee at the moment or has been on it in the past because I think every Senator has talked about it from time to time and asked questions of witnesses when the bills would come up for passage. There is no question about it, and they have kept it from us and frankly we don't like it.

Mr. BURWELL. Mr. Chairman—

Mr. NEEL. Mr. Chairman, may I make a statement, please, sir?

The CHAIRMAN. What is your name?

Mr. NEEL. My name is Samuel Neel, and I am general counsel of the Mortgage Bankers Association of America.

The CHAIRMAN. Will you be sworn? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. NEEL. I do.

TESTIMONY OF SAMUEL NEEL, GENERAL COUNSEL, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. NEEL. If I heard you correctly, you said the head of the Mortgage Bankers Association said mortgaging-out could never happen. To my knowledge, he never made such a statement. In fact, the mortgage bankers testified before your committee on many occasions against the extension of section 608.

The CHAIRMAN. We have it in the record, what Mr. Clarke said when he was a member. Was he once the head of the Mortgage Bankers Association?

Mr. NEEL. He is now president of Mortgage Bankers Association, and I say neither he nor any representative of the association ever testified before your committee that mortgaging-out could not occur.

The CHAIRMAN. Is Mr. Lockwood a member?

Mr. NEEL. Mr. Lockwood was a president of the Home Builders Association.

The CHAIRMAN. You will find also that Mortgage Bankers Association when this investigation started had some very unkind things to say about it, too.

Mr. NEEL. The Mortgage Bankers Association had some very unkind things to say about the manner in which Mr. Hollyday was dismissed. It made no public statement about the manner of conducting this investigation.

Mr. BURWELL. Mr. Chairman, may I ask one last question, sir? I don't have any interest in this entire hearing except as a modest taxpayer, and except as counsel for Mr. Bovard; I don't believe that in

your impromptu remarks about the general situation, where you said someone was lying, that you meant to imply that Mr. Bovard is.

The CHAIRMAN. I meant to say that somebody in the past has been lying to this committee; that they knew nothing about mortgaging-out, and saying it couldn't happen. We have even had witnesses say that it sounded to them when we called it to their attention like bar-room talk.

Mr. BURWELL. I am right, sir, in thinking that you are not implying Mr. Bovard is lying now or at other times?

The CHAIRMAN. I didn't say Mr. Bovard or anybody had, but I think the record speaks for itself that over the years these people were not telling the truth.

Mr. BURWELL. I wanted to make it clear you weren't implying that Mr. Bovard was lying.

The CHAIRMAN. Are there any other questions of Mr. Bovard? If not, we will dismiss you, Mr. Bovard, but you remain under subpoena because we may want to call you back.

Now, where is Mr. Loftus? Miss Johnson is here for Mr. Loftus.

Mr. BURWELL. May I ask, Senator, that we be permitted to see any records on which Mr. Bovard will be examined in the future?

The CHAIRMAN. You may.

Mr. BURWELL. We haven't had that privilege thus far and I think we can get along faster if he is.

The CHAIRMAN. You may see any record you think you ought to see.

Mr. BURWELL. May I deal with Mr. Simon and ask him that?

The CHAIRMAN. Yes. There is no objection whatsoever. We want the facts but we certainly get discouraged when we have to beat our brains out here trying to get the facts from people that ought to be willing to give them to us and ought to come in here and testify, that have been working for the Government for years and years and years, in high positions. They come in here and invoke the fifth amendment.

Mr. BURWELL. We did not take the fifth amendment as we could have and if we get the files we are willing to come here as often as you want to see us.

The CHAIRMAN. But you are saying you are fighting the discharge, etc., or the suspension, as though a man—I presume you take the position that a man should work for the Government forever.

Mr. BURWELL. I do not, sir. I take the position that if a man is charged it should be proven and our courts take that position and that is where the matter is going.

The CHAIRMAN. This gentleman here.

This is a note from Dr. John W. Barnhart, of Wilmington, Del., dated June 30:

To Whom It May Concern:

This is to certify that Mr. Don A. Loftus is under medical care and will be unable to appear at a Senate committee meeting until at least July 5, 1954.

It is signed "Dr. John W. Barnhart." And what is your name and address, please?

Mr. BLISS. My name is Bliss, Herbert J. The address is 250 Park Avenue, New York 17.

The CHAIRMAN. 250 Park Avenue, New York City?

Mr. BLISS. That is the office address.

The CHAIRMAN. Are you an employee of Mr. Loftus?

Mr. BLISS. No. I am associated with his attorney, Edward J. Egan.

The CHAIRMAN. Edward J. Egan.

Will you remain here? Is Mr. Murphey here representing Mr. Loftus who was supposed to bring us certain records today? Will you come up, Mr. Murphey, and give the records, please? What is your name, please?

Mr. MURPHEY. Murphey.

The CHAIRMAN. What is your first name?

Mr. MURPHEY. Gerald Murphey.

The CHAIRMAN. What is your address?

Mr. MURPHEY. Columbus, Ohio.

The CHAIRMAN. Will you be sworn? Do you solemnly swear the testimony you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MURPHEY. I do.

TESTIMONY OF GERALD MURPHEY, BEVERLY MANOR, COLUMBUS, OHIO

Mr. SIMON. Mr. Murphey, do you have the stockbook and minute book of the Beverly Manor Corps. in Columbus?

Mr. MURPHEY. I do not have the minute books or the stockbooks.

Mr. SIMON. Who has them, Mr. Murphey?

Mr. MURPHEY. So far as I know, they are in the custody of an attorney in New York City.

Mr. SIMON. What is his name?

Mr. MURPHEY. Reynold Drews.

Mr. SIMON. Is that your firm?

Mr. BLISS. No, it is not.

Mr. SIMON. Do you know for what reason Mr. Drews has them?

Mr. MURPHEY. It is my understanding he has recently, within the last 6 months, become secretary of the Beverly Manor Corp.

Mr. SIMON. What is Mr. Loftus' position with Beverly Manor Corp.?

Mr. MURPHEY. President.

The CHAIRMAN. And is there any reason why you did not bring the books as you were subpoenaed to do so?

Mr. MURPHEY. I think I brought and have with me what I was requested to bring.

Mr. SIMON. Did you try to get the minute book and stockbook?

Mr. MURPHEY. No, sir, I didn't.

Mr. SIMON. You made no effort to get it?

Mr. MURPHEY. No.

Mr. SIMON. Are you able to produce them for us?

Mr. MURPHEY. I would think so. I do not have access to them.

The CHAIRMAN. The subpoena required that you bring them.

Mr. MURPHEY. I talked to a Mr. Walter on your staff and he said to bring corporate records, canceled checks, and what I knew about the sale of the land.

The CHAIRMAN. You didn't get the subpoena. Mr. Loftus was subpoenaed to bring it.

Mr. MURPHEY. I came voluntarily.

Mr. SIMON. How about the Cleveland Parkway corporations. You are manager of that, too, aren't you?

Mr. MURPHEY. No, sir. I have no connection with Cleveland.

Mr. SIMON. No connection?

Mr. MURPHEY. No.

Mr. SIMON. You don't know who has the stock or minute book on the Cleveland corporations?

Mr. MURPHEY. I do not.

The CHAIRMAN. We will direct a subpoena to this lawyer in New York—what did you say his name was, the man that has the records in New York?

Mr. MURPHEY. Reynold Drews.

The CHAIRMAN. What is his address?

Mr. MURPHEY. Chrysler Building.

Mr. SIMON. D-r-e-w-s?

Mr. MURPHEY. Yes.

Mr. SIMON. What is his first name?

Mr. MURPHEY. Reynold.

Mr. SIMON. You have no connection with Mr. Loftus' Cleveland properties?

Mr. MURPHEY. None whatever.

Mr. SIMON. You don't know who would have those stockbooks?

Mr. MURPHEY. I do not.

Mr. SIMON. Do you have any connection with Mr. Loftus' Cleveland property?

Mr. BLISS. No, sir.

Mr. SIMON. Your firm doesn't represent him generally, I take it?

Mr. BLISS. No, sir, we do not.

Mr. SIMON. You just represent him in this matter?

Mr. BLISS. A few others, personal matters.

Mr. SIMON. Do you know whether Mr. Loftus could at the next hearing bring us the stockbook, the minute book on the four Cleveland corporations?

Mr. BLISS. I do not know, but I will try to find out.

Mr. SIMON. Could you find out for us who has them if he doesn't have them?

Mr. BLISS. I can try, yes.

Mr. SIMON. Mr. Murphey, do you have the audits of the Columbus corporations with you?

Mr. MURPHEY. Yes, sir.

Mr. SIMON. Would you give us those, please, and do you have the contracts with respect to the sale of the land from Mr. Loftus to the corporations?

Mr. MURPHEY. Not with respect to the sale by Mr. Loftus to the corporations, but I do have the contract from the sale of the former owner, Ralston Steel Car Co.

Mr. SIMON. Didn't we particularly tell you we wanted the contracts of the sale from Mr. Loftus to the corporations? I know I personally told you that yesterday.

Mr. MURPHEY. I say I have the information. I don't have the contract.

Mr. SIMON. Where are the contracts, Mr. Murphey?

Mr. MURPHEY. I am not aware of that.

Mr. SIMON. Do you know who has them?

Mr. MURPHEY. They may be in the files in the Columbus office.

Mr. SIMON. In the Columbus office?

Mr. MURPHEY. Yes, sir.

Mr. SIMON. Aren't you in charge of that office?

Mr. MURPHEY. Yes, sir. I have with me sufficient information that I do know——

Mr. SIMON. Where did you get that information?

Mr. MURPHEY. From the books. I know what the corporations paid for the land.

Mr. SIMON. Do you have the canceled checks and contracts in your office?

Mr. MURPHEY. No.

The CHAIRMAN. Where are they?

Mr. MURPHEY. This was all done prior to the incorporation of the Beverly Manor companies.

Mr. SIMON. Who would have the canceled checks and the contracts?

Mr. MURPHEY. Those were among individuals before the corporation was formed.

Mr. SIMON. I take it at some stage—the corporation now owns the land?

Mr. MURPHEY. Yes, sir.

Mr. SIMON. Then the corporation had to receive the land after it was incorporated, didn't it?

Mr. MURPHEY. Right, sir.

Mr. SIMON. And we would like the canceled checks and the contracts dealing with the land from the time that Mr. Loftus disposed of it until it got into the corporation.

Mr. MURPHEY. I think I have that with me.

Mr. SIMON. You have the contracts and canceled checks? You have the canceled checks?

Mr. MURPHEY. Yes, sir.

Mr. SIMON. We would like those, too, and to have the contracts made available to us.

The CHAIRMAN. You see Mr. Simon and whatever you fail to have you can supply.

We will set a date for Mr. Loftus' appearance on July 13, at 10 o'clock.

Mr. MURPHEY. I think I can explain this to Mr. Simon so he will know I do have what you want.

The CHAIRMAN. Without objection, we will place in the record at this point the written message of Dr. John W. Barnhart with respect to Mr. Loftus.

(The information referred to follows:)

DR. JOHN W. BARNHART

BY APPOINTMENT

1303 N. Franklin St., Wilmington, Del.

Phone 2-2547

Reg. No. 8092

JUNE 30, 1954.

To Whom It May Concern:

This is to certify that Mr. Don A. Loftus is under medical care and will be unable to appear at a Senate committee meeting until at least July 5, 1954.

J. W. BARNHART, M. D.

The CHAIRMAN. Any other questions? Anybody from the audience have anything to say here? It seems to be a good morning for the audience. We had a testimonial here. Are there any other ques-

tions that anybody has this morning? We have to have a smile once in a while around here.

If not, we will recess until 10 o'clock tomorrow morning, at which time our witness will be Charles H. Glueck, from Gary, Ind.

(Whereupon, at 12:30 p. m., the committee recessed until 10 a. m., Friday, July 2, 1954.)

FHA INVESTIGATION

FRIDAY, JULY 2, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bennett, and Payne.

Also present: Mr. William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order. Mr. Glueck, will you give your name, please, to the reporter—your full name and address?

Mr. GLUECK. Charles H. Glueck, 675 Lincoln Street, Gary, Ind.

The CHAIRMAN. And your attorney, will you please give your name?

Mr. DRAPER. Alfred P. Draper, 504 Broadway, Gary, Ind.

The CHAIRMAN. Mr. Glueck, will you please be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth so help you God?

TESTIMONY OF CHARLES H. GLUECK, GARY, IND., MID-CITY INVESTMENT CO., ACCOMPANIED BY ALFRED P. DRAPER, COUNSEL

Mr. GLUECK. I do.

The CHAIRMAN. Mr. Simon, we will start with you this morning.

Mr. SIMON. Mr. Glueck, what is your occupation?

Mr. GLUECK. Mortgage banker.

Mr. SIMON. Are you the president of Mid-City Investment Co. of Gary, Ind.?

Mr. GLUECK. Yes, sir.

Mr. SIMON. How long have you been the president of Mid-City Investment Co.?

Mr. GLUECK. Since 1944.

Mr. SIMON. Was there a period of 2 or 3 months when at the request of FHA you were suspended from being president of Mid-City?

Mr. GLUECK. I was not suspended. I resigned as president for a period of 3 months.

Mr. SIMON. Was that at the request of FHA?

Mr. GLUECK. Yes.

Mr. SIMON. When was that?

Mr. GLUECK. 1952, from April—the approximate date—April 11 to the end of June.

Mr. SIMON. Are you acquainted with the Tri-City Village housing project in Gary?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Did you at one time own the land on which that project was built?

Mr. GLUECK. I was part owner.

Mr. SIMON. When was the land acquired and by whom?

Mr. GLUECK. It was acquired by my father and myself in 1949.

Mr. SIMON. Do you know the approximate date in 1949?

Mr. GLUECK. I think approximately the late part of the year or latter part of the year, 1949.

Mr. SIMON. Can you fix it any more definitely than that?

Mr. GLUECK. Somewhere—I would say in November or December.

Mr. SIMON. Of 1949?

Mr. GLUECK. I believe so, yes.

Mr. SIMON. How much land—

Mr. GLUECK. Wait a minute. I would like to refresh myself on that. I am not sure exactly of that date.

Mr. SIMON. Maybe I can help you if I tell you that the FHA application was received by FHA on June 29, 1949. Does that help you fix the date?

Mr. GLUECK. Yes. Then it would be 1948 rather than 1949.

Mr. SIMON. December?

Mr. GLUECK. Roughly then.

Mr. SIMON. How much land was involved in that purchase?

Mr. GLUECK. The ground under which Tri-City was used?

Mr. SIMON. Well, in the purchase—you bought more land than just the Tri-City project?

Mr. GLUECK. Approximately 45 or 47 acres.

Mr. SIMON. Whom did you purchase it from?

Mr. GLUECK. Louis and Charles Simon.

Mr. SIMON. Do they reside in Chicago?

Mr. GLUECK. No, in Gary.

Mr. SIMON. How much did you pay for it?

Mr. GLUECK. Approximately \$30,000, or \$50,000, something like that.

The CHAIRMAN. I didn't get that. Approximately what?

Mr. GLUECK. Approximately \$50,000.

Mr. SIMON. Do you know with any more certainty the purchase price?

Mr. GLUECK. Not exactly, no. I mean I could look it up, but exactly I don't know. I would say somewhere in the neighborhood of \$50,000.

Mr. SIMON. You were asked the same question a week ago in executive session, Mr. Glueck. Have you had any opportunity or occasion to verify the price since then?

Mr. GLUECK. I have the file that I could look it up exactly.

Mr. SIMON. But you haven't done it since the meeting last week?

Mr. GLUECK. No.

Mr. SIMON. \$50,000 is your best recollection?

Mr. GLUECK. Approximately, yes.

Mr. SIMON. How much of that acreage went into the Tri-City Village, Inc., company?

Mr. GLUECK. Approximately 37 acres, 38 acres.

Mr. SIMON. Did any of that acreage go into the Major Apartments project?

Mr. GLUECK. Yes, sir.

Mr. SIMON. How much of it went into that project?

Mr. GLUECK. The balance of it.

Mr. SIMON. So of the 45 to 47 acres that you paid, as near as you can remember \$50,000 for, all of it went into either the Tri-City Village or the Major Apartments projects; is that right?

Mr. GLUECK. That is correct.

Mr. SIMON. In the spring of 1949, did you make a deal with Alfred Polland with respect to that land?

Mr. GLUECK. Yes.

Mr. SIMON. What was the deal?

Mr. GLUECK. I made a deal to sell it to him.

Mr. SIMON. To sell him what?

Mr. GLUECK. The stock of the corporation, after the corporation—the corporation was to be formed and after the corporation was to be formed, the land was to be put into the corporation and I was to sell him the stock of the corporation.

Mr. SIMON. Was the 37 acres to be put into a corporation to be called or it was called Tri-City Village, Inc.?

Mr. GLUECK. That is correct.

Mr. SIMON. And the balance put into a corporation that was called Major Apartments, Inc.?

Mr. GLUECK. That is correct.

Mr. SIMON. And did the deal also contemplate that you would file applications for FHA mortgages for buildings to be built on the tract of land, by these two corporations?

Mr. GLUECK. You mean individually or as an officer of our company, to file application?

Mr. SIMON. Well, regardless of whether you filed it individually or as an officer of your corporation, did your deal presuppose that before Mr. Polland was to have purchased the stock of these corporations, you were to obtain an FHA application?

Mr. GLUECK. That is correct.

Mr. SIMON. When did you make that deal with Mr. Polland?

Mr. GLUECK. Prior to the filing of the application.

Mr. SIMON. And how much in advance of that?

Mr. GLUECK. I imagine a month or two.

Mr. SIMON. What was the capital stock of Tri-City Village, Inc.?

Mr. GLUECK. At what time?

Mr. SIMON. At the time you incorporated it.

Mr. GLUECK. I don't remember the number of shares, but it was a certain number of shares of no par common, plus the 100 shares of preferred stock issued to FHA.

Mr. SIMON. Was the cash amount \$1,000 for the common stock?

Mr. GLUECK. You mean the initial filing of the corporation?

Mr. SIMON. Yes; the initial incorporation.

Mr. GLUECK. Yes. It was filed with the minimum requirement.

Mr. SIMON. And what was the cash capital of Major Apartments, Inc.?

Mr. GLUECK. Originally it would have been the same. They were originally filed with a minimum capital.

Mr. SIMON. How much was Mr. Polland to pay you for the stock in these two corporations?

Mr. GLUECK. Well, the deal was made with my father and myself to pay us, on Tri-City Village, to pay us approximately \$350,000, and on Major Apartments, approximately \$100,000, or \$100,000 something, I don't know.

Mr. SIMON. Do I understand correctly that you bought this land in December of 1948 for \$50,000?

Mr. GLUECK. Yes, sir.

Mr. SIMON. And that in April or May of 1949, you agreed to sell to Mr. Polland for \$450,000 the stock in two corporations, which owned nothing but this same land and \$1,000 of capital, and your undertaking to get an FHA commitment for a section 608 mortgage on each of the pieces of land?

Mr. GLUECK. That is not quite correct. The Major Apartment deal was done afterward. The Tri-City was made originally; then the Major Corp. was sold at a later date. Tri-City was already under construction when I sold the Major.

Mr. SIMON. With that exception, is my statement accurate?

Mr. GLUECK. That is correct, yes, sir.

Mr. SIMON. Then you did get \$450,000 for the land which cost you \$50,000, plus FHA commitments for mortgages for buildings to be built on the land, is that right?

Mr. GLUECK. I don't quite get that—the land cost me \$50,000 plus FHA commitment. I don't understand that.

Mr. SIMON. The land cost you \$50,000.

Mr. GLUECK. That is right.

Mr. SIMON. And you received \$450,000 for that land and FHA commitments for mortgages on properties to be built on the land?

Mr. GLUECK. No, sir. I didn't sell any commitments. I received the money for that stock, for that land—the stock that the land represented.

Mr. SIMON. At the time you received the money, did the corporations own anything other than the land and an FHA commitment for a mortgage on property to be built on the land?

Mr. GLUECK. Yes, sir. At the time I received the money, the properties were well underway of construction.

Mr. SIMON. At the time you made the contract?

Mr. GLUECK. No. That is all they owned at that time.

Mr. SIMON. And that is all that you ever put into the corporations, is that right?

Mr. GLUECK. That is correct.

Mr. SIMON. At the time you made this transaction, who was—

Mr. GLUECK. May I add, that when you say that it all I put into the corporation, that is all financially in cash that I put into the corporation?

Mr. SIMON. You put some work in getting the applications?

Mr. GLUECK. And planning and layout and everything else.

Mr. SIMON. Now, at the time you obtained these FHA commitments, who was the Indiana State director?

Mr. GLUECK. R. Earl Peters.

Mr. SIMON. How well acquainted with him were you?

Mr. GLUECK. Very well acquainted.

Mr. SIMON. Will you tell the committee the relations you had with Mr. Peters with respect to the Florida Apartments project?

Mr. GLUECK. Yes, sir. If I may be allowed to read a letter here that I wrote to FHA completely explaining the entire relationship, I think it will give you—

Mr. SIMON. We would be glad to have you do it, but first I would like to know whether you and he were jointly interested in the Florida Apartments project?

Mr. GLUECK. Yes, sir.

Mr. SIMON. You owned how much of the stock in Florida Apartments?

Mr. GLUECK. I own approximately half.

Mr. SIMON. And how much did you put up for that half?

Mr. GLUECK. \$7,500, plus some fees that amounted to approximately a total of approximately \$11,000.

Mr. SIMON. And how much was put up for the other half of the stock?

Mr. GLUECK. I assume the same amount.

Mr. SIMON. Do you know who put up the other \$7,500?

Mr. GLUECK. As a matter of fact, I don't know. I assume it was Mr. Peters.

Mr. SIMON. You say you assume it was Mr. Peters, but I believe you told us last week that it was put up by his son-in-law, Mr. Mr. Fleming, is that right?

Mr. GLUECK. No, sir, I told you I assume he had put up the \$200 for the option.

Mr. SIMON. And there was an option to buy the land for \$15,000?

Mr. GLUECK. That is correct.

Mr. SIMON. And Mr. Peters put up \$7,500 and you put up \$7,500?

Mr. GLUECK. Somebody put it up. I assume it was Mr. Peters.

Mr. SIMON. And when the building was constructed, completed, did you turn over your stock to Mr. Peters in reimbursement for what you had put up?

Mr. GLUECK. I sold my stock to Mr. Peters' nominee, his brother-in-law, Mr. Mentzer. I assigned that stock to Mr. Mentzer.

Mr. SIMON. And how much did you receive for it?

Mr. GLUECK. Exactly what I had paid.

Mr. SIMON. No profit?

Mr. GLUECK. No profit.

Mr. SIMON. The building was completed, of course?

Mr. GLUECK. It wasn't quite completed—it was completed when I was paid, but it was not quite completed when—

The CHAIRMAN. Why did you turn this over for \$7,500 with no profit, whereas in Gary you just told us a moment ago that you wanted \$450,000. Was it because it was Mr. Peters, the State director?

Mr. GLUECK. I would partly say that. He asked me if I would sell him that half and I said I would.

The CHAIRMAN. You sold it to him without any profit at all?

Mr. GLUECK. That is correct.

The CHAIRMAN. But on similar deals in Gary you made \$400,000?

Mr. GLUECK. It wouldn't be quite similar. It is a much smaller deal.

The CHAIRMAN. I mean similar in principle.

Mr. GLUECK. That is correct.

Senator PAYNE. Mr. Chairman, so I can get it fixed in my mind, what was the date upon which the development in Gary took place, approximately?

Mr. GLUECK. 1949 or 1950, sir.

Senator PAYNE. And what was the date when the so-called Florida—

Mr. GLUECK. 1947.

Mr. SIMON. Mr. Glueck, did you ever have an apartment on the top floor of a building on 13th in Indianapolis, an apartment that might have been called a penthouse apartment, but at any rate on the top floor of the building?

Mr. GLUECK. Yes.

Mr. SIMON. Did Mr. Peters occupy an adjoining apartment on the top floor of that building?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Did you purchase the furniture for Mr. Peters' apartment?

Mr. GLUECK. No, sir.

Mr. SIMON. Did you have anything to do with purchasing the furniture for Mr. Peters' apartment?

Mr. GLUECK. Yes, sir. My wife went down and helped pick out furniture for both apartments at the same time.

Mr. SIMON. Isn't it a fact that on March 22, 1951, a contract was entered into between the L. S. Ayres Co. of Indianapolis, and Mid-City Apartments, signed by you for furniture and decorations for both of these apartments?

Mr. GLUECK. I don't think so, sir.

Mr. SIMON. Sir?

Mr. GLUECK. If I signed it—if I signed that contract, why it was merely as a matter of convenience, but I know I did not pay for Mr. Peters' furniture.

The CHAIRMAN. Did you sign the contract?

Mr. SIMON. The question is, Did you sign the contract?

Mr. GLUECK. I don't know. I don't remember signing a contract. If they gave me a proposal for the furniture or something, I might have signed it. I do know that we were billed for that furniture, for all of it, and our office contacted Ayres, wrote them and asked them to rebill it correctly, which they did, and we paid the bill for the furniture in my office and I am sure Mr. Peters paid the bill for his furniture.

Mr. SIMON. Do you know when you wrote L. S. Ayres Co. and asked them to bill Mr. Peters for his half of the furniture?

Mr. GLUECK. No, I don't. It was done by a secretary-treasurer in our office.

Mr. SIMON. Wasn't the letter signed by you?

Mr. GLUECK. I don't believe so. If it was, I don't remember.

Mr. SIMON. Do you know whether the date of that letter was June 15, 1952?

Mr. GLUECK. I don't know.

Mr. SIMON. Isn't it a fact—well, you testified earlier that you were suspended or that FHA asked your corporation for you to resign as its president for the period from April to June 1952, when FHA found out about the Florida Apartments deal, isn't that right?

Mr. GLUECK. That is correct.

Mr. SIMON. Isn't it a fact that this letter to L. S. Ayres & Co. asking them to charge half, or roughly half of that furniture bill to Peters was not written until well after FHA had asked that you be suspended for the Florida Apartments deal?

Mr. GLUECK. Well, that was coincidental with our getting the apartments.

Mr. SIMON. Wasn't the original contract 15 months earlier, Mr. Glueck?

Mr. GLUECK. That is right, but we didn't get the furniture immediately.

Mr. SIMON. Wasn't there an interval of 15 months between the time you signed the contract for the furniture and the time you first told the store to bill part of it to Mr. Peters?

Mr. GLUECK. That is the first time we wrote the store. We had told the store numerous times. Our office had called them and asked them to correct the bill and they had not done it, so we wrote them and asked them to correct it.

Mr. SIMON. In any event, the first time you asked them about it was after FHA had in effect suspended you for the Florida Apartments?

Mr. GLUECK. It might be coincidental, the dates.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. When did you move into that apartment, Mr. Glueck?

Mr. GLUECK. I used the apartment. I didn't live there. We have an Indianapolis office and we had completed purchasing quite a few assets down there, and I was spending a great deal of time in Indianapolis, and I took the apartment, when the building was completed. I think it was in 1951, June of 1951.

Senator BENNETT. Were you actually occupying the apartment in June of 1952 when you were suspended by FHA?

Mr. GLUECK. Yes, sir.

Senator BENNETT. How long had you been occupying it? Let me ask you another question first: Were you occupying it in April when you were suspended?

Mr. GLUECK. Yes, sir.

Senator BENNETT. I had the impression from something you said a minute or two ago that payment for this furniture was delayed because it was not delivered.

Mr. GLUECK. No, sir.

Senator BENNETT. It must have been delivered in time for you to live in the apartment.

Mr. GLUECK. It was delayed until the bill was cleared up, sir.

Mr. SIMON. When was it delivered, Mr. Glueck?

Mr. GLUECK. I guess in June or July. The first part—the end of June or first part of July of 1951.

Senator BENNETT. When was the furniture actually delivered to the two apartments? If I understand—

Mr. GLUECK. Shortly after the apartments were available.

Senator BENNETT. It was ordered—the furniture was ordered in March 1951, and shortly thereafter—let's say by June or July at least of 1951—it was probably delivered to the apartment and you were occupying the apartment?

Mr. GLUECK. That is right.

Senator BENNETT. I am interested in the fact that the Mid-City Investment Co., which is a regularly operated and organized and proper business organization, takes 15 months in which to pay a furniture bill. I would expect that the bills would be checked monthly when they were received, and unless there was considerable correspondence, would have been paid promptly. Can you tell us why you delayed 15 months before, first, you wrote the letter to L. S. Ayres & Co., and then followed this letter with a check?

Mr. GLUECK. As soon as they corrected the bill we paid them.

Senator BENNETT. Let's go at it from the other point of view. Do you think L. S. Ayres & Co. waited 15 months before they answered your inquiry, to correct a bill which would have brought them an income of—brought them a collection of \$6,300? Is that normal procedure?

Mr. GLUECK. I don't think there is anything abnormal about it, sir.

Senator BENNETT. I would just like to ask a question for the record. Did the Mid-City Investment Co. pay the bill in total when it was presented and later correct it by dividing it between the two of you?

Mr. GLUECK. No, sir.

Senator BENNETT. Then—

Mr. GLUECK. We paid L. S. Ayres & Co. only the exact amount of the bill that was proper for my apartment.

Senator BENNETT. And persuaded them—well, I won't put it that way—and they did not either answer your question about your claim that the bill was misbilled or make any attempt to straighten it out for 15 months?

Mr. GLUECK. Well, it wouldn't be quite 15 months, sir.

Senator BENNETT. Well, from March 22 to June 15. It is 7 days short of 15 months.

Mr. GLUECK. We didn't get the furniture in March. We got it the first of July or the end of June. The apartments were not ready until June of that year.

Mr. SIMON. Then you lived in the apartment for 11 months before you wrote the letter asking them to bill half of it to Peters. Isn't that true?

Mr. GLUECK. Approximately, I suppose.

Senator PAYNE. Was the payment for this furniture made out of the check book of the corporation?

Mr. GLUECK. Yes, sir.

Senator PAYNE. Are all of the checks of the corporation available for this committee?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Mr. Glueck, as I understand it, your original arrangement with Mr. Polland was that you give him an option to buy the stock in Tri-City Village, Inc., is that right?

Mr. GLUECK. That is right.

Mr. SIMON. And he was not to exercise the option to buy that stock unless and until you obtained the FHA commitment, is that correct?

Mr. GLUECK. That is right.

Mr. SIMON. On June 29, 1949, an application for an FHA-insured mortgage was filed, is that right?

Mr. GLUECK. I believe so.

Mr. SIMON. Who prepared the application?

Mr. GLUECK. Different parts of it would be prepared by different people. I don't know exactly who prepared it.

Mr. SIMON. It says on the mortgagor's part of the application that the sponsors are Alfred Polland and James Robbin.

Mr. GLUECK. That is correct.

Mr. SIMON. At that time their only interest in the project was an option to buy the stock if you got the FHA commitment?

Mr. GLUECK. If they got the commitment, yes.

Mr. SIMON. But at that time they had no interest in the project, except an option to buy it if the commitment were forthcoming, is that right?

Mr. GLUECK. That is right. It shows—the application, I believe, will show that it is a proposed corporation and they would be the sponsors.

Mr. SIMON. The application says among its resources that the land is valued at \$300,000. That is 37 acres of the 45 or 47 acres that you paid \$50,000 for, is that right?

Mr. GLUECK. That is correct.

Mr. SIMON. And on a pro rata basis, then, this land would have cost you a couple of months earlier something like \$40,000, is that right?

Mr. GLUECK. Approximately.

Mr. SIMON. Who determined the valuation in the application of \$300,000?

Mr. GLUECK. I would say I would have determined it or Mr. Polland could have determined it. I don't know. It is an estimated value of the land.

Mr. SIMON. Now in connection with these applications—

Mr. GLUECK. May I add something there, sir, please?

Mr. SIMON. Yes.

Mr. GLUECK. The FHA project analysis on that thing you will find, you will find what they put the value of the land at.

Mr. SIMON. What did they put on it?

Mr. GLUECK. \$65,000.

Mr. SIMON. How do you know that?

Mr. GLUECK. Because we have the project analysis.

Mr. SIMON. So that you got \$350,000 for land which you paid roughly \$40,000 for, and that FHA said was worth \$65,000, and you got \$350,000 for it, is that right?

Mr. GLUECK. That is correct.

Mr. SIMON. Now, at any time was the value of the land written up by FHA from \$65,000 to \$125,000?

Mr. GLUECK. I don't know. It might have been, on a revised project analysis. I don't know. As a matter of fact, I don't know.

Mr. SIMON. What do you mean?

Mr. GLUECK. I mean I don't have a copy of that that I could tell you whether they did write it up or not.

Mr. SIMON. As far as you know, was it ever changed from \$65,000?

Mr. GLUECK. I don't know.

Mr. SIMON. Well, I have here a photostatic copy of the FHA application, which in typewriting shows this \$65,000 that you referred to and also shows \$237,000 as utilities and landscape work and then apparently in pen and ink the \$65,000 was written up to \$125,000, and utilities and landscape work was reduced, so that the total valuation remained unchanged, but the land value was written up. Do you know anything about that?

Mr. GLUECK. Offhand, I don't.

Mr. SIMON. You don't know anything about it?

Mr. GLUECK. What do you mean "anything"? I know about it—I know what you are telling me right now, sir.

Mr. SIMON. Is this complete news to you or have you heard something about that before?

Mr. GLUECK. I don't know how or where or when the FHA might have revised their project analysis, and the project analysis that we have in our files is the project analysis showing those valuations. Now sometimes they would revise their project analysis. I don't know.

Mr. SIMON. Is the statement I just made to you of an increase virtually doubling the land value news to you or had you heard that before?

Mr. GLUECK. When you say "virtually doubling it"—

Mr. SIMON. From \$65,000—

Mr. GLUECK. I have some vague—some recollection that we might have revised it. However, I don't think, it did not revise the amount of mortgage in any way.

Mr. SIMON. That is correct. Who was the valuator on this project, the FHA valuator?

Mr. GLUECK. I don't know.

Mr. SIMON. You said you got a copy of the project analysis, didn't you?

Mr. GLUECK. Yes.

Mr. SIMON. And that was signed by an FHA—

Mr. GLUECK. It wasn't signed by the chief valuator.

Mr. SIMON. Do you know who signed it? Was it signed by James Swan?

Mr. GLUECK. Among others, I imagine.

Mr. SIMON. Is James Swan a friend of yours?

Mr. GLUECK. Yes.

Mr. SIMON. As a matter of fact, you had him as a guest for a trip to Florida, didn't you?

Mr. GLUECK. That is right, sir.

Mr. SIMON. He stayed at your home in Florida?

Mr. GLUECK. Yes, sir.

Mr. SIMON. And you paid his transportation from Florida back to Gary?

Mr. GLUECK. And from Gary—from Chicago to Florida. I refreshed. I asked my wife about that and she told me she had the tickets.

Mr. SIMON. Now—

The CHAIRMAN. In other words, you paid his expenses from Chicago to Florida and back?

Mr. GLUECK. That is right.

Mr. SIMON. And he was your guest in Florida?

Mr. GLUECK. He was a guest in my home.

Mr. SIMON. Now these applications, for some reason I am not sure, seemed to require a lawyer, is that right?

Mr. GLUECK. To form the corporation, yes, sir.

Mr. SIMON. And who was the lawyer who represented the Tri-City Village before FHA on this application?

Mr. GLUECK. I think Mr. Fleming was.

Mr. SIMON. W. Robert Fleming, of Fort Wayne?

Mr. GLUECK. That is right.

Mr. SIMON. The project was in Gary, wasn't it?

Mr. GLUECK. That is right.

Mr. SIMON. W. Robert Fleming of Fort Wayne—what was his relation to Mr. Peters?

Mr. GLUECK. Son-in-law and law partner—not law partner, but his son-in-law.

Mr. SIMON. Have you ever been to Mr. Fleming's office in Fort Wayne?

Mr. GLUECK. Yes.

Mr. SIMON. Doesn't it say "Law offices of Peters and Fleming" on the door? Didn't it then?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Didn't it list Mr. Fleming and Mr. Peters as the lawyers there?

Mr. GLUECK. Yes, sir.

Mr. SIMON. They were law partners, weren't they?

Mr. GLUECK. I don't know what their arrangements are.

Mr. SIMON. At least the sign on the door said "Peters and Fleming, law offices"?

Mr. GLUECK. That is correct.

Mr. SIMON. And W. Robert Fleming was your lawyer in the filing of this application, is that right?

Mr. GLUECK. Not in the filing of the application, no, sir. In the forming of the corporation.

Mr. SIMON. I will be glad to show you the application and see if that refreshes your recollection as to whether he was the lawyer on the application.

Mr. GLUECK. You mean his name appeared on the application as an attorney, that is correct, sir.

Mr. SIMON. Wasn't he the lawyer?

Mr. GLUECK. Yes, but he didn't prepare the application.

Mr. SIMON. But he was the lawyer who represented you in filing the application?

Mr. GLUECK. Yes—no, not in filing the application. In forming the corporation. You don't have to have a lawyer represent you to file an application with FHA, sir.

Mr. SIMON. There is a printed space in the application for architect's name, and an attorney's name. Now the—

Mr. GLUECK. Yes, but that follows "of the proposed mortgagor." The name of the proposed mortgagor is Tri-City Builders, Inc., and they ask you what the name and address of the architect for that corporation is.

Mr. SIMON. And W. Robert Fleming was the attorney for the corporation?

Mr. GLUECK. That is correct.

Mr. SIMON. When did Mr. Swan make this trip to Florida as your guest?

Mr. GLUECK. In December of 1949.

Mr. SIMON. And do you know or have any idea when this valuation change from \$65,000 to \$125,000 might have taken place?

Mr. GLUECK. No; I don't.

Mr. SIMON. I take it you know that FHA ultimately issued a mortgage commitment to Tri-City Village for \$3,155,500?

Mr. GLUECK. That is right, sir. That was issued in June, I believe, of 1948.

Mr. SIMON. June 30, 1949, is the date on the copy I have.

Mr. GLUECK. 1949, I beg your pardon.

Mr. SIMON. Who built the building?

Mr. GLUECK. Major Corp.

Mr. SIMON. Do you know what the contract price was between Tri-City and Major Corp. for the construction of the building?

Mr. GLUECK. No; I don't offhand.

Mr. SIMON. I have here a photostat of a contract between Tri-City Village and Major Corp. for a complete price of \$2,840,995. Do you know whether that was the price?

Mr. GLUECK. If that is the contract they signed that must have been the price.

Mr. SIMON. I show you the contract and ask you if that refreshes your recollection?

Mr. GLUECK. I am sure this is the contract that was executed.

Mr. SIMON. And the contract called for a construction price of some \$300,000 less than the mortgage commitment; is that right?

Mr. GLUECK. That is correct.

Mr. SIMON. Is there any significance in the fact that—

Mr. GLUECK. I don't know that is \$300,000 less or not.

Mr. SIMON. Well, \$3,155,500 was the commitment, and \$2,840,000 was—

Mr. GLUECK. That would be approximately right.

Mr. SIMON. \$315,000 if my mathematics is right.

Is there any connection between the fact that the difference between the commitment and the contract was \$315,000 and your writeup on the land was approximately that amount?

Mr. GLUECK. No, sir.

Mr. SIMON. That just turned out to be coincidence?

Mr. GLUECK. No, sir; because the contract calls for merely the work. Now Mr. Polland, as the owner of the Tri-City and he was also the Major Corp., built it. The balance of the costs of Tri-City were for interest during construction, all the other charges that you will find set out in your project analysis.

The CHAIRMAN. When did you get paid for the land?

Mr. GLUECK. I got completed payment in—sometime in 1950, sir.

The CHAIRMAN. You got paid after the Tri-City received the full proceeds of the mortgage?

Mr. GLUECK. No, sir. I was paid prior.

The CHAIRMAN. You were paid out of a construction loan?

Mr. GLUECK. No, sir. I was paid direct by Major Corp.

The CHAIRMAN. Where did they get the money?

Mr. GLUECK. I don't know where they got the money.

The CHAIRMAN. You were paid by Major, not Tri-City?

Mr. GLUECK. No, sir.

Mr. SIMON. Are you a stockholder in Major?

Mr. GLUECK. No, sir.

Mr. SIMON. That is Mr. Polland's company?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. We will have to have a check showing the exact time that he was paid and the amount of the check. We didn't ask him to bring those with him.

We will ask you to bring those down later.

Mr. SIMON. Now, Mr. Glueck, you also filed an application, which we will insert in the record.

(The document referred to follows:)

APPLICATION FOR MORTGAGE INSURANCE Under Section 608 of the National Housing Act

(To be Submitted in Duplicate)

Date June 24, 1949

MORTGAGEE'S APPLICATION

No. 073-42049 (Project number to be marked by FHA)

To the FEDERAL HOUSING COMMISSIONER:

Pursuant to the Provisions of Section 608 of the National Housing Act, and Administrative Rules and Regulations applicable thereto, application is hereby made for the insurance of the mortgage described in Mortgagor's Application below. After examination of the application and the proposed security, the undersigned Proposed Mortgagee considers the project to be desirable and is interested in making the Building and Permanent Loan in the principal amount of \$3,403,600 which will bear interest at 4% per annum, payable as to Building Loan monthly and only on disbursements, until 27 months after date of mortgage, and thereafter payable as to Permanent Loan

by 30 equal monthly installments of \$35,599.89 covering principal and interest. Note - Minimum initial curtailment of principal: Level annuity payments, 1 1/2 per centum (1 1/2%); Declining annuity payments, 2 1/2 per centum (2 1/2%).

Monthly installments of \$35,599.89 each of principal plus interest on balance of principal.

The application by the undersigned Proposed Mortgagee is subject to your commitment, its own final action, and payment of its charges as set forth under "Financing Expense" at the rate of 2.5% in the amount of \$51,054.00

Herewith is check for \$5,105.40 which is in payment of the fee required by Section 11 of Administrative Rules, now effective, to be paid at the time of submitting application.

Two types of FHA commitment are available, (a) Commitment for Insurance, under which FHA insures advances of mortgage proceeds during the course of construction, and (b) Commitment to Insure Upon Completion, under which FHA insures total mortgage proceeds at the time of completion of the project. Check below the type of commitment desired. (a) [] Commitment for Insurance. (b) [X] Commitment to Insure Upon Completion.

(Signed) Mid-City Investments, Inc. By: J. C. Schindler, Vice-Pres. 1300 Broadway, Gary, Indiana (Address of mortgagor)

MORTGAGOR'S APPLICATION

To the FEDERAL HOUSING COMMISSIONER:

The undersigned hereby applies for the insurance of a first mortgage in the principal amount of \$3,403,600 under the provisions of Section 608 of the National Housing Act and agrees to pay the examination fee as prescribed by the Administrative Rules now effective. The schedules, estimates, maps, drawings, and other exhibits listed under "Explanatory Notes" below, properly identified and made a part hereof, describe the property which will secure the proposed mortgage.

- 1. Name of proposed mortgagor: Tri-City Village, Inc. (a) Names and addresses of sponsors: Alfred Pollard, 11 W. 7th, Gary, Ind.; James Robbin, 11 W. 7th, Gary, Indiana. (b) Name and address to which correspondence should be addressed: Mid-City Investments, 1300 Broadway, Gary, Indiana. 2. Names and addresses of: (a) Architect: Paul J. Crisp, Indianapolis, Ind. (b) Attorney: W. Robert Fleming, Ft. Wayne, Ind.

RECEIVED - F H A BY 8430170 JUN 15 1949 I.C. 8.2 CODE CASH SCH. RECEIVED - F H A BY 816,627.50 DEC 12 1948 CODE CASH SCH. RECEIVED - F H A BY 8370340 JUN 29 1949 1A 94P CODE CASH SCH.

EXPLANATORY NOTES—NEW CONSTRUCTION (For rehabilitation projects, see explanatory notes on page 2)

- General Information: The following notes should be studied in completing this application and preparing the supporting exhibits. Information concerning the number and character of required exhibits and applicable requirements is available at all FHA Insuring Offices. 1. Required exhibits: (a) Site information as follows shall be submitted in duplicate: (1) Legal description by which the site of the proposed project can be identified. (2) Ownership. A statement as to the ownership of the proposed project site must accompany this application. If the land is to be acquired by the sponsoring group, copies of a valid option shall be submitted. (3) Photographs shall be of sufficient size to afford clear views of the proposed site and its surrounding neighborhood. They should be sufficient descriptive matter typed upon such photographs to make it evident from what point and in what direction they were taken. (4) City map shall be marked to indicate proposed site, schools, churches, shopping and business districts, industrial, commercial, and recreational centers, together with main traffic arteries and available means of transit to and from proposed site to such centers. (5) Soiling map and copy of zoning ordinance, if existing, must be furnished. In the absence of zoning maps the topographical survey or map in locate the character of zoning restrictions on the proposed site and immediate neighborhood with respect to height, coverage, and use permitted. The sponsor must submit definite assurance that the proposed project will not be contrary to existing zoning regulations or restrictions. (6) Form F11-21a (Department of Labor Form) Request for determination of prevailing wage. (7) Personal financial statement of each sponsor, FHA Form 2017. (8) Architectural exhibits: This application must be accompanied by a topographical survey of the site, preliminary drawings and outline specifications prepared on FHA Form 10-100. These shall be prepared in duplicate and shall provide sufficient information to the following: (i) To enable the architect to determine the project design, planning, materials, and construction. (ii) To comply with all applicable FHA requirements and governing laws, ordinances, and local restrictions. (9) Sufficient detail for the preparation of an accurate cost estimate. Information concerning the number and character of required exhibits and applicable requirements is available at all FHA Insuring Offices. 2. Supplementary schedules (page 3 and 4): Schedules A, B, C, D, and E must be completed for all applications, in detail and accurately. 3. Statement of reserves and estimated requirements (page 3): (a) "Construction." In the estimator's cost (i.e., here field cost, or sum of all trades or subcontracts) include the general contractor's public liability, workmen's compensation and other insurances, and job overhead. (b) "Interest." Annual estimated to cover interest on disbursements from mortgage during construction only. (c) "Taxes." On land, or land and buildings, during construction only. (d) "Insurance." An amount sufficient only to cover premium for fire and extended coverage, and other hazard insurances during construction only. (e) "Title and recording expenses." Include the actual cost of title search and title insurance, survey, mortgage taxes of all states, and recording fees. (f) "Organization expenses." Include only reasonable expenses not otherwise classified, and properly incurred during the organization of the project. 4. Estimated annual operating statement (page 3): (a) "Income." Complete Schedule B on page 4. This must be sufficiently detailed to show the apartment composition and the expected rents by apartment type. (b) "Expenses." The assumed vacancy should depend on local conditions, but ordinarily should not be taken at less than 1%. (c) "Operating expenses." These should be estimated on the basis of local experience and must include an allowance for replacement of equipment which depreciates more rapidly than the structures themselves. Complete Schedule D on page 2. (d) "Taxes." Probable taxes on the completed property should be estimated in conformity with local rates and assessment practices, or by comparison with similar properties on a per room or other basis. Both methods should check, and a statement showing this check should accompany the exhibits. 5. Room cost: See allowable room count - page 4.

NOTE.—Data shown in italics refers to rehabilitation projects and shall not apply to new construction projects

(3)
EXPLANATORY NOTES—REHABILITATION

NOTE.—Data shown in italics refers to rehabilitation projects and shall not apply to new construction projects

1. **GENERAL INFORMATION**—The following notes should be studied in completing this application form and preparing the supporting exhibits. The examination of the proposed project will be completed by early and full compliance with the requirements set forth. The requirements of the following notes shall be observed carefully in completing this application, and in preparing the exhibits described.

2. **REQUIRED EXHIBITS**—(a) In order to permit an adequate examination of the project the following exhibits shall be submitted to the district:

- (1) Legal description by which the site of the proposed project can be identified.
- (2) Ownership. A statement as to the ownership of the property comprising the project. If property is to be acquired by the sponsoring group, copies of a valid option shall be submitted.
- (3) Photographs of front, rear, sides and typical interiors of buildings to show physical condition, street view of subject and contiguous properties. There should be sufficient descriptive matter typed upon each photograph to make it evident from what point and in what direction they were taken.
- (4) City map shall be marked to indicate the subject property, schools, churches, shopping and business districts, industrial, commercial, and recreational centers, together with main traffic arteries and available means of transit to and from the property to such centers.
- (5) Zoning map and copy of zoning ordinance, if existing. Duplicate copies must be submitted that the proposed project will not be contrary to existing zoning regulations or restrictions.
- (6) Survey plat by registered surveyor showing site location and dimensions of buildings including surroundings, easements and restrictions if any, and location and size of public utilities, including depths of sewers, location, width, material and condition of adjacent streets and sidewalks, location and height of nearest walls of adjacent buildings.
- (7) Form FH-51a (Department of Labor Form) request for determination of prevailing wages.
- (8) Personal financial statement of each sponsor (FHA Form 511)
- (9) Architectural exhibits—This application must be accompanied by preliminary drawings and outline specifications prepared on FHA Form No. 515b. These shall be prepared in duplicate and shall provide sufficient information to show the following:
 - (A) A complete descriptive delineation of the project design, planning, materials, and construction of all buildings both before and after alterations.
 - (B) Compliance with all applicable FHA requirements and governing laws, ordinances, and deed restrictions.

(10) Sufficient detail for the preparation of an accurate cost estimate. Information concerning the number and character of required materials and applicable requirements is available at all FHA Insuring Offices.

3. **SUPPLEMENTARY SCHEDULES** (pp. 8 and 9). Schedules A, B, C, D, and E must be completed for all applications, in detail and accurately.

4. **STATEMENT OF RESOURCES AND ESTIMATED REQUIREMENTS** (p. 8). (a) "Construction"—In the estimated construction cost (1. 6., here filled out, or sum of all trade or subcontractors) include the general contractor's public liability, workmen's compensation and other insurances, and job overhead.

- (b) "Interest"—Amount estimated to cover interest on disbursements from mortgage during construction only.
- (c) "Taxes"—On land, or land and buildings, during construction only.
- (d) "Insurance"—An amount sufficient only to cover premiums for fire and extended coverage, and other hazard insurances during construction only.
- (e) "Title and recording expense"—Include the actual cost of title search and title insurance surveys, mortgage taxes of all kinds, and recording fees.
- (f) "Organization expense"—Include only reasonable expenses not otherwise classified, and property incurred during the organization of the project.

5. **ESTIMATED ANNUAL OPERATING STATEMENT** (p. 9). (a) "Income"—Complete Schedule K on page 4. This must be sufficiently detailed to show the apartment composition and the expected rents by apartment type.

- (b) "Vacancies"—The amount necessary should depend on local conditions, but ordinarily should not be taken at less than 7%.
- (c) "Operating expense"—These should be estimated on the basis of local experience and must include an allowance for replacement of equipment which depreciates more rapidly than the structure the machine.
- (d) "Taxes"—Problems taxes on the completed property should be estimated in conformity with local rates and assessment practices, or by own persons with similar properties on a per room or other basis. Such methods should check, and a state map showing this check should accompany the exhibit.

6. **ROOM COUNT**—See allowable room count on page 6.

IV

SUPPLEMENTARY SCHEDULES

**SCHEDULE A
Sources of Equity**

NOTE.—Amounts of equity represented by "Land" and "Cash" will be entered in the respective columns opposite the name and address of the equity participant. Amounts of "Other Equity" will be entered under "Amount." Under "Nature" will be indicated the source of the amount such as "Builder's fee," "Architect's fee," etc. // rehabilitation, the change as set forth under "Estimated Requirements" on page 3 may be obtained as "Other Equity." In filling out Schedule A, the equity claimed for buildings must be specifically designated. This must be in an exhibit and to the form of "Building" under "Estimated Requirements." The amount set forth in the item "Land" shall consider land without buildings.

NAME AND ADDRESS	LAND	CASH (Exclusive of working capital)	OTHER EQUITY		TOTAL
			Amount	Nature	
YPL-City Village Alfred Pollard	\$300,000	\$	\$	Salvage	\$300,000 78,188
TOTAL (amount which must equal "Total equity" set forth under "Resources" on p. 3)					\$

**SCHEDULE B
Information Concerning Land—Or Property, If Rehabilitation**

Parcel or lot	Present owner	Total mortgage now a lien	Interest due and unpaid	Unpaid taxes and assessments	Assessed valuation date	Current tax rate
	YPL-City Village, Inc.					

**SCHEDULE C
Equipment and Services Included in Rent**

Equipment Furnished Tenants		Services Included in Rent	
Ranges (gas or electric)	Yes	Water (hot and cold)	No
Refrigerators (gas or electric)	Yes	Space heat	No
Kitchen exhaust fans	No	Janitor service	No
Attic vent fan	No	Grounds maintenance	Yes
Laundry facilities	Yes	Other (specify)	-
Venetian blinds	No		
Other (specify) Cloth Shades			

**SCHEDULE D
Estimate of Annual Operating Expense**

Administrative expense:	Gas	\$	Furniture and furnishings	2600
Advertising	Garbage and ash removal		Other operating expense	91,251
Management	Pay roll for 6 employees part time	7,200	Total	15,900
Operating expense:	Maintenance expense:		Replacement reserve	
Elevator power (if any)	Decorating	46,643	Total operating expense	107,151
Elevator maintenance	Repairs	6,350	Total operating expense per room per annum	67.56
Fuel (heating and domestic hot water)	Exterminating	750		
Janitor's supplies	Insurance	7,239		
Lighting and miscellaneous power	Grounds expense (materials only)	1,600		
Water				

(8) PROPOSED SET-UP

Project name **Tri-City Village** Number of family units **302** Number of rooms **1506**
Location **Waverly Park Heights, Gary, Ind.** Average monthly rent: Per family unit, **\$9.50**; per room, **\$19.15**
Type of buildings **One and Two Story Row Type**

RESOURCES
Land \$300,000
Cash (exclusive of working capital) 78,180
Other equity
Total equity \$378,180
Mortgage-loan proceeds \$3,403,500
TOTAL RESOURCES (exclusive of working capital) \$3,781,800

Cash working capital \$51,051
Note - WORKING CAPITAL shall be not less than 11 1/2% of the amount of the proposed mortgage...

ESTIMATED REQUIREMENTS
LAND IMPROVEMENT: (within property lines only)
New utilities \$300,000
Landscape work 50,000
TOTAL FOR LAND IMPROVEMENTS \$350,000

CONSTRUCTION:
Dwellings \$8,456,099
Garages
Stores 245,609
Salvage (see below)
Taxes (Social Security, sales, etc.)

FEES:
Bid'r, \$2,951,69 @ 8% 236,136
Arch't, \$2,287,83 @ 3% 68,757
TOTAL \$304,893
TOTAL FOR ALL IMPROVEMENTS \$3,251,591

CARRYING CHARGES AND FINANCING:
Interest 10 mos @ 1/2% \$102,108
on \$2,701,800
Taxes (on real estate during construction) 12,000
Insurance
FHA mtg. ins. premium (0.5%) 17,018
FHA examination fee (0.3%) 9,211
Inspection fee (0.5%) 17,018
Financing expense 1/2% 52,000
Title and recording expense 30,000
TOTAL FOR CARRYING CHARGES AND FINANCING \$229,209

LEGAL AND ORGANIZATION EXPENSE:
Legal expense 700
Organization expense 300
TOTAL LEGAL AND ORGANIZATION EXPENSE \$1,000

TOTAL ESTIMATED REQUIREMENTS, EXCLUSIVE OF LAND \$3,481,800
LAND:
sq. ft. @ per sq. ft. \$300,000
TOTAL ESTIMATED REQUIREMENTS \$3,781,800
Cash working capital \$51,051

* Estimate depreciated reproduction costs of salvageable existing improvements if rehabilitation is involved \$

TOTAL SALVAGE \$
Estimated cost of demolition which is not to be included in Estimated Requirements above \$

ESTIMATED ANNUAL OPERATING STATEMENT
INCOME: (See note No. 1, Supplementary Note)
Dwelling rent (from schedule E) \$361,440 per annum.
Garage rent (from schedule E) per annum.
Store rent (from schedule E) 40,493 per annum.
Other income (from schedule E) per annum.
TOTAL ESTIMATED GROSS INCOME PER ANNUM \$401,933

Loss vacancies assumed:
(7% on dwellings) \$25,511
(% on garages)
(7% on other income) 2,835
TOTAL VACANCY DEDUCTION \$28,346
GROSS INCOME EXPECTANCY \$376,587 (Effective gross income)

TOTAL OPERATING EXPENSE: (Schedule D)
Number of rooms 1506 @ \$67.56 per annum \$107,152

REAL-ESTATE TAXES:
Estimated assessed value: \$665,000 @ \$91.80 PER \$1,000 61,127

SOCIAL SECURITY AND OTHER SPECIAL TAXES 3,838
TOTAL \$152,087
CASH AVAILABLE FOR DEBT SERVICE \$224,500

ANNUAL FIXED CHARGES:
Interest (1st year) % \$136,144
Amortization @ 14% during first year 52,054
Mortgage insurance (0.6%) 17,018
Other fixed charges (Special assessments, etc.)

TOTAL ANNUAL FIXED CHARGES \$204,216
CASH AVAILABLE FOR INCOME TAXES, CORPORATE TAXES, DIVIDENDS, AND SURPLUS \$20,284

LIST OF EXHIBITS
Table with multiple rows for listing exhibits.

(4)

VI

SCHEDULE B

Estimate of Rentals

Number of each unit type	Percent of total units	Rooms per unit	Composition of units *Efficiency LU Only (See Allowable Room Count below)	Estimated unit rent per month	Total monthly rent for each unit type	Total annual rent for each unit type
		2	LR-DS Comb.	\$.....	\$.....	\$.....
		2½	LR-K-DA			
		3	LR-DS Comb.-BR			
56		3	LR-K-BR	45.00	2520	30,240
		3½	LR-K-DA-BR			
		4	LR-K-DR-BR			
28		4	LR-K-2BR	75.00	2100	25,200
220		4½	LR-K-DA-2BR	85.00	18700	224,400
		5	LR-K-DR-2BR			
		6	LR-K-DR-3BR			
382	TOTAL ESTIMATED RENTALS FOR ALL DWELLING UNITS.....				\$ 30370	\$ 364,440
	Garage stalls.....					
	Stores.....				3374	40,488
TOTAL ESTIMATED INCOME (at 100% occupancy).....				\$ 33,744	\$ 404,928	

Total number of family units 382 @ average rental of \$..... 79.50 per unit per month.
 Total number of dwelling rooms 1586 @ average rental of \$..... 19.15 per room per month.

Note.—If the total estimate of necessary income, such as that from garages, stores, offices, and any source other than from dwellings, exceeds 10 percent of the total estimated gross income of the project, 10% computed, the amount of such excess above 10 percent will not be considered in project rental estimates. Extraneous income anticipated from the metering of electricity, gas, and telephone services, rental of laundry equipment, maid and valet services, etc., shall not be included in project rental estimates.

ALLOWABLE ROOM COUNT

For purposes of uniformity the Administration has established the following method of counting the number of rooms which must be allowed: (1) All rooms (except kitchens and dining alcoves under conditions shown below) shall be located on an exterior wall and have their own direct natural light and ventilation as required by applicable codes and comply with the current applicable requirements. (a) In the rehabilitation of existing structures and in the construction of elevator structures, kitchens are not required to be located on an exterior wall where adequate ventilation is provided by either natural or mechanical means. (b) Dining alcoves are not required to be located on an exterior wall provided they are directly adjacent to the kitchen and are not used as entrance foyers. (2) A kitchen shall be separated from other rooms by a complete partition and door. (3) Dining alcoves shall be separated from a kitchen by a partition and door, and have no separation from the living room. (4) A room shall be counted and its compliance with the area requirement determined on the basis of its intended use as indicated by its relative to other rooms. (5) Efficiency living units shall include the following features for which no additional room count will be allowed: (a) Entry through door from public space to living room, (b) dressing chest (in LU without BR) having space for coats of drivers and its use, adequate circulation, single entrance including clothes rod and shelf space approximating 6 linear feet, (c) kitchenette consisting of living room or foyer with a door or doors, minimum 3 feet by 4 feet, equipped and arranged for complete kitchen use and having tenant operated exhaust fan connected to exterior air, (d) bathroom access from foyer or dressing chest if no bathroom is provided or from bedroom bath hall accessible from living room, if bathroom is provided, (e) chest, light and ventilation and other features as required by applicable requirements or by the licensing office, (f) minimum area (in efficiency living units) applies to and includes LR-DS only, (g) in living unit with LR, DR, BR, and LU in kitchen, the LR-BR shall have door opening the minimum and approaching that required in (2) (c) above for a dressing chest, items (a) (4), (5) (d), and (5) (e) above also apply.

Room Description	Minimum Sq. Ft.	Count
LR- (2) comb. (DR and K elsewhere in LU)	120	1
LR- (2) comb. (K and BR elsewhere in LU)	120	1
LR- (2) comb. (in Efficiency LU having no BR, item (2) above)	200	1
LR- (2) comb. (in Efficiency LU having one BR, item (2) above)	310	1
LR- BR comb. (in LU having DR in K and no BR, item (2) above)	120	1
K-DR comb.	60	1
K	60	1
BR	60	1
DR	120	1
DA	70	1
BR	45	1
BR	100	1 comb
Other habitable rooms	70	1 comb
Bath (space for tub, lavatory and water closet, and their use)	70	1 comb

*NOTE.—This counts as 3 rooms ONLY when other features in item 5 are provided in ADDITION to the area shown.

LR=Living Room. DR=Dining Room. DA=Dining Alcove. BR=Bedroom.
 LU=Living Unit. DS=Dining Space. K=Kitchen. Comb.=Combined.

Nonrevenue Producing Dwelling Space

Type of employee	Number of rooms	Composition of unit	Location of unit in project

It is hereby represented by the undersigned that, to the best of his knowledge and belief, the foregoing statements, schedules, and exhibits are in no way false or incorrect and that they are truly descriptive of the project or property, which is intended as the security for the proposed mortgage, and that the proposed construction does not violate existing zoning ordinances and requirements or existing deed restrictions.

The undersigned proposes to furnish assurance of completion of the project construction in the form of.....

Indemnity Agreement

Note.—(1) and (2) below, to be completed only when rehabilitation is involved.
 The undersigned certifies: (1) That the subject property was acquired on..... (or that an agreement for its purchase dated..... is in effect) whereby title was (or will be) acquired from..... who is not related to, employed by, or connected with any of the sponsors.

Note.—The following paragraph is to be completed only if property was initially acquired within 1 year prior to date of this application.
 (2) That the entire consideration was \$..... which includes expenditures to clear all liens and encumbrances, if any, as follows:

Date.....
 Attest:.....
 Date.....
 (Signed) *Alfred Pelland* Sponsor.
 On behalf of *City Village, Inc.* Proposed Mortgage.

Mr. GLUECK. May I add something here? I keep saying "I". You understand it was not——

The CHAIRMAN. It was a corporation?

Mr. GLUECK. No. It wasn't a corporation. It was my father and myself.

The CHAIRMAN. A partnership?

Mr. GLUECK. My father received the payments. I didn't receive the payments. I don't know exact dates.

The CHAIRMAN. When you entered into a contract with the Tri-City people, Mr. Polland—and what is the other man's name——

Mr. SIMON. Robbin.

The CHAIRMAN. Did you enter into it with the corporation or them individually?

Mr. GLUECK. With the Major Corp.

The CHAIRMAN. You entered into it with the Major Corp.?

Mr. GLUECK. That is right. Mr. Polland guaranteed the payment.

The CHAIRMAN. He guaranteed it personally?

Mr. GLUECK. Personally.

The CHAIRMAN. Did he guarantee—did they give you a note?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Did you sign a written contract with them?

Mr. GLUECK. I didn't sign any contract. It was done with my father.

The CHAIRMAN. You and your father together—did you sign a contract with them?

Mr. GLUECK. I didn't sign the contract, no, sir.

The CHAIRMAN. Was there a contract signed?

Mr. GLUECK. I imagine there was a contract with them of some kind. There was notes payable that he had. I don't have them, sir.

The CHAIRMAN. Was a part of the consideration——

Mr. GLUECK. I received half the money.

The CHAIRMAN. Wasn't a part of the consideration for the sale of this land, which land you bought for some approximately \$40,000, sold to them for \$350,000—wasn't a part of the consideration that you would get them an FHA commitment?

Mr. GLUECK. That is correct, sir—not part of the consideration of the sale; I mean of the amount, but there was no consideration of what amount of commitment I would get them. They didn't want the land if they couldn't build a building on it.

Mr. SIMON. They didn't want to build a building unless they had a section 608 commitment?

Mr. GLUECK. That is right.

The CHAIRMAN. Would they have paid you \$350,000 for land that you bought for \$40,000 if they hadn't been able to secure a commitment?

Mr. GLUECK. I don't believe so; not at that time. They might over a period of time. I believe the subdivided value of that ground would be pretty close to that figure.

Mr. SIMON. But your option agreement with them was clearly——

Mr. GLUECK. It was a verbal option. There was no written option agreement.

Mr. SIMON. Wasn't your understanding with them that they wouldn't exercise the option unless there was a commitment and there was to be no deal if there wasn't a commitment?

Mr. GLUECK. That is correct.

The CHAIRMAN. Therefore you really were trading in commitments?

Mr. GLUECK. No, sir.

The CHAIRMAN. You weren't?

Mr. GLUECK. No, sir. Anybody could get a commitment on that.

Mr. SIMON. Why didn't Mr. Polland try to get the commitment himself and save \$300,000?

Mr. GLUECK. Because he didn't own the land.

Mr. SIMON. Couldn't he have bought comparable land for \$40,000?

Mr. GLUECK. I don't believe so, sir. I am certain he couldn't, or he certainly would have. He has since bought a lot of other land. He has bought land from me. Other people have bought land.

The CHAIRMAN. You handled the mortgage on this transaction?

Mr. GLUECK. We originated the mortgage.

The CHAIRMAN. As well as selling the land, you likewise handled the mortgage?

Mr. GLUECK. We handled it for——

The CHAIRMAN. Did you make any construction loans as they went along?

Mr. GLUECK. We didn't, sir. We represented the mortgagee.

Mr. SIMON. Mr. Glueck, did you also file an application with FIIA for a mortgage on that part of this tract which went to Major Apartments?

Mr. GLUECK. Yes, sir.

Mr. SIMON. And the same facts were prevalent there?

Mr. GLUECK. That is correct.

Mr. SIMON. You got approximately \$100,000 for the corporation which held the land and the commitment on that part of it?

Mr. GLUECK. Not and the commitment. For the stock of the corporation. I don't know why you keep adding I get paid for a commitment. I am not being paid for a commitment. I was paid for the stock of the corporation. The corporation had a commitment.

Mr. SIMON. And the corporation had the commitment?

Mr. GLUECK. That is right.

Mr. SIMON. And it had the land which cost you a total of \$50,000 in both corporations?

Mr. GLUECK. That is right.

Mr. SIMON. And it had \$1,000 worth of capital in each corporation?

Mr. GLUECK. That is correct.

Mr. SIMON. And it had nothing else; is that right?

Mr. GLUECK. That is right.

Mr. SIMON. Are you acquainted with the Ironwood Apartments project?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Did you ever own the land on which it was constructed?

Mr. GLUECK. My father and I owned it, yes.

Mr. SIMON. How many acres were involved in the entire tract?

Mr. GLUECK. The entire tract of ground that we owned?

Mr. SIMON. Yes.

Mr. GLUECK. I think approximately thirty-some, thirty-odd acres.

Mr. SIMON. Who did you buy that from?

Mr. GLUECK. We bought it through an estate in Chicago. I don't know. It was quite some time back.

Mr. SIMON. What did you pay for that?

Mr. GLUECK. I think we paid somewhere from \$4 to \$5 an acre at that time. It was, I don't know—it was back in 1946. I don't know.

Mr. SIMON. That would be twelve to fifteen thousand dollars for the tract?

Mr. GLUECK. Roughly.

Mr. SIMON. How many different projects were built on that 30-acre tract?

Mr. GLUECK. Well, there were 3 section 608 projects, 1 filling station, and a tract was sold to Sinclair Oil Co. that has not been built on.

Mr. SIMON. How many of the 30 acres went into the 3 section 608 projects?

Mr. GLUECK. All but approximately, a little less than, or a little over three.

Mr. SIMON. Roughly—

Mr. GLUECK. Approximately 27 or 28.

Mr. SIMON. What were the three projects?

Mr. GLUECK. Ironwood Apartments, Steel City Village Apartments, or Steel City Village, Inc., and DuSable Apartments.

Mr. SIMON. What did you receive, or you and your father, for the land in Ironwood Apartments? What did you get for the land that went into Ironwood Apartments?

Mr. GLUECK. I think \$9,000.

Mr. SIMON. \$9,000?

Mr. GLUECK. Approximately.

Mr. SIMON. Plus any stock in the company?

Mr. GLUECK. No, sir.

Mr. SIMON. What did you get for the land that went into Steel City Village?

Mr. GLUECK. I think approximately \$50,000.

Mr. SIMON. Any stock in the company?

Mr. GLUECK. (No response.)

Mr. SIMON. \$50,000; is that right?

Mr. GLUECK. Yes. I now own half of the stock of the company.

Mr. SIMON. What did you pay for that half of the stock?

Mr. GLUECK. One dollar. I mean I put my land in and sold half of my stock to Polland for \$50,000, approximately. I say "I"—my father and I.

Mr. SIMON. Is it accurate to say that for your land you received \$50,000 and half the stock in Steel City Village?

Mr. GLUECK. Approximately; that is correct.

Mr. SIMON. To what extent is it incorrect?

Mr. GLUECK. I mean you said \$50,000. I don't know that it is exactly \$50,000.

Mr. SIMON. With that exception, though, that is the fact?

Mr. GLUECK. That is correct.

Mr. SIMON. And what did you receive for your land in DuSable Apartments?

Mr. GLUECK. I think it was approximately \$55,000.

Mr. SIMON. Any stock?

Mr. GLUECK. No, sir.

Mr. SIMON. So that for 27 of the 30 acres that you paid \$12,000 to \$15,000 for, you received approximately \$114,000 and half of the stock in Steel City Village; is that right?

Mr. GLUECK. For approximately that number of acres; yes, that is correct.

Mr. SIMON. All of the other facts I stated are correct, too, aren't they?

Mr. GLUECK. I believe so; yes.

Mr. SIMON. Can you tell me approximately how many section 608 mortgages in Indiana you or your company have been connected with, either in financing or sponsoring, since 1946?

Mr. GLUECK. I gave you a list of them. I believe—I can count them. I don't remember exactly. Approximately 34 or 35.

Mr. SIMON. Can you give me roughly the dollar amount?

Mr. GLUECK. I don't have it totaled, but I would say somewhere in the neighborhood of \$20 million to \$25 million.

The CHAIRMAN. Did you handle the mortgage on the Meadowbrook Corp. in Indianapolis?

Mr. GLUECK. Yes, sir; we originated it.

The CHAIRMAN. That was for \$5 million?

Mr. GLUECK. The original mortgage was slightly smaller. It was increased to \$5 million.

The CHAIRMAN. And it was later increased—what was the total cost of the Meadowbrook Corp. originally?

Mr. GLUECK. I don't know, sir.

The CHAIRMAN. Was it eventually divided into two mortgages?

Mr. GLUECK. No, sir.

The CHAIRMAN. Just the one mortgage?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. \$5 million?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Did you handle something like \$26 million worth of mortgages? Did you carry any mortgages yourself?

Mr. GLUECK. None of those, no, sir.

The CHAIRMAN. Are you just brokers?

Mr. GLUECK. We are approved mortgagees, but we don't have the assets to carry those kind of mortgages.

The CHAIRMAN. You are just what might be termed brokers. You make—

Mr. GLUECK. No, we are correspondents for several insurance companies.

The CHAIRMAN. For example, all the mortgages you handle you sold to other concerns?

Mr. GLUECK. All the section 608's.

The CHAIRMAN. Have you handled any section 213's or 207's?

Mr. GLUECK. No, sir.

The CHAIRMAN. Any section 203's?

Mr. GLUECK. A lot of section 203's.

The CHAIRMAN. That is individual houses?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. You have handled a lot of those?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Mr. Glueck, were you connected with the Lynn Apartment project in Indianapolis?

Mr. GLUECK. The what apartments?

Mr. SIMON. Lynn Apartments project in Indianapolis.

Mr. GLUECK. There is a Lynn Court Apartments.

Mr. SIMON. That is right.

Mr. GLUECK. We were the mortgagee.

Mr. SIMON. Do you know whether they mortgaged out in that project?

Mr. GLUECK. I don't know.

Mr. SIMON. Do you know whether just about as the building was completed, an application was filed with FHA to increase the amount of the mortgage?

Mr. GLUECK. I don't know whether it was or not. It was probably done through our Indianapolis office.

Mr. SIMON. You don't know whether your office, Mid-City Investments, applied for an increase in the amount of the mortgage just as the building was about to be completed?

Mr. GLUECK. I don't know whether they did or not. I would know—if you tell me they did, they did, I assume.

Mr. SIMON. Then you wouldn't know whether you also applied, that is, your company applied for an increase in the rents based upon the 6½ percent return on the increased amount of the mortgage?

Mr. GLUECK. Our company applied?

Mr. SIMON. Yes.

Mr. GLUECK. No, sir. Our company wouldn't apply for an increase in rents. We didn't.

Mr. SIMON. Are you sure of that?

Mr. GLUECK. Lynn Court Apartments might have applied for an increase of rents but my company did not apply for an increase. It might have been filed through us. I mean all correspondence and requests to FHA had to come through the mortgagee.

Mr. SIMON. I assume that somebody might have asked you to do it, but didn't your company file it?

Mr. GLUECK. On behalf of Lynn Court do you mean?

Mr. SIMON. I don't know on whose behalf. I would assume on behalf of Lynn Courts.

Mr. GLUECK. I don't know.

Mr. SIMON. Did your company ask FHA to increase the rents on Lynn Court Apartments, based upon an increase in the mortgage granted, at the completion of construction?

Mr. GLUECK. I don't know.

The CHAIRMAN. Mr. Glueck, you knew Mr. Earl Peters very well?

Mr. GLUECK. Yes, sir, I did.

The CHAIRMAN. You did a lot of business with him?

Mr. GLUECK. No business—FHA you mean?

The CHAIRMAN. You did business in Fort Wayne on Florida Apartments, did you not?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. You were half owner at one time?

Mr. GLUECK. That is correct.

The CHAIRMAN. And you sold him your stock, or rather his nominee, your \$7,500 worth of stock, at the same price you paid for it?

Mr. GLUECK. That is correct.

The CHAIRMAN. Just why did you sell that? Was that a good project?

Mr. GLUECK. I think it is a good project.

The CHAIRMAN. Why did you sell your stock for \$7,500? In every other instance here you got a big profit, but in this instance, when

the State FHA director was involved, you sold the stock for exactly what you paid for it.

Mr. GLUECK. In the instances you mentioned we got a big profit. I have some stock in some that I would sell for \$7,500.

The CHAIRMAN. Isn't it a fact that it was never intended that you should own that \$7,500 worth of stock?

Mr. GLUECK. No, sir.

The CHAIRMAN. It is not?

Mr. GLUECK. No, sir.

The CHAIRMAN. Why did you sell it for \$7,500?

Mr. GLUECK. Because I wanted to sell it for \$7,500.

The CHAIRMAN. What?

Mr. GLUECK. Because he asked to buy it and I said all right, he could have it, that is all.

The CHAIRMAN. Did you know at the time it was illegal for an FHA State director to own stock or to participate in FHA projects?

Mr. GLUECK. No, sir.

The CHAIRMAN. You did not?

Mr. GLUECK. No, sir.

The CHAIRMAN. I hold in my hand a report dated March 17, 1952. What period was it that you were suspended?

Mr. GLUECK. From April 1 to April—you mean the company was suspended?

The CHAIRMAN. Yes.

Mr. GLUECK. From April 1 to April 15.

The CHAIRMAN. From April 1, 1952—

Mr. GLUECK. A matter of 10 days to 2 weeks.

The CHAIRMAN. I hold in my hand a report from B. T. Fitzpatrick, Deputy Administrator—

Senator BENNETT. Mr. Chairman, before you go into that, this is interesting to me: The company was suspended from April 1 to 15, and you resigned as president during that time. Was the suspension lifted because of your resignation as president?

Mr. GLUECK. That is one of the reasons.

Senator BENNETT. Was there any other reason?

Mr. GLUECK. I think it was lifted because we answered the complaint that had been made, to the satisfaction of FHA.

Senator BENNETT. But it wasn't lifted solely because you answered the complaint. It was lifted in part, at least, because you resigned as president?

Mr. GLUECK. That was one of the requirements of the removal of the suspension.

May I add we were not suspended as an FHA mortgagee. We were merely suspended from taking further applications until such time, but all of our other operations were to function as an approved mortgagee.

The CHAIRMAN. I hold in my hand—

Mr. GLUECK. And it said until the conclusion of the investigation that they were making.

The CHAIRMAN. I have a report dated March 17, 1952, made by B. T. Fitzpatrick, Deputy Administrator and General Counsel of the HHFA, not FHA, to Raymond M. Foley, the Administrator; subject, Investigation of FHA, Indianapolis Office. And I shall read por-

tions of this because here is an instance where the FHA and Mr. Foley did take some action, or make an effort take some action to clean up some of the irregularities that were occurring at that time. As has been testified by this gentleman already, he or his firm were suspended for a period of time. [Reading:]

I have received the attached copy of the report of the investigation of the FHA, Indianapolis office, which copy I received late in the afternoon of March 14. The general report of the investigation confirms those details previously reported to you in various discussions by Commissioner Richards concerning the transaction by which the late Earl Peters, former FHA director of the Indianapolis office, insured a mortgage loan for the financing of a section 608 rental project, Florida Apartments, in Fort Wayne, as to which Mr. Peters was in fact the real sponsor and owner, although his sponsorship and ownership was concealed and did not appear on the record.

As you know, this transaction was the basis for Mr. Peters' dismissal by the FHA earlier this year.

Mr. SIMON. Is the report the Senator read, which is dated March 17, 1952, does that refer to Mr. Peters as the late Mr. Peters?

Mr. GLUECK. Yes, sir.

Mr. SIMON. When did he die?

Mr. GLUECK. In January 1952.

Mr. SIMON. Then in June 1952, when you asked Ayres & Co. to change the billing on the furniture, Mr. Peters was already dead, wasn't he?

Mr. GLUECK. I beg your pardon. He died in January 1953.

Mr. SIMON. How could they refer to him in March 1952 as the late Mr. Peters?

The CHAIRMAN. They may be referring to the fact they dismissed him.

Mr. SIMON. This memorandum is dated March 17, 1952.

The CHAIRMAN. I know.

When did Mr. Peters die?

Mr. GLUECK. I know he died after he was dismissed.

Senator BENNETT. Was Mr. Peters still alive when your company was suspended?

Mr. GLUECK. No.

Mr. SIMON. He died before your company was suspended?

Mr. GLUECK. He died in January of 1952.

Mr. SIMON. Of 1952?

Mr. GLUECK. Yes.

Mr. SIMON. And you didn't ask Ayres & Co. to change the billing until June of 1952?

Mr. GLUECK. To correct the billing, but he had paid his share of it. He had paid Ayres. That is when they corrected it.

Senator BENNETT. Wait a minute.

Mr. GLUECK. May I add something further? I didn't handle the bill at all. It was handled by the office. I don't know what or how the correspondence with Ayres was. I know this: That we didn't pay for anything but the furniture in my apartment. That is all.

Mr. SIMON. Let's get this straight. You wrote Ayres & Co. on June 15, 1952, telling them that Peters should have been billed for his part of the furniture: is that right?

Mr. GLUECK. May I see the letter? I don't know.

Mr. SIMON. I don't have your letter.

Mr. GLUECK. I don't have it, either. I don't know when I wrote them. I mean my firm wrote them.

Mr. SIMON. Do you know whether it was before or after Mr. Peters died?

Mr. GLUECK. I don't know. I think—I don't know.

Mr. SIMON. We have been advised by the president of L. S. Ayres & Co. that they received a letter from you, dated June 15, 1952, telling them that roughly half of this furniture should have been charged to Mr. Peters, and they also advised us that on June 22, 1952, which is the 7 days after your letter and 4 months after Mr. Peters' death, they received \$2,629.22 from Mr. Peters.

Mr. GLUECK. Maybe Mrs. Peters paid it.

Mr. SIMON. Very well, but what I am trying to find out is whether it isn't true that the Peters part of the furniture wasn't paid by anybody named Peters until after his death.

Mr. GLUECK. None of the furniture was paid for.

Mr. SIMON. At any rate, you didn't ask to change the billing until after he died, and Mrs. Peters paid for the furniture after that; is that right?

Mr. GLUECK. We had asked them numerous times over the telephone, and different things. That is why we didn't pay the bill, because they didn't correct the billing. We finally wrote them a letter and my understanding is we finally wrote them a letter and they corrected the bill and we paid them.

Mr. SIMON. Is it true that you did not write them a letter until June 15, 1952?

Mr. GLUECK. I don't know, but that we might have written them sooner. I do know that way back before then, shortly afterward, Mr. Boldon, who is our tax consultant, and who is a friend of the comptroller of Ayres, I asked him and he said he would stop in and correct it. That was in the beginning, and they never did.

Mr. SIMON. The furniture was delivered in July of 1951; is that right?

Mr. GLUECK. June or July of 1951.

Mr. SIMON. Of 1951, and at any time prior to Mr. Peters' death, did you or anybody else ever tell Ayres in writing that part of it should have been charged to Mr. Peters?

Mr. GLUECK. I don't know.

Senator BENNETT. Mr. Chairman?

The CHAIRMAN. Senator Bennett.

Senator BENNETT. There is one other interesting thing on this memo. It is completely, or comparatively unimportant, but with your letter of June 15, 1952, which Mr. Glueck did not sign—it was signed by Carroll H. Ensilen.

The check for \$3,718.61 was enclosed. In other words, that couldn't have been a letter asking them finally to correct the billing.

Mr. GLUECK. We finally sent them the amount we thought was correct on the billing for the furniture that we had bought.

The CHAIRMAN. We are getting all the correspondence. We will have Mr. Ayres' testimony and we will be able to clear this whole matter up.

Mr. GLUECK. We did not pay for Mr. Peters' furniture, sir.

The CHAIRMAN. Did you ever intend to pay for it?

Mr. GLUECK. No, sir.

The CHAIRMAN. But you did order it for him?

Mr. GLUECK. We were good friends. My wife and Mrs. Peters were good friends, they went down, they picked out the furniture and it was sent out to the apartment. I didn't even——

The CHAIRMAN. You were just good friends?

Mr. GLUECK. We were good friends for many, many years.

The CHAIRMAN. The fact he was State FHA director had nothing to do with it at all?

Mr. GLUECK. No, sir. I was a very close friend of Mr. Peters when he was State Democratic chairman.

Senator BENNETT. Did you ever send a letter to Mr. Peters telling him his share of the furniture was \$2,700 and would he please pay it?

Mr. GLUECK. I don't know that I did. I know I told him.

The CHAIRMAN. When was Mr. Peters State Democratic chairman?

Mr. GLUECK. In 1930—I first knew him personally in 1933, 1932.

The CHAIRMAN. Do you remember how long he was Democratic State chairman?

Mr. GLUECK. He had before then and I believe he was until——

The CHAIRMAN. I will continue with this letter.

Senator PAYNE. Mr. Chairman, if I may?

The CHAIRMAN. Senator Payne.

Senator PAYNE. If we do not have it, will it be possible for the committee to secure the bank statements and canceled checks—for the years 1951 and 1952, of the corporation that I understand finally paid the furniture bill?

(The information referred to will be found in the files of the committee.)

Senator BENNETT. That reminds me of another thing; Mr. Chairman, while you are after that, I would be interested to know whether the corporation paid Mr. Glueck's share or whether it was charged to him.

Mr. GLUECK. The apartment was rented in the name of the corporation.

Senator BENNETT. So the corporation bought the furniture?

Mr. GLUECK. That is correct.

The CHAIRMAN. I will continue with this memorandum of March 17, 1952, from Mr. Fitzpatrick to Mr. Foley.

The most important aspect which should be called to your attention as this time is the action proposed to be taken in connection with Mr. Charles H. Glueck, president of Mid-City Investment Corp., of Gary, Ind., the original mortgagee on the Florida Apartments. I believe it is the most important because while others (particularly the architects, Allen & Kelly) may be involved in irregularities connected with this case, it is doubtful that the transaction could have been carried out without Mr. Glueck's active participation.

The original application was submitted by City Investments, Inc., over the signature of Charles H. Glueck. It listed the sponsors as Charles H. Glueck, J. L. Allen, and J. R. Kelly (the latter being architects). It listed the attorney as Robert Fleming, a brother-in-law of Mr. Peters. Shortly after the mortgage was endorsed for insurance and apparently before construction of the project was commenced, the mortgage was assigned by Mid-City Investments, Inc., to Teachers Insurance & Annuity Association of America.

You will also recall that on the basis of the preliminary information it appeared that at all times of the option for the land was first taken in the name of Miss Jane Remel, secretary to Robert Fleming.

Mr. Peters had at least approximately a 50-percent interest in the transaction. Mr. Peters' statements were to the effect that the option price was \$15,000, of which he put up \$7,500 and Mr. Glueck a like amount.

Is that true, Mr. Glueck?

Mr. GLUECK. I know I put up \$7,500; yes, sir.

The CHAIRMAN (reading):

That he subsequently bought out Mr. Glueck's interest for \$7,500.

Is that correct?

Mr. GLUECK. That is correct, we bought the stock. I was also reimbursed other expenses.

The CHAIRMAN (reading):

Plus a portion of the required working capital furnished by Mr. Glueck.

Mr. GLUECK. That is correct.

The CHAIRMAN (reading):

The investigation report contains information, particularly Mr. Fleming's statements, which indicate that Mr. Peters' \$7,500 was in the stock held by Mr. Glueck.

Is that correct?

Mr. GLUECK. No, sir.

The CHAIRMAN (reading):

In any event, Glueck admitted to Mr. Bremer, of FHA, that Mid-City Investment Corp. had fronted for the Peters family on the Florida Apartments.

Is that a correct statement?

Mr. GLUECK. I have my letter to the FHA explaining that completely, and if I can read it when you finish, sir, I think it will tell you the entire complete story.

The CHAIRMAN. Would you answer yes or no, whether or not you did front for Mr. Peters?

Mr. GLUECK. Whether I fronted for Mr. Peters?

The CHAIRMAN. Yes.

Mr. GLUECK. No, I did not, sir.

The CHAIRMAN. The fact that you bought the stock for \$7,500 and later sold it back to him or sold it to him for \$7,500 was not, in your opinion, fronting?

Mr. GLUECK. No, sir. I had no intentions of selling it to him when I bought it.

The CHAIRMAN. You had no intention of selling it?

Mr. GLUECK. No, sir.

The CHAIRMAN. You testified a minute ago it was a good project.

Mr. GLUECK. A pretty good project.

The CHAIRMAN. Why did you sell it for exactly what you paid for it?

Mr. GLUECK. It is just a matter of—

The CHAIRMAN. What was the consideration for doing it?

Mr. GLUECK. My money. I was paid back.

The CHAIRMAN. You needed your \$7,500?

Mr. GLUECK. Yes. I could have used it at that time.

Senator PAYNE. And the date, Mr. Chairman—Mr. Glueck, what was the date you purchased that stock, approximately?

Mr. GLUECK. 1947.

Senator PAYNE. About when did you sell it?

Mr. GLUECK. 1948.

Senator PAYNE. And about when did you start this other project?

The CHAIRMAN. The Gary project.

Mr. GLUECK. 1949.

Senator PAYNE. 1949.

The CHAIRMAN. This Florida Apartment in which you sold your half interest for \$7,500 was a \$3,500,000 project, was it not?

Mr. GLUECK. No, sir.

The CHAIRMAN. What was it?

Mr. GLUECK. Three hundred thousand dollars-some-odd.

The CHAIRMAN. \$300,000?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. The Florida Apartment is a \$300,000 project? The Florida Apartment is the \$350,000 project?

Mr. GLUECK. \$372,000.

The CHAIRMAN. How many apartments were there in it?

Mr. GLUECK. I think forty-some-odd.

The CHAIRMAN. Were there any other units that were handled on a similar basis that were partially owned by Mr. Peters?

Mr. GLUECK. None that I know of.

The CHAIRMAN. This was a \$372,600 project. I will continue reading:

In any event, Mr. Glueck admitted to Mr. Bremer of the FHA that Mid-City Investments had fronted for the Peters family on the Florida Apartments. On the basis of the report of the full investigation, there is some evidence which would indicate a strong possibility that Peters really had practically the full interest. Further, it appears that before completion of the project, all of the stock held by Glueck, as well as that held by Allen and Kelly was assigned to A. Mentzler, a brother-in-law of Peters and by Mentzler in blank to Peters, and in the case of Glueck, it is apparent his assignment was to Leo Levi, connected with Glueck, by Levi to Mentzler and then by Mentzler in blank to Peters.

Why didn't you sign it directly to Peters?

Mr. GLUECK. May I read this? It will explain it completely.

The CHAIRMAN. Can you read just that portion of it?

Mr. GLUECK. This is a letter to the board of directors.

The CHAIRMAN. Can you read just the portion of it that explains this?

Mr. GLUECK. This is a letter to the board of directors of our company that had asked me to make a complete report to them on it.

The CHAIRMAN. What is the date of that?

Mr. GLUECK. March 27, 1952.

The CHAIRMAN. Let me finish this letter. Then I will let you read that with comments as I am reading this. Is that fair enough?

Mr. DRAPER. That is fine.

The CHAIRMAN. (reading):

As you know, FHA proposes to send to Mr. Glueck a letter calling attention to the fact that disciplinary action is being taken with respect to Mr. Swan, of the FHA Indianapolis Office, because he permitted Glueck to pay for the transportation by rail and plane of Mr. and Mrs. Swan from Indianapolis to Miami (where they spent a week as guests of Mr. Glueck) and return.

You testified a minute ago that was true?

Mr. GLUECK. That is right. It wasn't a week. It was 4 days.

The CHAIRMAN. Well, whatever it was.

The letter merely indicates the FHA policy—

by the way, do you know where Mr. Swan is at the moment? He isn't employed by you today, is he?

Mr. GLUECK. No, sir.

The CHAIRMAN. Is he employed by a Mr. Litman of Indianapolis?

Mr. GLUECK. That is what I understand.

The CHAIRMAN. (reading) :

The letter merely indicates the FHA policy—
the reason I ask that is I think we want him as a witness—

The letter merely indicates the FHA policy was also as to giving of gratuities to employees of FHA and asked Mr. Glueck to advise in the light of such information how he proposes to conduct himself in the future relationships with FHA. You will recall that in our discussion of this matter on Friday afternoon Mr. Bovard—

and Mr. Bovard was the General Counsel of FHA, and was a witness here yesterday, and I want to read this particularly—

you will recall that in our discussion of this matter on Friday afternoon, Mr. Bovard expressed the opinion that no action to withdraw approval of Glueck as an approved mortgagee could be taken because there was nothing in the rules or regulations bearing on this subject.

I think I will read that again, in view of Mr. Bovard's testimony yesterday :

You will recall that in our discussion of this matter on Friday afternoon, Mr. Bovard expressed the opinion that no action to withdraw approval of Glueck as an approved mortgagee could be taken because there was nothing in the rules and regulations bearing on this matter.

In other words, the matter of paying an FHA employee's expenses to Florida and back, and the matter of being involved, at least—I am saying involved—with the State FHA director on a project in which it looked as though he was the beneficiary. Now I continue:

As a result, we then discussed the necessity for changing the rules to cover this type of case in the future. As I indicated Friday afternoon, I could see no point in sending a letter asking whether Mr. Glueck proposes in his future relations with FHA to observe appropriate ethical standards if FHA is not in a position to invoke receiver sanctions if he does not. It was my understanding at the conclusion of the discussion Friday that you would not believe it proper to do less than advise Glueck that while because of certain technicalities in FHA's present rules, we could not take disciplinary action against him in this case; we were amending the rules to cover such cases, and that if in the future he followed any such course of action as he had in the case of Mr. Swan, FHA would suspend or withdraw his status as an approved mortgagee.

After reviewing the report of the investigation, I am convinced that such a course of action would not be adequate, especially since it relates to the less serious violation of ethics, and ignores the greater transgressions—that Glueck at no time had any real sponsorship in Florida apartments, and was fully aware of the fact that Peters was the real owner and sponsor, and that he deliberately and actively aided Peters in the concealment of that essential fact.

Do you think that is a true statement, Mr. Glueck?

Mr. GLUECK. I do not, sir.

The CHAIRMAN. You do not?

Mr. GLUECK. No, sir.

The CHAIRMAN. Did you at any time—

Mr. GLUECK. I know for a fact it is not a true statement.

The CHAIRMAN. Did you know at any time that Mr. Peters was a part owner of the Florida apartments?

Mr. GLUECK. Yes, sir. When I read this thing it will certainly explain the entire picture.

The CHAIRMAN. You knew he was an owner?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. And you thought that was perfectly all right for him to be the beneficiary of a section 608 project and also be the State FHA director?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. You thought that was perfectly all right?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Did you think it was perfectly all right for you to take Mr. Swan and his wife to Florida and back and pay their expenses?

Mr. GLUECK. As I state here I was a little younger then and didn't realize. I had known Jim Swan for many years and we were good friends and his family, I knew them. I didn't think it was wrong. I know now that it is wrong.

The CHAIRMAN. If you thought there was nothing wrong about Mr. Peters being the beneficiary of this Florida Apartment, why did you go this devious route of assigning and assigning and assigning to 2 or 3 or 4 people?

Mr. GLUECK. I can explain all that.

The CHAIRMAN. I will continue reading.

Moreover, I believe we should have some further information as to Mr. Bovard's position that no action may be taken to withdraw approval of Glueck's company, Mid-City Investments, Inc., as a mortgagee, because, on examining this matter, I find that subsection 4 of section 1 of the FHA rules for rental housing under section 608 provides as follows:

"Approval of a mortgagee may be withdrawn by notice from the Commissioner upon violation of the agreement mentioned in subsection 2 of this section, [which subsection relates to annual inspection and protection and preservation of the mortgaged property] *and such approval may also be withdrawn at any time for other cause sufficient to the Commissioner*, but no withdrawal will in any way affect the insurance of mortgages theretofore accepted for insurance." [Emphasis supplied.]

From the report of the investigation, I think it is a fair and reasonable conclusion that Mr. Glueck knew from the beginning the purpose of the transaction—that Peters was undertaking, as the real and responsible sponsor and owner, to construct a rental project financed with FHA insurance contrary to FHA policies on employee interest cases and contrary to specific instructions from FHA's Washington office. He aided Peters in the concealment of his real ownership of the project which, if disclosed, would have rendered ineligible for FHA insurance the mortgage loan his company, Mid-City Investments, Inc., agreed to make.

Under such circumstances, I believe the Commissioner ought to withdraw approval of Mid-City Investments, Inc., as an approved mortgagee. In view of subsection 4 of section 1 of the FHA administrative rules, it seems to me that the Commissioner can do so.

In addition, I believe the report of the investigation discloses evidence of the possible violation of the laws of the United States. Accordingly, I believe the Commissioner should forward a copy of the report to the Attorney General calling attention to the possible violation, and strongly urging that, in the event the Attorney General determines that such a violation has occurred, that the appropriate United States attorney be instructed to undertake, at the earliest possible date, the necessary action looking toward the maximum penalties under the law.

The basis for possible violation of the laws of the United States are as follows:

1. The application for mortgage insurance submitted by Mid-City Investments, Inc., over the signature of Charles H. Glueck, president, showed the sponsors as Charles H. Glueck, along with the architects, Allen and Kelly, whereas Glueck knew that the real sponsor and owner was Peters and that if Peters' interest was disclosed, insurance would not be granted by the FHA.

Do you believe that to be a true statement?

Mr. GLUECK. No, sir.

The CHAIRMAN. It is certainly true it isn't Allen & Kelly, isn't it?

Mr. GLUECK. I told you—

The CHAIRMAN. You have got that in your letter?

Mr. GLUECK. I have got it all in there, sir. My board was very thorough.

The CHAIRMAN. You don't think or you are sure you went into this project—

Mr. GLUECK. Absolutely, sir.

The CHAIRMAN. But you do admit that Peters was a half owner?

Mr. GLUECK. He became a half owner, yes, sir. This all explains it completely.

The CHAIRMAN. Was he a half owner from the very beginning?

Mr. GLUECK. I find out now he was. I didn't know at that time.

The CHAIRMAN. You find out now he was but you didn't know at the time?

Mr. GLUECK. I mean I knew later he was. In the beginning I didn't.

Mr. SIMON. Mr. Glueck, you were here in this room on June 25, 1954, in executive session?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. At that time, when we were talking about this Florida deal, did you make this statement, and I am quoting from page 897 of the transcript:

My understanding of that thing was very clear when I went into it. My understanding was that it was brought about by Allen & Kelly and Mr. Peters. They talked to me about it, and my understanding of it was that Mr. Peters wanted an apartment building, or wanted an interest in an apartment building at Fort Wayne and that he had contacted Washington, his superiors, to see whether it would be satisfactory. In the interim, awaiting their answer, Mr. Kelly and Allen and myself were to build the thing.

Did you say that?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Then isn't what you said there—

Mr. GLUECK. Will you read the rest of it?

Mr. SIMON. Yes.

If Mr. Peters got an O. K. to go ahead he was to purchase a third of it at whatever the cost figures were. We did it.

Isn't the understanding in the beginning that he wanted it and you were just going to hold it for him until he theoretically cleared up?

Mr. GLUECK. He would have one-third of it if it was O. K. We were going in. If he couldn't have it we would own it. That was my understanding.

Mr. SIMON. Did you ever find out that he could have it?

Mr. GLUECK. Again, I was told that by Mr. Peters.

Mr. SIMON. Mr. Peters told you that he had an O. K. to go ahead on it?

Mr. GLUECK. Yes, sir.

Mr. SIMON. It was all right, was that what you said?

Mr. GLUECK. Yes, sir.

Mr. SIMON. Then you went on to say:

Prior to the time it was finally completed, he said he wanted it for his family and I sold my stock to him at cost for \$7,500 and got paid for it.

Mr. GLUECK. That is correct.

The CHAIRMAN. In other words, I again get back to why you would sell stock for \$7,500, the amount you paid for it in a good proposition,

to Mr. Peters, unless it was because he was the State FHA Director. You certainly haven't shown that generous attitude toward the gentleman in Gary.

Mr. GLUECK. The size of the deals are a little different, Mr. Capehart.

Senator BENNETT. That was the same stock that finally got in blank in the hands of Mr. Peters through 3 or 4 nominees along the road and yet in your statement you said:

• • • he said he wanted the stock for his family and I sold the stock to him at cost and got paid for it.

It will be interesting to know why it had to go through those 3 or 4 hands if you made a deal directly with Peters.

Mr. GLUECK. May I read this?

The CHAIRMAN. Without objection what I read here, and other information, will be placed in the record at this point.

(The information referred to is as follows:)

[CONFIDENTIAL]

OFFICE MEMORANDUM, UNITED STATES GOVERNMENT

MARCH 17, 1952.

To: Raymond M. Foley, Administrator.

From: B. T. Fitzpatrick, Deputy Administrator and General Counsel.

Subject: Investigation of FHA Indianapolis Office.

I have reviewed the attached copy of the report of the investigation of the FHA Indianapolis office, which copy I received later in the afternoon of March 14.

In general, the report of the investigation confirms those details previously reported to you in various discussions by Commissioner Richards concerning the transaction by which the late Mr. Earl Peters, former FHA Director of the Indianapolis office, insured a mortgage loan for the financing of a section 608 rental project (Florida Apartments) in Fort Wayne as to which Mr. Peters was in fact the real sponsor and owner, although his sponsorship and ownership was concealed and did not appear on record. As you know, this transaction was the basis for Mr. Peters' dismissal by the FHA earlier this year.

The most important aspect which should be called to your attention at this time is the action proposed to be taken in connection with Mr. Charles H. Glueck, president of Mid-City Investments, Inc., of Gary, Ind., the original mortgagee on the Florida Apartments. I believe it is the most important because, while others (particularly the architects, Allen and Kelly) may be involved in irregularities connected with this case, it is doubtful that the transaction could have been carried out without Mr. Glueck's active participation.

The original application was submitted by Mid-City Investments, Inc., over the signature of Charles H. Glueck. It listed the sponsors as Charles H. Glueck, J. L. Allen, and J. R. Kelly (the latter being architects). It listed the attorney as Robert Fleming (a brother-in-law of Mr. Peters). Shortly after the mortgage was endorsed for insurance and apparently before construction of the project was commenced, the mortgage was assigned by Mid-City Investments, Inc. to Teachers Insurance and Annuity Association of America.

You will also recall that on the basis of the preliminary information it appeared that at all times after the option for the land was first taken in the name of Miss Jane Rimmel (secretary to Robert Fleming) Mr. Peters had at least, approximately, a 50-percent interest in the transaction. Mr. Peters' statements were to the effect that the option price was \$15,000, of which he put up \$7,500 and Mr. Glueck a like amount; that he subsequently bought out Mr. Glueck's interest for \$7,500, plus the portion of the required working capital furnished by Mr. Glueck. The investigation report contains information, particularly Mr. Fleming's statements, which indicate that Mr. Peters' \$7,500 was in the stock held by Glueck. In any event, Glueck admitted to Mr. Bremer of the FHA that Mid-City Investments, Inc. "had fronted for the Peters family on the Florida Apartments." On the basis of the report of the full investigation, there is some evidence which would indicate a strong possibility that Peters really had practically the full interest.

Further, it appears that, before completion of the project, all of the stock held by Glueck, as well as that held by Allen and Kelly, was assigned to Mentzer (a brother-in-law of Peters), and by Mentzer in blank to Peters. In the case of Glueck, it is significant that his assignment was to Leo Levin (connected with Glueck), by Levin to Mentzer, and Mentzer in blank to Peters.

As you know, FHA proposes to send to Mr. Glueck a letter calling attention to the fact that disciplinary action is being taken with respect to Mr. Swan of the FHA Indianapolis Office because he permitted Glueck to pay for the transportation, by rail and plane, of Mr. and Mrs. Swan from Indianapolis to Miami (where they spent a week as guests of Glueck) and return. The letter merely indicates that the FHA policy is also opposed to the giving of gratuities to employees of FHA and asks Mr. Glueck to advise, in the light of such information, how he proposes to conduct himself in future relationships with the FHA. You will recall that, in our discussion of this matter on Friday afternoon, Mr. Bovard expressed the opinion that no action to withdraw approval of Glueck as an approved mortgagee could be taken because there was nothing in the rules or regulations bearing on this matter. As a result, we then discussed the necessity for changing the rules to cover this type of case in the future. As I indicated Friday afternoon, I could see no point in sending a letter asking whether Mr. Glueck proposes in his future relations with FHA to observe appropriate ethical standards if FHA is not in a position to invoke severe disciplinary sanctions if he does not. It was my understanding at the conclusion of the discussion Friday that you would not believe it proper to do less than advise Glueck that, while because of certain technicalities in FHA's present rules, we could not take disciplinary action against him in this case, we were amending the rules to cover such cases, and that if in the future he followed any such course of action as he had in the case of Mr. Swan, FHA would suspend or withdraw his status as an approved mortgagee.

After reviewing the report of the investigation, I am convinced that such a course of action would not be adequate, especially since it relates to the less serious violation of ethics, and ignores the greater transgression—that Glueck at no time had any real sponsorship in Florida Apartments and was fully aware of the fact that Peters was the real owner and sponsor, and that he deliberately and actively aided Peters in the concealment of that essential fact.

Moreover, I believe we should have some further information as to Mr. Bovard's position that no action may be taken to withdraw approval of Glueck's company, Mid-City Investments, Inc., as a mortgagee, because, on examining this matter, I find that subsection 4 of section 1 of the FHA Rules for Rental Housing under section 608 provides as follows:

"Approval of a mortgagee may be withdrawn by notice from the Commissioner upon violation of the agreement mentioned in subsection 2 of this section [which subsection relates to annual inspection and protection and preservation of the mortgaged property] and such approval may also be withdrawn at any time for other cause sufficient to the Commissioner, but no withdrawal will in any way affect the insurance of mortgages theretofore accepted for insurance." [Emphasis supplied.]

From the report of the investigation, I think it is a fair and reasonable conclusion that Mr. Glueck knew from the beginning the purpose of the transaction—that Peters was undertaking, as the real and responsible sponsor and owner, to construct a rental project financed with FHA insurance contrary to FHA policies on employee-interest cases and contrary to specific instructions from FHA's Washington office. He aided Peters in the concealment of his real ownership of the project which, if disclosed, would have rendered ineligible for FHA insurance the mortgage loan his company, Mid-City Investments, Inc., agreed to make.

Under such circumstances, I believe the Commissioner ought to withdraw approval of Mid-City Investments, Inc., as an approved mortgagee. In view of subsection 4 of section 1 of the FHA administrative rules, it seems to me that the Commissioner can do so.

In addition, I believe the report of the investigation discloses evidence of the possible violation of the laws of the United States. Accordingly, I believe the Commissioner should forward a copy of the report to the Attorney General calling attention to the possible violation, and strongly urging that, in the event the Attorney General determines that such a violation has occurred, that the appropriate United States attorney be instructed to undertake, at the earliest possible date, the necessary action looking toward the maximum penalties under the law.

The basis for possible violation of the laws of the United States are as follows:

1. The application for mortgage insurance submitted by Mid-City Investments, Inc., over the signature of Charles H. Glueck, president, showed the sponsors as Charles H. Glueck, along with the architects, Allen and Kelly, whereas Glueck knew that the real sponsor and owner was Peters and that if Peters' interest was disclosed, insurance would not be granted by the FHA.

2. Title 18, United States Code, section 1010, which provides, in part, as follows:

"Whoever, for the purpose of obtaining any loan * * * from any corporation with the intent that such loan * * * shall be offered to or accepted by the Federal Housing Administration for insurance, * * * or for the purpose of influencing in any way the action of such Administration, makes, passes, utters, or publishes any statement, knowing the same to be false * * * shall be fined not more than \$5,000 or imprisoned for two years, or both."

From the report of the investigation, it is noted that the letterheads of the attorney, Robert Fleming, brother-in-law of Peters, read "Law offices of Peters & Fleming, R. Earl Peters, W. Robert Fleming"; also, on the door of his law offices, there appears the following: "Law offices of R. Earl Peters, W. Robert Fleming, Arthur W. Miller."

The report shows that Mr. Fleming stated that Peters had no interest in the firm. On the other hand, the Fort Wayne News Sentinel quotes Mr. Peters, in explaining the fact that title to the property was originally taken in the name of Jane Rimmel, who was employed by the firm, as stating, "Through *my* Fort Wayne law firm, an option was procured," etc. [Italic supplied.]

In view of the current matters relating to the law firm of Grace & Grace in New York, I suggest that it would be appropriate for the Commissioner to issue specific instructions that FHA employees shall not have any interests of such a nature and shall not permit their names to be shown on letterheads or office directories or doors as members of such firms.

There is some evidence in the report that, sometime prior to October of 1951, Mr. Bremer may have had information indicating that Peters was the real owner of Florida Apartments. Peters is reported to have said that when, in the course of a telephone conversation, Mr. Bremer apparently indicated that ownership by Peters would not be in accord with FHA policy, Peters said he would carry the stock in the names of his relatives. The report indicates that Peters further stated that Mr. Bremer then told him "the transaction would get by but it wasn't perfect." The report also indicates that about October of 1951, when Glueck told Mr. Bremer that he had "fronted for the Peters family on the Florida Apartments," Mr. Bremer thought he had reported the matter to Mr. Redman. The report does not show whether Mr. Bremer was interrogated for the purpose of ascertaining whether Mr. Bremer did, in fact, become aware of Peters' real interest in the project, and, if so, precisely when he did, or whether he ever did have a conversation with Peters in which he indicated that, if the stock was held by Peters' relatives, the transaction would "get by." Also, the report does not show whether Mr. Redman was interrogated for the purpose of ascertaining whether, in fact, Mr. Bremer did at any time report to him, information or suspicion concerning irregularity in connection with the Florida Apartments project, and, if so, what action, if any, was then taken by Mr. Redman.

Finally, I think you will wish to give consideration to the question as to whether the proposed suspension of Mr. Swan for 2 weeks without pay represents an appropriate and adequate disciplinary action by the FHA for Mr. Swan's violation of the gratuity policy. In this connection, it is to be noted that Mr. Swan's paycheck for a 2-week period probably does not exceed the cost of rail and plane fare for two persons from Indianapolis to Miami and return, which represents the gratuity received by Mr. Swan. This proposed disciplinary action may be contrasted with the action recently taken by you in dismissing an employee of the Office of the Administrator for giving unauthorized information to a prospective contractor.

B. T. FITZPATRICK,
Deputy Administrator and General Counsel.

[CONFIDENTIAL]

MARCH 18, 1952.

Office memorandum, United States Government.

To: Raymond M. Foley, Administrator.

From: B. T. Fitzpatrick, Deputy Administrator and General Counsel.

Subject: Investigation of FHA Indianapolis Office.

This will supplement my memorandum addressed to you under date of March 17, 1952, on the above-captioned subject.

This afternoon I went over the matter in considerable detail with Commissioner Richards, Deputy Commissioner Walter Greene, and General Counsel Bovard.

At the conclusion of our discussions, the following decisions were reached:

1. The FHA will notify Mr. Glueck, president of Mid-City Investments, Inc., that the approval of that institution as an FHA mortgagee has been withdrawn by the Commissioner until such time as the Commissioner is satisfied that the FHA may rely fully upon the statements and representations of the mortgagee.

2. The FHA Commissioner will notify the architects, Allen & Kelly, that the FHA will not accept any plans or specifications on which their names appear until the Commissioner is satisfied that they will in the future conduct themselves in their relations with the FHA and its employees in accordance with satisfactory ethical standards, and that they will not in the future offer gifts or gratuities to any FHA employees.

3. The FHA Commissioner will notify the builder, W. A. Sheets & Sons, that FHA will not accept any future cases on which W. A. Sheets & Sons are the contractors until the Commissioner is satisfied that they will in the future conduct themselves in their relations with the FHA and its employees in accordance with satisfactory ethical standards, and that they will not in the future offer gifts or gratuities to any FHA employees.

4. The suspension of Mr. Swan of the FHA Indianapolis office for 2 weeks without pay will stand.

5. The Commissioner will issue general instructions to all FHA employees that they must not allow their names to be used on letterheads, business directories, or office doors of firms or organizations which may do business with the FHA.

6. The Commissioner will tomorrow morning issue a press release indicating that the investigation of the Indianapolis office by the FHA has been completed, that in addition to the dismissal of the former director which action was taken earlier this year, disciplinary actions are being taken in connection with one other employee of the FHA office, and with several firms or organizations involved in the transaction through which Mr. Peters obtained insurance upon the Florida Apartments project, which he was the owner.

7. The report of the investigation will be forwarded by the Commissioner to the Attorney General with an indication that in the case of Charles H. Glueck and Mid-City Investments, Inc., there is ground for belief that a violation of the laws of the United States has occurred—specifically, the false statement provisions of title 18, United States Code, section 1010.

B. T. FITZPATRICK,
Deputy Administrator and General Counsel

TEACHERS INSURANCE & ANNUITY ASSOCIATION OF AMERICA,
New York 18, N. Y., March 28, 1952.

Mr. FRANKLIN D. RICHARDS,
Commissioner, Federal Housing Administration,
Washington 25, D. C.

DEAR MR. RICHARDS: I understand that Mid-City Investments, Inc., has been informed by the Federal Housing Administration that no further applications will be processed after April 1 until such time as the Commissioner feels that it will comply with the spirit of the rules and regulations of the FHA. This action was taken because of certain questions concerning the Florida Apartments property in Fort Wayne, Ind.

Mid-City Investments have acted as our correspondent in the State of Indiana since 1947 and all dealings that we have had with this organization have been highly satisfactory. Mid-City is, at the present time, servicing \$9,285,849 for us.

We have never found any attempt to conceal pertinent facts on the part of any of the employees of Mid-City and, in fact, we place full confidence in their honesty and integrity.

In the particular case of Florida Apartments, Mr. Peters, State director, stated to me in the presence of Mr. Glueck, president of Mid-City, that he hoped to get clearance from the FHA in which case he would take over the ownership of Florida Apartments. About 1½ years ago, he stated to me, again in the presence of Mr. Glueck, that he had received clearance. Under the circumstances, I saw no reason to question his statement and likewise think it quite natural that Mr. Glueck had no reason to question his statement. In other words, I believe that Mr. Glueck handled the matter without intending to hide any pertinent facts from the FHA and accepted Mr. Peters' statements at face value.

I believe the publicity which has recently appeared in the Gary, Indianapolis, Chicago, and other midwestern papers has done great damage to Mid-City Investments without proper justification. I urge upon you the lifting of the ban as I am sure that Mid-City Investments will, in the future, not only comply with the rules and regulations of the FHA but also with the spirit underlying those rules.

Very truly yours,

RICHARD M. HURD.

Mid-City Investment Co., section 608 projects

Name of project	FHA loan number	Original amount	Original mortgagee	Present mortgagee
Indianapolis:				
Frontenac Apartments.....	073-42072	\$818, 100	Chase National Bank.....	East Brooklyn Savings Bank.
Meadowbrook Corp.....	073-4001	5, 000, 000	John Hancock Life Insurance Co.....	John Hancock Life Insurance Co.
Barrington Heights.....	073-42057	1, 738, 200	Manufacturers Trust Co.....	Manufacturers Trust Co.
Granville Apartments, Inc.....	073-42056	413, 100	do.....	Do.
Canterbury Courts.....	073-42081	631, 800	do.....	Do.
Mincar Homes, Inc.....	073-42079	154, 200	do.....	Do.
West Arlington Homes.....	073-42078	471, 700	do.....	Do.
Shoreland Towers.....	073-42080	1, 838, 700	do.....	Do.
Lynn Court Apartments.....	073-42100	788, 000	New York Savings Bank.....	New York Savings Bank.
Compton Court Corp.....	073-40033	192, 000	Teachers Insurance & Annuity.....	Teachers Insurance & Annuity.
James Court Apartments.....	073-00041	103, 500	Fidelity Trust.....	Do.
19th & Alabama Corp.....	073-42053	86, 000	Teachers Insurance & Annuity.....	Do.
Penn Plaza, Inc.....	073-90011	94, 100	Fidelity Trust Co.....	Do.
Ransom Street Apartment.....	073-90005	295, 600	Teachers Insurance & Annuity.....	Do.
Z. & H. Homes, Inc.....	073-42009	\$1, 000	do.....	Do.
Tri-City Village, Inc., Gary.....	073-42049	3, 135, 500	Teachers, Insurance & Annuity Association, New York City.	Central Savings Bank, New York City.
Du Sable Apartments, Inc., Inc., Gary.....	073-42109	350, 800	The Chase National Bank, New York City.....	The Chase National Bank, New York City.
River View Terrace Apartments, Fort Wayne.....	073-42048	864, 300	Teachers, Insurance & Annuity Association, New York City.	East Brooklyn Savings Bank, New York City.
Housing Unlimited Corp., Hammond.....	073-42041	129, 600	Franklin Life Insurance Co., Springfield, Ill.....	Do.
Ironwood Village, Inc., Gary.....	173-42014	913, 500	New York Savings Bank, New York City.....	Do.
Major Apartments, Inc., Gary.....	073-42106	1, 029, 500	The Chase National Bank, New York City.....	New York Savings Bank, New York City.
Buena Vista Corp., Hammond.....	073-40007	120, 000	Teachers Insurance & Annuity Association of America, New York City.	Do.
Do.....	073-40024	185, 000	do.....	Do.
Florida Apartments, Inc., Fort Wayne.....	073-40010	372, 600	do.....	Do.
Forsyth Apartments, Hammond.....	073-42105	128, 700	do.....	Do.
Gary Lake Shore Homes, Inc., Gary.....	073-42006	366, 300	do.....	Do.
H. & S. Corp., South Bend.....	073-42033	129, 600	do.....	Do.
Ironwood Apartments, Inc., Gary.....	073-40022	631, 300	do.....	Do.
Kelwood Apartments, Inc., Gary.....	073-42003	216, 000	do.....	Do.
Lawndale Apartments, Inc., Hammond.....	073-42103	210, 600	do.....	Do.
Rochester Apartments, Inc., Rochester.....	073-42005	112, 000	do.....	Do.
Steel City Village, Inc., Gary.....	073-42036	1, 163, 200	do.....	Do.
Summer Garden Apartments, Inc., Hammond.....	073-42015	243, 000	do.....	Do.
Waverly Park Apartments, Inc., Gary.....	073-40048	234, 000	do.....	Do.

GARY, IND., March 27, 1952.

Re Mid-City Investments, Inc., Charles H. Glueck, president, Gary, Ind.

FEDERAL HOUSING ADMINISTRATION,
Washington 25, D. C.

(Attention: Mr. Herbert C. Redman, Assistant Commissioner.)

GENTLEMEN: This will acknowledge your letter of March 20, 1952, addressed to Mr. Charles H. Glueck as president of the above corporation, advising that the certain actions mentioned and described in that letter are such as to cause the administration to entertain serious doubt as to the reliance and confidence the commissioner can place in the representations and statements of Mid-City Investments, Inc., and that by reason thereof, no further applications for mortgage insurance submitted on behalf of Mid-City Investments, Inc., on or after April 1, can or will be accepted for processing until such time as the commissioner is fully satisfied that in any future relationship between such company and the Federal Housing Administration there will be full compliance with the policies, procedures and requirements of the administration, etc.

Promptly upon receipt of this communication this corporation caused an investigation of the matters to be made and in connection therewith has obtained a statement from Mr. Charles H. Glueck, president of the corporation, a copy of which is enclosed herewith and is self-explanatory.

Herein, also find, pursuant to your request, a list of the officers, directors, and stockholders of the corporation together with the number of shares of such stock held by each. We would appreciate it very much, if, when such list has served its purpose, you will return it to us.

It is now, has been, and will continue to be, the honest desire of this corporation at all times to cooperate with and observe all of the rules and regulations of the administration, as well as its policies, having to do with the insuring of mortgage loans.

The directors of this corporation had no knowledge of the details of the Florida apartments transaction, nor of any transaction wherein Mr. Peters was involved, nor does any officer of the corporation have the authority to act on its behalf except in a proper and lawful manner and in compliance with all of the laws of this State and of the United States.

It does not condone any act, or acts, of any of its officers which violate the regulations and policies of the Federal Housing Administration, or any other Government agency, nor does it condone any act or acts done in violation of good taste and the proprieties.

It deeply regrets that the error in connection with Mr. Swan was made by its president and appropriate steps have been taken to assure this corporation and the administration that nothing of the sort again occur.

To a degree the acts complained of were committed by reason of a lack of knowledge as to some of the policies of the administration and in particular the specific requirements as to the insuring of loans made to employees, officers and agents of the Federal Housing Administration. It is now fully advised in that respect and in the future, if the present relationship is permitted to continue, all such procedures will be scrupulously observed and adhered to.

In view of the volume of the business that has originated through this corporation, amounting we believe to something in excess of 4,000 applications, it seems to us that to withdraw recognition from the corporation as approved mortgagee by reason of the errors adverted to, which were committed by the president of the corporation at a time when he was 33 years of age and without broad and extensive business experience, is and would be too drastic a step to be taken particularly as it could only result in the ruin of the future business of the corporation.

As the corporation previously advised you orally, all of the duties pertaining to Federal Housing Administration business handled by this corporation have been imposed upon Mr. Savill, executive vice president of the corporation, for the past 12 months, and he will continue to supervise that work, thus relieving Mr. Charles H. Glueck of any duties in that regard and freeing him to handle other matters of the corporation.

This corporation stands ready to make any changes in personnel or corporate officers that might be helpful in restoring the confidence of the Administration in the corporate officers and reestablishing its reliability and responsibility in all representations made to and all dealings had with the Federal Housing Administration.

Should any other or further information, which we may be in a position to furnish, be required by the Administration in giving consideration to this situation, you have but to call upon us.

Yours very truly,

MID-CITY INVESTMENTS, INC.,
By _____,

Counsel.

P. S. Will you be good enough to return to us, carbon copy of letter dated December 10, 1947, from Charles H. Glueck to W. A. Sheets & Sons, Inc., and letter dated October 6, 1947, from Wayne A. Sheets, president, to Mr. Charles H. Glueck.

The CHAIRMAN. Is there anything else to go in the record?

Senator BENNETT. Before Mr. Glueck reads his statement I would like to ask a couple of questions. He has indicated earlier that this statement is his answer to his board of directors. Who were his board of directors? May I ask the question first, did you and your father own the Mid-City Investment Co.?

Mr. GLUECK. Controlling interest, yes, sir.

Senator BENNETT. How big a controlling interest?

Mr. GLUECK. At that time approximately 60 percent.

The CHAIRMAN. Who owned the other 40?

Mr. GLUECK. Scattered among quite a number of stockholders.

The CHAIRMAN. What are their names?

Mr. GLUECK. We sent a list to FHA. There must have been 250 or so.

The CHAIRMAN. 250 stockholders?

Mr. GLUECK. Yes.

The CHAIRMAN. Who is the largest of the 250 stockholders?

Mr. GLUECK. I was—of the 250?

The CHAIRMAN. Yes.

Mr. GLUECK. I think Judge Harvey Curtis.

The CHAIRMAN. Do you have the names of the stockholders with you?

Mr. GLUECK. I might have.

Senator BENNETT. I would like to ask one other question while he is looking for them. You then controlled the company and you then controlled the board of directors, so in effect, you were making a report to yourself in this letter?

Mr. GLUECK. Well, this report was forwarded to FHA by the board of directors. In other words I may have written my letter to the board in answer.

Senator BENNETT. You answered the letter. I see. The FHA moved against Mid-City Investment Co. rather than against you personally since it was Mid-City who had the privilege of handling these loans?

Mr. GLUECK. That is correct.

Senator BENNETT. So you made a statement to the board.

The CHAIRMAN. Did you say you forwarded what you are about to read to FHA?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Do you remember about what date?

Mr. GLUECK. March 27, 1954.

The CHAIRMAN. Mr. Kenney, will you see if you can secure that from FHA?

Mr. KENNEY. Secure what, sir?

The CHAIRMAN. The document he is about to read, that he claims he forwarded to FHA.

Mr. GLUECK. A copy of it, sir.

The CHAIRMAN. At what time?

Mr. GLUECK. March 27, 1952.

The CHAIRMAN. Will you see if you can get that from FHA; have it sent right over?

Mr. KENNEY. Yes. The date is what on that?

Mr. GLUECK. March 27, 1952.

The CHAIRMAN. Now let's have the list of the stockholders. Without objection, we will place in the record the list of stockholders.

(The document referred to follows:)

Mid-City Investments, Inc., stockholders

	<i>Number of shares</i>
Allan, James S.....	2
Anderson, Charles H.....	1
Anderson, Gude.....	6 $\frac{1}{10}$
Aschoff, Raymond M.....	1 $\frac{1}{10}$
Bain, Leslie R.....	4
Barnes, Charles.....	2
Barnes, Lawrence Russell.....	1
Bartz, Mary.....	29 $\frac{8}{10}$
Bennett, N. C.....	1 $\frac{1}{10}$
Bennett, Wesley M.....	2 $\frac{1}{10}$
Boden, William T.....	10
Boyer, Edward H.....	10
Brayton, John M.....	2 $\frac{1}{2}$
Carter, Alva.....	10 $\frac{1}{10}$
Carter, Claude Lee.....	5 $\frac{1}{10}$
Cassidy, Fred J.....	10 $\frac{1}{10}$
Cassidy, James E.....	10 $\frac{1}{10}$
Chambers, Clark.....	2
Chenot, Charles.....	1
Cohen, Saul and Schleicher, Paul E.....	5 $\frac{1}{10}$
Continental Illinois National Bank & Trust Co. of Chicago and John C. McDonnell as executors of the last will and testament of Margaret L. Grace, deceased.....	10 $\frac{1}{10}$
Copenhaver, Phillip.....	20 $\frac{2}{10}$
Coundiff, Homer B.....	1 $\frac{1}{10}$
Crabb, Kenneth C.....	5 $\frac{1}{10}$
Curtin, Jerry J. and Ella L.....	15 $\frac{1}{10}$
Curtis, Hervev J.....	93 $\frac{1}{4}$
Darnell, Florenz L.....	2
Davis, Robert M.....	6 $\frac{1}{10}$
Davison, Lake.....	5
Draper, A. P.....	5 $\frac{1}{10}$
Dubin, Henry.....	2 $\frac{5}{10}$
Enright, Margaret White and Edward M., as joint tenants, with the right of survivorship and not as tenants in common.....	1
Essmeister, Frank.....	8 $\frac{1}{10}$
Estle, V. L.....	6 $\frac{6}{10}$
Evans, Harvey W.....	5 $\frac{1}{10}$
Evanseck, George J.....	10 $\frac{5}{10}$
Ewald, Robert F.....	7 $\frac{7}{10}$
Ewald, Ruth M.....	12 $\frac{8}{10}$
Frier, L. F.....	10
Gamble, C. C.....	10 $\frac{3}{10}$
Gameau, Emile J.....	10 $\frac{2}{10}$
Gifford, L. W.....	1
Gilbertz, Albert.....	1
Glaspoole, James F.....	5 $\frac{1}{10}$
Glueck, Beulah S.....	1, 003 $\frac{3}{15}$
Glueck, Charles H.....	2, 899 $\frac{1}{60}$

Mid-City Investments, Inc., stockholders—Continued

	<i>Number of shares</i>
Grabel, Anna	21 ² / ₁₀
Grassman, Victor L	2 ⁵ / ₁₀
Greenwald, M. L., Sam, and Ben	66 ³ / ₁₀
Gregory, Frank	2
Greslo, Kinga	4
Gronniger, John L	13 ² / ₁₀
Grotz, Ben	1
Hackett, Fred H	3 ¹ / ₁₀
Haggenjos, Arthur J. and Madeline C	20 ⁶ / ₁₀
Haines, Frank	10 ² / ₁₀
Hayes, Edward W	5
Hays, Jacob H	5 ² / ₁₀
Hecker, August	9 ¹ / ₁₀
Heidke, John M	2 ⁵ / ₁₀
Hinkley, Charles B	1
Holscher, Henry H	5 ¹ / ₁₀
Horacek, Jean A	10
Hoxsey, John D	20 ⁴ / ₁₀
Hummel, George F	13 ¹ / ₁₀
Hunter, Dorothy Sugden	2 ⁵ / ₁₀
Jackson, Dr. Charles R	5 ¹ / ₁₀
Jewell, Ada Iverson	6 ¹ / ₁₀
Johnson, Arthur G	1 ¹ / ₁₀
Kading, C. W	1
Kahn, Marjorie F	2 ² / ₁₀
Kaveney, Owen	2
Killigrew, Alvina M	10 ³ / ₁₀
Knochel, George	2 ⁴ / ₁₀
Kremer, George W	3
Kroeger, F. H	7
Kyle, Joseph B	9 ¹ / ₁₀
Lavrenz, Otto J	7 ⁶ / ₁₀
Lazerwitz, Jack	27 ³ / ₁₀
Lazerwitz, James A	5
Leevack, Robert	8 ¹ / ₁₀
Leonard, Daniel	73 ¹ / ₁₀
Leopold, Howard F	10 ³ / ₁₀
Lever, William H	20 ⁴ / ₁₀
Levi, Richard A	1 ¹ / ₁₀
Levi, Robert Kahn	3 ¹ / ₁₀
McMichael, Frank J	46 ¹ / ₁₀
Merkey, John M	2 ¹ / ₁₀
Marten, Herbert T	5 ⁷ / ₁₀
Marten, Paul A	4
Martis, Joseph S	8 ¹ / ₁₀
Mashek, Vojta F	5
Mauer, Samuel	1
Meyer, Raymond T	5
Michaelv, George P	8 ¹ / ₁₀
Melin, Carl A	2 ⁵ / ₁₀
Miller, Harold W	1 ⁵ / ₁₀
Mills, Clifford C	2 ¹ / ₁₀
Mohr, Rudolph C. and Dittrich, Willibold	16 ¹ / ₁₀
Morelock, Phil D	20
Morris, Mrs. Eleanor C	2
Mowery, Kenneth C	4 ¹ / ₁₀
Mundorff, William D	20 ⁴ / ₁₀
Nagle, Lorraine Curtin	15 ¹ / ₁₀
Nichting, Joseph J	2
Nikolich, Miroslav	5 ⁴ / ₁₀
Noe, Morris	5 ¹ / ₁₀
O'Conner, Mrs. James	5
Oleska, Mary	2 ⁴ / ₁₀
Ollman, George	10

Mid-City Investments, Inc., stockholders—Continued

	<i>Number of shares</i>
Pachter, Sidney L.....	139 $\frac{7}{20}$
Page, H. C.....	1 $\frac{2}{10}$
Pavol, Frank G.....	8 $\frac{7}{10}$
Peters, Clara M.....	5 $\frac{1}{10}$
Peters, Robert H.....	10 $\frac{1}{5}$
Petrovich, John.....	1 $\frac{6}{10}$
Pfeiffer, Frank J.....	2
Pfisterer, George E.....	10 $\frac{2}{10}$
Pokorn, Otto.....	8 $\frac{3}{10}$
Punshon, Samuel.....	5 $\frac{1}{10}$
Reaven, Joanne Simon.....	69 $\frac{6}{10}$
Richards, Delmar H.....	8 $\frac{1}{10}$
Robinson, Frances J.....	1 $\frac{5}{10}$
Rodgers, Blanche Dougan.....	5 $\frac{7}{10}$
Rosenbaum brothers.....	10 $\frac{3}{10}$
Sackley, Ralph.....	16
Sakanoff, Marvin H.....	257
Schear, Rudolph.....	10 $\frac{3}{10}$
Scherer, Catherine.....	1
Schickluna, Alice May.....	3
Schiele, Roy W.....	1 $\frac{5}{10}$
Schmitt, Charles P.....	1
Schmitz, Joseph A.....	30 $\frac{3}{10}$
Schrage, Walter E.....	20 $\frac{7}{10}$
Schreiber, Elmer.....	1
Schultz, Dorothy E. Tharp.....	110 $\frac{6}{10}$
Sells, Harriet C.....	5
Sievers, Ida.....	16 $\frac{1}{10}$
Sievert, C. A.....	15 $\frac{3}{10}$
Simon, Lewis.....	150
Smith, Albert H.....	5 $\frac{1}{10}$
Smith, C. Ernest.....	2 $\frac{5}{10}$
Smith, John A.....	5
Smith, Joseph F.....	6
Squire, Charles P.....	16 $\frac{7}{10}$
Steele, Archie.....	$\frac{4}{5}$
Stein, Etta Glenn.....	1
Stenz, Edward J.....	2
Stern, Arthur L.....	1 $\frac{3}{10}$
Suchovsky, Anna Predaina.....	8 $\frac{1}{10}$
Swanton, Lee A. and Coralie.....	8 $\frac{6}{10}$
The First National Bank of Chicago, as trustee under the will of Angela D. Stearns.....	95 $\frac{3}{10}$
Torrance, Moore J.....	1 $\frac{5}{10}$
Torri, Quentin J.....	$\frac{5}{10}$
Torri, Anthony James.....	2
Van Duzer, Nora J.....	5
M. L. Vehon & Co.....	7 $\frac{1}{15}$
Wagner, Sam and Anna.....	8 $\frac{3}{10}$
Weiler, Sylvester.....	10
Wilson, Frank M.....	5
Williams, Charles A.....	3
Williams, William A. and/or Nellie B.....	20
Wimmer, Robert N.....	12 $\frac{3}{10}$
Witrous, Elmer J.....	4
Woods, Leonard B.....	9
Wygarden, Martin D.....	5
Zeiler, George.....	25 $\frac{8}{10}$
Young, Alexander.....	5
Total.....	5,694 $\frac{23}{100}$

No preferred stock.

The CHAIRMAN. This shows that you owned 2,899 shares, and Beulah Glueck owned 1,003. Who is she?

Mr. GLUECK. My mother.

The CHAIRMAN. What did your father own?

Mr. GLUECK. Don't think he had any. That is my stepmother. She is my legal mother now. She adopted me.

Senator BENNETT. Mr. Glueck, how many directors were there?

Mr. GLUECK. Five.

The CHAIRMAN. Can you give those names for the record?

Mr. GLUECK. Louis Glueck, Charles Glueck, Harvey Curtis, Nick Bikos, and Leo Levin.

The CHAIRMAN. I notice that Marvin Sakanoff is possibly the largest stockholder next to your father.

Mr. GLUECK. What name?

The CHAIRMAN. Sakanoff. Who is he?

Mr. GLUECK. I do not know.

The CHAIRMAN. I notice he owns 257 shares. Marvin A. Sakanoff.

Mr. GLUECK. The stock at one time had been sold, years before, on the Chicago Curb and there were stockholders all over.

The CHAIRMAN. Who is Sidney L. Pachter, do you know him?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Where does he live?

Mr. GLUECK. Gary.

The CHAIRMAN. What is his business?

Mr. GLUECK. Real estate business.

The CHAIRMAN. He is in the real estate business.

Who is Dorothy Schultz, who I notice is a large stockholder?

Mr. GLUECK. Dorothy E. Tharp Schultz? I don't know.

The CHAIRMAN. You don't know her?

Mr. GLUECK. I didn't sell any stock to anybody.

The CHAIRMAN. But you are the president of the company, aren't you?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. You wouldn't know your largest stockholders?

Mr. GLUECK. Not necessarily.

The CHAIRMAN. You never heard of Dorothy——

Mr. GLUECK. I have heard of her, yes.

The CHAIRMAN. Where does she live?

Mr. GLUECK. I don't know.

The CHAIRMAN. Does she live in Gary?

Mr. GLUECK. I don't know, sir.

The CHAIRMAN. Will you furnish us with the names and addresses of these stockholders?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. You don't have that with you today?

Mr. DRAPER. No, sir.

The CHAIRMAN. Will you furnish that? Who is Lewis Simon? I notice he owns a lot of stock.

Mr. GLUECK. He is a jeweler in Gary.

The CHAIRMAN. Where?

Mr. GLUECK. In Gary.

Senator BENNETT. Wasn't there a Mr. Simon involved in one of the earlier cases? Was he an owner of the land, of the 50-odd acres, on which you built?

Mr. GLUECK. Yes, sir.

Senator BENNETT. Was it the same man?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. You are going to furnish us with the names and addresses of the stockholders and directors?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Will you give us the directors, please?

Mr. DRAPER. Louis H. Glueck, chairman, Charles H. Glueck, Harvey J. Curtis, Nick Bikos—

The CHAIRMAN. What is his business?

Mr. GLUECK. He was a big theater operator in real estate.

The CHAIRMAN. In Gary?

Mr. GLUECK. Yes.

Mr. DRAPER. Leo Levin.

The CHAIRMAN. Wasn't that the one I asked you about a minute ago?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. What you are about to read is a letter you wrote to your directors and sent a copy to FHA?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Did you send a letter of transmittal?

Mr. GLUECK. Mr. Draper did.

The CHAIRMAN. We will get a copy of that. I should be in the FHA files.

Mr. DRAPER. If I may, Mr. Chairman, I would like to read this covering letter as a preface to the reading of this.

The CHAIRMAN. You may. You may read the covering letter and as well as the statement that you made to your directors at that time.

Mr. DRAPER. This letter is dated March 27, 1952, addressed to the FHA, Washington 25, D. C., attention: Mr. Herbert C. Redman, Assistant Commissioner.

The CHAIRMAN. What was the date?

Mr. DRAPER. March 17, 1952.

Re Mid-City Investments, Inc.—Charles H. Glueck, president, Gary, Ind.

The CHAIRMAN. You may sit down if you care to and talk into the microphone. You will be more comfortable.

Mr. DRAPER. (Reading):

Gentlemen: This will acknowledge your letter of March 20, 1952, addressed to Mr. Charles H. Glueck as president of the above corporation, advising that the certain actions mentioned and described in that letter are such as to cause the administration to entertain serious doubt as to the reliance and confidence the Commissioner can place in the representations and statements of Mid-City Investments, Inc., and that by reason thereof, no further applications for mortgage insurance submitted on behalf of Mid-City Investments, Inc., on or after April 1, can or will be accepted for processing until such time as the Commissioner is fully satisfied that in any future relationship between such company and the Federal Housing Administration there will be full compliance with the policies, procedures and requirements of the administration, etc.

Promptly upon receipt of this communication this corporation caused an investigation of the matters to be made and in connection therewith has obtained a statement from Mr. Charles H. Glueck, president of the corporation, a copy of which is enclosed herewith and is self-explanatory.

The CHAIRMAN. Did you talk about somebody making an investigation for the corporation?

Mr. DRAPER. The board of directors of Mid-City Investments.

The CHAIRMAN. Made an investigation, themselves?

Mr. DRAPER. Called upon Mr. Glueck to learn the details.

The CHAIRMAN. Mr. Charles Glueck?

Mr. DRAPER. That is right.

The CHAIRMAN. To tell them the details of this Florida apartment and all of this business?

Mr. DRAPER. That is correct.

Herein, also find, pursuant to your request, a list of the officers, directors, and stockholders of the corporation together with the number of shares of such stock held by each. We would appreciate it very much, if, when such list has served its purpose, you will return it to us.

It is now, has been, and will continue to be, the honest desire of this corporation at all times to cooperate with and observe all of the rules and regulations of the Administration, as well as its policies, having to do with the insuring of mortgage loans.

The directors of this corporation had no knowledge of the details of the Florida Apartments transaction, nor of any transaction wherein Mr. Peters was involved, nor does any officer of the corporation have the authority to act on its behalf except in a proper and lawful manner and in compliance with all of the laws of this State and of the United States.

It does not condone any act, or acts, of any of its officers which violate the regulations and policies of the Federal Housing Administration, or any other Government agency, nor does it condone any act or acts done in violation of good taste and the proprieties.

It deeply regrets that the error in connection with Mr. Swan was made by its president and appropriate steps have been taken to assure this corporation and the Administration that nothing of that sort again occur.

To a degree the acts complained of were committed by reason of a lack of knowledge as to some of the policies of the Administration and in particular the specific requirements as to the insuring of loans made to employees, officers, and agents of the Federal Housing Administration. It is now fully advised in that respect and, in the future, if the present relationship is permitted to continue, all such procedures will be scrupulously observed and adhered to.

The CHAIRMAN. Read that paragraph again, will you, Mr. Draper?

Mr. DRAPER. (reading):

To a degree the acts complained of were committed by reason of a lack of knowledge as to some of the policies * * *.

The CHAIRMAN. I see.

Mr. DRAPER. If I may be permitted to say so, at the hearing before the Administrator, in connection with this matter, we stated that we were not acquainted with any such policy and the answer to that was, "Well you know it now." Whereupon we said—

The CHAIRMAN. You mean FHA made that remark to you?

Mr. DRAPER. That is correct, to me.

In view of the volume of the business that has originated through this corporation, amounting we believe to something in excess of 4,000 applications—

That must be an error—

The CHAIRMAN. Don't you think Mr. Glueck knew it was wrong to enter into such an agreement with Mr. Peters and to take these people to Florida?

Mr. DRAPER. Mr. Chairman, if it were being done after consulting with me, I would advise against it.

The CHAIRMAN. You would have advised against it had you known it?

Mr. DRAPER. That is right. I did not know it.

* * * it seems to us that to withdraw recognition from the corporation as approved mortgagee by reason of the errors adverted to, which were committed by the president of the corporation at a time when he was 33 years of age and

without broad and extensive business experience, is and would be too drastic a step to be taken, particularly as it could only result in the ruin of the future business of the corporation.

As the corporation previously advised you orally, all of the duties pertaining to Federal Housing Administration business handled by this corporation * * *.

The CHAIRMAN. I can't help but remark that as a 33-year-old businessman he looks pretty good to me when he bought something for \$40,000 and sold it for \$250,000. He doesn't look to me like a novice.

Mr. DRAPER. This was 1954.

The CHAIRMAN. I see. In fact Mr. Glueck is a pretty good businessman. I happen to know him.

Mr. GLUECK. Keep in mind I was with my father in these days and he was pretty astute.

The CHAIRMAN. We have to get a little fun into this once in a while.

Mr. DRAPER. As a matter of fact, Mr. Chairman, in executive session, there was testimony by Mr. Glueck with regard to real-estate transactions and profits realized which have no connection whatever with FHA, which are just as fabulous as the figures which have been mentioned here this morning.

Senator BENNETT. May I just make a comment? I am interested in this claim of innocence because of lack of experience. Wasn't Mr. Glueck's father still alive at that time?

Mr. GLUECK. Yes.

Senator BENNETT. Did Mr. Glueck's father know anything at all about the Florida Apartments? Couldn't Mr. Glueck's father have pointed out to him some of the dangers involved in taking Mr. Swan to Florida, fronting for Mr. Peters?

Mr. DRAPER. I could have assumed he could if he had wished to; yes.

Senator BENNETT. Did Mr. Glueck's father know about the trip to Florida, or the Florida Apartments experience?

Mr. DRAPER. You will have to answer that, Mr. Glueck. I don't know.

Mr. GLUECK. I think he did.

The CHAIRMAN. You say you do think he did?

Mr. GLUECK. Yes.

The CHAIRMAN. I see. You may proceed.

Mr. DRAPER (reading):

As the corporation previously advised you orally, all of the duties pertaining to Federal Housing Administration business * * *.

Senator BENNETT. I hate to interrupt you. Is this a statement of Mr. Glueck to the directors of the corporation?

Mr. DRAPER. No. This is our covering letter to the Federal Housing.

Senator BENNETT. You are still reading the covering letter?

Mr. DRAPER. Yes, it is very short, just another paragraph.

The CHAIRMAN. Go ahead.

Mr. DRAPER (reading): * * * All of the duties pertaining to Federal Housing Administration business handled by this corporation have been imposed upon Mr. Savill, executive vice president of the corporation, for the past 12 months, and he will continue to supervise that work, thus relieving Mr. Charles H. Glueck of any duties in that regard and freeing him to handle other matters of the corporation.

This corporation stands ready to make any changes in personnel or corporate officers that might be helpful in restoring the confidence of the administration in the corporate officers and reestablishing its reliability and responsibility in all representations made to and all dealings had with the Federal Housing Administration.

Should any other or further information, which we may be in a position to furnish, be required by the Administration in giving consideration to this situation, you have but to call upon us.

That is the covering letter to the data forwarded to the Administration, which Mr. Glueck has here.

The CHAIRMAN. Do you wish to read the statement?

Mr. DRAPER. Yes, please.

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Are you going to read it or is Mr. Glueck?

Mr. DRAPER. Mr. Glueck. It is his letter.

Mr. GLUECK. It is addressed to the board of directors, Mid-City—

The CHAIRMAN. Without objection what Mr. Draper just read will be made a part of the record.

(The document referred to is as follows:)

GARY, IND., *March 27, 1952.*

BOARD OF DIRECTORS, MID-CITY INVESTMENTS, INC.,

Gary, Ind.

GENTLEMEN: In compliance with your recent request for a full report and explanation in connection with the statements made by the Federal Housing Administration in their letter dated March 20, 1952, addressed to me as president of Mid-City Investments, Inc., the following facts are submitted.

Early in 1947, Mr. R. Earl Peters approached me in connection with the financing and building of an apartment project to be insured under section 608 and to be located in Fort Wayne, Ind. At that time, he indicated that he would very much like to have some interest in this project and advised that Mr. J. Lloyd Allen and Mr. John R. Kelley were agreeable to having an interest, and requested that I also participate in the transaction for the remaining ownership. He said, however, that it would be necessary for him to get approval from his superiors before he could participate in any degree in the ownership. Consequently, when the application was filed on March 29, 1947, the writer had a one-half interest in the project and understood that Allen & Kelley had a like interest with the understanding that we would transfer to Mr. Peters such shares of the ownership as might be agreed upon when the foregoing approval had been obtained. Consequently, in answer to the second paragraph of the Federal Housing Administration letter dated March 20, 1952, at the time the application was filed, the only actual sponsors involved were J. Lloyd Allen, John R. Kelley, and myself. It was originally intended that Allen & Kelley would build the project and provide the architectural services, but they found through lack of capital they were unable to effect the construction of the project. A contract was then entered into with W. A. Sheets & Sons, Inc., for the building of the apartment. Because there was not enough cash to fully pay the contractor's fee, 32 shares of the stock were issued to W. A. Sheets & Sons, Inc., and at that time an agreement was entered into whereby I would repurchase the stock from W. A. Sheets & Sons, Inc., for the sum of \$8,967 by means of a letter dated October 6, 1947, 2 copies of which are enclosed. The time for payment of the stock was extended in accordance with another letter from me to W. A. Sheets & Sons, Inc., dated December 10, 1947, two copies of which are enclosed. I do not have in my possession the original of these letters with the acceptance of the agreement shown thereon. With the issuance of the 32 shares of stock to W. A. Sheets & Sons, Inc., it meant that on October 1, 1947, J. Lloyd Allen and John R. Kelly held 124 shares, W. A. Sheets & Sons, Inc., held 32 shares, and I held 144 shares.

In the early part of February 1948, Mr. Peters advised me that he had approval from Washington to own this project and that he had arranged to acquire Allen & Kelley's 124 shares of stock. On or about that time, I surrendered my certificate for 144 shares, and new stock certificates were issued to E. E. Mentzer, Mr. Peters' nominee, for 11 shares and to Leo Levin, my nominee, for 133 shares. This left me in control of 133 shares of stock which was 2 shares less than one-half of the remaining stock after accounting for the 32 shares issued to W. A. Sheets & Sons, Inc. The reason for the extra two shares to Mr. Peters was to give him the controlling interest because of the fact that he was closer to the project than I. The reason my stock was issued to Leo Levin was because of an action taken to stop the building of the project. Inasmuch as I had considerable real-estate holdings, I did not want them attached in any manner, and upon advice

of counsel, I made the stock transfer to Leo Levin. Before the project was completed, Mr. Peters asked we whether or not I would sell him my interest in the project inasmuch as he had obtained the approval previously mentioned in this letter from his superiors, and inasmuch as he had acquired Allen & Kelley's stock. I therefore agreed to sell him my stock at cost which approximated \$11,000. A few months after the completion of the project or on about November 30, 1949, I resigned as president of the Florida Apartments Corp., and on December 1, 1949, my stock was surrendered by Leo Levin to Mr. Peters' nominee. I have received the full payment therefor. The reason I did not resign immediately upon completion of the project around September 1949 was to avoid the necessity of preparing and processing and presenting resolutions, etc., supporting a change in corporate officers and because I had not at that time surrendered my stock.

It was never my intention to deliberately conceal Mr. Peters' connection with this project from the Federal Housing Administration, and the expression "fronting for the Peters family" referred to in my conversation with Mr. George Bremer, Zone Commissioner of the Federal Housing Administration, in October of 1951, referred to "fronting" so far as the local people of Fort Wayne were concerned. In connection with my repurchase agreement with W. A. Sheets & Sons, Inc., it was not necessary for me to buy this stock from Sheets inasmuch as Mr. Peters had all the other shares of stock and it was my understanding that he would purchase the 32 shares from W. A. Sheets & Sons, Inc., at the figure agreed upon.

The allegation by the Federal Housing Administration as to my financing of a trip to Florida for Mr. and Mrs. James F. Swan is correct. Mr. and Mrs. Swan were personal friends of both my wife and me, having visited each others' homes on numerous occasions over a period of years. In December of 1949 I told Mr. Swan that I was going to Florida for a few weeks and hoped to clear up a sinus condition from which I suffer. I also suggested to him that he come down for a visit with the thought that it would also be a benefit to his sinus condition. Mr. Swan told me he could not afford the trip and I advised him that I would take care of the expenses. I asked Mr. Peters if it would be appropriate for me to entertain Mr. Swan and his wife in my home as guests and he stated he saw no objection to it. Thereupon, Mr. Swan and his wife came down to Florida with Mrs. Glueck and I met them there and they were my guests for 4 or 5 days. I would like to state that I did not deny paying Mr. Swan's transportation expenses when questioned by the Federal Housing Administration's investigator, but merely stated in answer to his specific question that I did not go to Florida with Mr. Swan. I realize, now, that even though Mr. and Mrs. Swan were personal friends of ours, it was an unwise thing to finance their Florida trip, and you have my assurance that actions of this sort have not and will not be repeated. I regret that I did not deem these matters to be of such importance as to require my reporting them to the corporation.

In conclusion, let me state that in any of the situations discussed at length in this letter, it was never my thought or intention to place either Mr. Peters or Mr. Swan under obligation to me for the considerations shown them, nor have I ever knowingly attempted to conceal from or mislead the Administration in any matter or matters pertaining to the business of the Administration.

Yours very truly,

CHARLES H. GLUECK,
President.

Mr. GLUECK (reading):

1300 BROADWAY,
Gary, Ind.

GENTLEMEN: In compliance with your recent request for a full report and explanation in connection with the statements made by the Federal Housing—

The CHAIRMAN. What is the date of that?

Mr. GLUECK. March 27.

The CHAIRMAN. 1952?

Mr. GLUECK. Yes, sir.

* * * in their letter dated March 20, 1952, addressed to me as president of Mid-City Investments, Inc., the following facts are submitted.

Early in 1947, Mr. R. Earl Peters approached me in connection with the financing and building of an apartment project to be insured under section 608 and to be located in Fort Wayne, Ind. At that time, * * *

The CHAIRMAN. He approached you?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. He was the State FHA Director and approached you?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. And you live in Gary and this is Fort Wayne?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. What would he be approaching you for?

Mr. GLUECK. We were financing projects all over the State.

The CHAIRMAN. You were financing all over the State?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Let me ask you this: Was it common practice for FHA officials to promote section 608 projects?

Mr. GLUECK. You mean to urge that they be built?

The CHAIRMAN. Yes, urge people to get into them.

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Visit with people and sell them on the idea of getting into them?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. They did do that to you and did in this instance?

Mr. GLUECK. I will continue right on with it.

The CHAIRMAN. I meant you to answer the question.

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Did you ever have an FHA official show you how you could mortgage out?

Mr. GLUECK. No, sir.

The CHAIRMAN. What did they do? What argument did they use in selling you on the idea of going into section 608 projects then?

Mr. GLUECK. Well, they sold me—I mean a lot of people were sold on the idea that the Government needed, urgently needed that type of housing, and that they could be built with little or very little equity.

Mr. CHAIRMAN. You mean little or no equity?

Mr. GLUECK. I don't know the wording or anything like that, but that it took very little capital to create them, and that they felt they would be good investments on top of it.

Senator BENNETT. Is this the only case in which Mr. Peters ever approached you with respect to a section 608?

Mr. GLUECK. In what manner do you mean, sir?

Senator BENNETT. You have just read to us that Mr. Peters approached you, and is this the only case in which he had ever approached you? Was it common practice for him to approach you and suggest section 608's?

Mr. GLUECK. We were in section 608. We were making section 608 mortgages at that time, sir.

Senator BENNETT. Could you answer my question?

Mr. GLUECK. He talked to me at different times, urging us to try to get financing for section 608's so they could have more of them in the State.

Senator BENNETT. Did he bring other prospective section 608 builders and ask you to help them get financing?

Mr. GLUECK. No, sir.

The CHAIRMAN. Let me ask you this. I find on these sheets of section 608 projects which you furnished us that you handled, you have the Meadowbrook Corp., Indianapolis?

Mr. GLUECK. That is correct.

The CHAIRMAN. That was \$5 million. Did Mr. Peters suggest that you handle that one?

Mr. GLUECK. No, sir.

The CHAIRMAN. Did any other—

Mr. GLUECK. Let me put it this way: Originally an application had been submitted. Several other people had tried and couldn't place the loan, and we got into it then and were able to arrange the permanent—

The CHAIRMAN. Do you own any portion of Meadowbrook?

Mr. GLUECK. No, sir.

The CHAIRMAN. Do you own any stock in it?

Mr. GLUECK. No, sir.

The CHAIRMAN. Did you ever own any stock?

Mr. GLUECK. No, sir.

The CHAIRMAN. All you did was handle the mortgage?

Mr. GLUECK. We processed and sold the mortgage to the John Hancock Life.

The CHAIRMAN. How much money did you make for doing that? It was a \$5-million project.

Mr. GLUECK. I would say somewhere around—I don't remember exactly, sir, but I think it was about 5¢ of 1 percent commission.

The CHAIRMAN. For handling the mortgage as a broker?

Mr. GLUECK. That is right, plus—

The CHAIRMAN. You didn't get any fees?

Mr. GLUECK. Yes, sir. Plus service. We get close to \$12,000 a year for servicing it.

The CHAIRMAN. How long do you get that?

Mr. GLUECK. For the life of the mortgage. That is with John Hancock Life Insurance Co.

The CHAIRMAN. You will get \$12,000 a year for 30 years?

Mr. GLUECK. No. It declines on the balance.

The CHAIRMAN. That is part of the fee?

Mr. GLUECK. It is a quarter of 1 percent.

The CHAIRMAN. Who are the owners of that corporation? Who did you deal with?

Mr. GLUECK. Well, originally it started out with Allen and Kelley and George Sadler.

The CHAIRMAN. That is the architects, Allen and Kelley?

Mr. GLUECK. Yes, and George Sadler.

The CHAIRMAN. They are the same architects that are involved in the Florida apartments in Fort Wayne?

Mr. GLUECK. Yes.

The CHAIRMAN. Where are their headquarters?

Mr. GLUECK. Indianapolis.

The CHAIRMAN. They live in Indianapolis?

Mr. GLUECK. That is right.

The CHAIRMAN. Yet they were in Fort Wayne on this Florida project?

Mr. GLUECK. They do work all over the country.

The CHAIRMAN. They were the original owners. Then who got into it?

Mr. GLUECK. Tom Mahaffie.

The CHAIRMAN. Who is Tom Mahaffie?

Mr. GLUECK. Indianapolis businessman.

The CHAIRMAN. What business is he in?

Mr. GLUECK. In several, I guess, in the automobile business, finance business, small-loan business, and insurance business, I believe.

The CHAIRMAN. Who else was in it?

Mr. GLUECK. Allan Joens.

The CHAIRMAN. What is his business?

Mr. GLUECK. He is an auto dealer.

The CHAIRMAN. Who else was in it?

Mr. GLUECK. There is another auto dealer. I can't remember his name, sir.

The CHAIRMAN. Who else?

Mr. GLUECK. That is all that I know.

The CHAIRMAN. That is all that you know of?

Mr. GLUECK. That is all that you know of?

Mr. GLUECK. That is right.

The CHAIRMAN. That is all that you ever had any contact with?

Mr. GLUECK. That is right, sir.

The CHAIRMAN. The former Attorney General was never in it, for the State of Indiana?

Mr. GLUECK. I beg your pardon. He was with them on the thing, in a very minority interest. Now whether he has any interest—I don't think he has any interest now.

The CHAIRMAN. What was his name?

Mr. GLUECK. Emmitt McMannamon.

The CHAIRMAN. He was Attorney General for the State of Indiana?

Mr. GLUECK. I don't know whether he was at that time or not, sir.

The CHAIRMAN. He was at a later date?

Mr. GLUECK. At a later date he was.

Senator BENNETT. Did Allen & Kelley develop or build their business by a process of starting section 608's or starting interest in section 608's and finding people who would go in with them?

Mr. GLUECK. I don't know, sir.

Senator BENNETT. How many section 608's on this list were projected as far as you know by Allen & Kelley?

Mr. GLUECK. As architects?

Senator BENNETT. Well, as originators or original sponsors.

The CHAIRMAN. Architects, originals sponsors, either one.

Mr. GLUECK. I don't know, sir.

The CHAIRMAN. How many would you think?

Mr. GLUECK. I would take a guess at maybe, as architects, half a dozen. As sponsors, I don't know of anyone except Meadowbrook and Florida Apartments. I don't know of any.

Senator BENNETT. Excuse me. I think he should be on reading this.

The CHAIRMAN. Go ahead.

Mr. GLUECK. (reading):

Early in 1947 Mr. Peters approached me in connection with the financing and building of an apartment project to be insured under section 608 and to be located in Fort Wayne, Ind. At that time, he indicated that he would very much like to have some interest in this project and advised that Mr. J. Lloyd Allen and Mr. John R. Kelley were agreeable to having an interest, and requested that I also participate in the transaction for the remaining ownership. He said, however, that it would be necessary for him to get approval from his superiors before he could participate in any degree in the ownership. Consequently, when the application was filed on March 29, 1947, the writer had a one-half interest in the project and understood that Allen & Kelley had a like interest with the

understanding that we would transfer to Mr. Peters such shares of the ownership as might be agreed upon when the foregoing approval had been obtained.

The CHAIRMAN. Approval from whom?

Mr. GLUECK. From his superiors.

The CHAIRMAN. You mean from FHA here in Washington?

Mr. GLUECK. That is right.

The CHAIRMAN. Did Peters ever tell you that he did secure such approval?

Mr. GLUECK. You will hear that. He did several times.

Consequently, in answer to the second paragraph of the Federal Housing Administration, letter dated March 20, 1952, at the time the application was filed, the only actual sponsors involved were J. Lloyd Allen, John R. Kelley, and myself. It was originally intended that Allen & Kelley would build the project and provide the architectural services, but they found through lack of capital they were unable to effect the construction of the project. A contract was then entered into with W. A. Sheets & Sons, Inc., for the building of the apartment. Because there was not enough cash to fully pay the contractor's fee, 32 shares of the stock were issued to W. A. Sheets & Sons, Inc., and at that time an agreement was entered into whereby I would repurchase the stock from W. A. Sheets & Sons, Inc., for the sum of \$8,967 by means of a letter dated October 6, 1947, 2 copies of which are enclosed.

Senator BENNETT. Was it your stock that was sold to Sheets or Allen & Kelley's stock?

Mr. GLUECK. No, it was part of the corporate stock that was taken.

Senator BENNETT. You took half and Allen & Kelley took half?

Mr. GLUECK. You will see the ownership as I go on.

Senator BENNETT. You took half originally, Allen & Kelley took half. Did you increase the incorporation, provide more stock to turn over to Sheets?

Mr. GLUECK. No. We didn't issue it originally that way, sir.

I will read you the way the stock was actually issued, sir.

The time for payment of the stock was extended in accordance with another letter from me to W. A. Sheets & Sons, Inc. dated December 10, 1947, two copies of which are enclosed. I do not have in my possession the original of these letters with the acceptance of the agreement shown thereon. With the issuance of the 32 shares of stock in W. A. Sheets & Sons, Inc., it means that on October 1, 1947, J. Lloyd Allen and John R. Kelley held 124 shares, W. A. Sheets & Sons, Inc., held 32 shares, and I held 144 shares.

In the early part of February 1948—

The CHAIRMAN. You say "I"; did you hold those personally, not Mid-West?

Mr. GLUECK. Personally.

The CHAIRMAN. You held them personally. The corporation didn't hold them?

Mr. GLUECK. No, sir.

In the early part of February 1948, Mr. Peters advised me that he had approval from Washington to own this project and that he had arranged to acquire Allen & Kelley's 124 shares of stock. On or about that time, I surrendered my certificate for 144 shares, and new stock certificates were issued to E. E. Mentzer, Mr. Peters' nominee, for 11 shares and to Leo Levin, my nominee, for 133 shares. This left me in control of 133 shares of stock which was two shares less than one-half of the remaining stock after accounting for the 32 shares issued to W. A. Sheets & Sons, Inc.

Senator BENNETT. Why did you nominate Mr. Levin?

Mr. GLUECK. I will continue and explain that.

The reason for the extra two shares to Mr. Peters was to give him the controlling interest, because of the fact that he was closer to the project than I.

The CHAIRMAN. Mr. Peters was closer?

Mr. GLUECK. Yes. He lived in Fort Wayne.

The CHAIRMAN. He was the FHA director, too.

Mr. GLUECK (reading) :

The reason my stock was issued to Leo Levin was because of an action taken to stop the building of the project. Inasmuch as I had considerable real estate holdings, I did not want them attached in any manner, and upon advice of counsel, I made the stock transfer to Leo Levin.

Senator BENNETT. Why was the building attached?

Mr. GLUECK. It wasn't attached. There was a neighbor who filed an injunctive proceeding to stop an apartment building.

The CHAIRMAN. Why did you say you assigned the stock to Levin?

Senator BENNETT. So he wouldn't appear in the proceedings.

Mr. GLUECK. In the proceedings, because of real estate titles et cetera that were in my name.

Before the project was completed, Mr. Peters asked me whether or not I would sell him my interest in the project inasmuch as he had obtained the approval previously mentioned in this letter from his superiors, and inasmuch as he had acquired Allen & Kelley's stock. I therefore agreed to sell him my stock at cost which approximated \$11,000. A few months after the completion of the project * * *

The CHAIRMAN. Did he give you a check for the \$11,000?

Mr. GLUECK. I don't remember.

The CHAIRMAN. Did he pay you in cash?

Mr. GLUECK. No. I was paid—actually the money came from my mother and she was paid back by check, somewhere. She was paid by check. I know that.

The CHAIRMAN. You say the money came from your mother?

Mr. GLUECK. She gave me the money and I had to pay it back to her.

The CHAIRMAN. I was wondering about Mr. Peters. Your mother gave you the \$11,000 for Peters?

Mr. GLUECK. She advanced the money for me.

The CHAIRMAN. For Peters?

Mr. GLUECK. For me, originally.

The CHAIRMAN. Now my question was, how did Peters pay you \$11,000, by check or in cash?

Mr. GLUECK. I don't remember. He didn't pay me in cash. I don't know.

The CHAIRMAN. Did he give you a check?

Mr. GLUECK. I think so. I don't remember.

The CHAIRMAN. Remember, you are under oath.

Mr. GLUECK. I know that. That is why I say, sir, I don't remember.

The CHAIRMAN. Could you furnish us with—of course you wouldn't have the canceled check.

Where did you deposit it?

Mr. GLUECK. I don't know.

The CHAIRMAN. Where do you normally deposit? Where would you have normally deposited it? Are you sure he paid you the \$11,000?

Mr. GLUECK. Yes, sir.

Senator BENNETT. Did you turn around and pay your mother?

Mr. GLUECK. Yes, sir. I don't know whether it was turned right over to her or what but I know she was paid off.

The CHAIRMAN. You are a pretty big company and you handle a lot of money. Mid-West Investments handled \$27 million in mortgages.

Mr. GLUECK. This is not a company matter. This was a personal matter.

The CHAIRMAN. Your mother loaned you the money originally to put into this Florida Apartments where Peters was involved?

Mr. GLUECK. Yes.

The CHAIRMAN. Then when Peters paid you back you paid your mother back?

Mr. GLUECK. That is right.

The CHAIRMAN. But you can't remember. You are certain Peters paid you?

Mr. GLUECK. Absolutely.

The CHAIRMAN. Where would you have deposited the money?

Mr. GLUECK. I might be able to find the record of the transaction, sir. I would be glad to look it up and report back here by letter, the information. It is a long time ago and I don't know.

The CHAIRMAN. Where did you normally bank during that period?

Mr. GLUECK. Gary National, Gary Trust, and Fidelity Trust Co.

The CHAIRMAN. In Indianapolis?

Mr. GLUECK. No, two Gary banks and Fidelity in Indianapolis.

Mr. SIMON. You did your banking in Fidelity Trust?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. There should be a deposit in 1 of those 3 banks for \$11,000—some from Peters to you, from Peters' credit?

Mr. GLUECK. I don't know.

The CHAIRMAN. If it isn't in those three banks, where would have deposited it?

Mr. GLUECK. I told you, Senator, I will be glad to look up the entire transaction.

Senator BENNETT. Mr. Glueck, I think this is serious because if you can't identify the repayment, then the inference might be taken that Mr. Peters never repaid you, and that in effect you made him a gift of that.

Mr. GLUECK. That is not true, sir.

Senator BENNETT. Then I think you have a serious obligation.

Mr. GLUECK. This happened 7 years ago.

The CHAIRMAN. You have a serious obligation, I think, to prove to this committee that the document proves that he did pay you.

Mr. GLUECK. Very well. If I may, with the committee's consent, I will look it up and write the committee under oath and send you the exact statement of the transaction. I am perfectly willing to do that.

The CHAIRMAN. We could very easily, of course, secure the information from the three banks.

Mr. GLUECK. Senator, I am not trying to hide a thing.

The CHAIRMAN. I know you are not. You see, this isn't a pleasant task, I assure you.

Mr. GLUECK. No, sir; it isn't.

The CHAIRMAN. We didn't start it.

Mr. GLUECK. It isn't a pleasant task for me to have to talk about people who aren't here and who can't answer for themselves.

The CHAIRMAN. Of course.

Senator BENNETT. Is your mother still alive?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. But we have the responsibility to investigate this matter. We are investigating the FHA and its activities, and, of course, that means the employees and the people dealing with them. We have had much testimony to the effect that there have been a lot of irregularities.

Mr. GLUECK. I understand, sir.

The CHAIRMAN. We are not trying to persecute you or anyone else. We are simply trying to get the facts.

It was against the rules and regulations and illegal for an FHA Director or employee to participate in a section 608 project or any other project.

Mr. GLUECK. There were never any written rules and regulations that we knew about. They never came to us. We were never told that until 1952 and there was no way for us to know. I have every reason to take a man's word for it. When the State director says to me he has permission—

The CHAIRMAN. I am not blaming you. Some of the testimony we are trying to get from you has to do with the other people. We are trying to find out the truth or the falsehood that there have been a lot of dealings on the part of FHA officials in these projects in which they have made money, against the rules and regulations of the Government.

Mr. GLUECK. Could I continue?

The CHAIRMAN. Of course, after your participation at Fort Wayne, with Mr. Peters, which you are now explaining, and after paying Mr. Swan's expenses down to Florida—

Mr. GLUECK. That is right.

The CHAIRMAN. The following year you picked up about \$400,000 profit on your land deal in Gary. We are interested in the events that took place.

Mr. GLUECK. The bulk of those commitments had been received way before Mr. Swan.

Mr. SIMON. But the year after your Fort Wayne deal on Florida apartments?

Mr. GLUECK. Yes. That was one of the early section 608's in Indiana.

The CHAIRMAN. Will you proceed?

Mr. GLUECK. Yes, sir.

A few months after the completion of the project on or about November 30, 1949, I resigned as president of the Florida Apartments Corp., and on December 1, 1949, my stock was surrendered by Leo Levin to Mr. Peters' nominee. I have received the full payment therefor. The reason I did not resign immediately upon completion of the project around September 1949 was to avoid the necessity of preparing and processing and presenting resolutions, etc., supporting a change in corporate officers and because I had not at that time surrendered my stock.

It was never my intention to deliberately conceal Mr. Peters' connection with this project from the Federal Housing Administration, and the expression "fronting for the Peters family" referred to in my conversation with Mr. George Bremer, Zone Commissioner of the Federal Housing Administration in October of 1951, referred to "fronting" so far as the local people of Fort Wayne were concerned. In connection with my repurchase agreement with W. A. Sheets & Sons, Inc., it was not necessary for me to buy this stock from Sheets inasmuch as Mr. Peters had all the other shares of stock and it was my understanding that he would purchase the 32 shares of stock from W. A. Sheets & Sons, Inc., at the figure agreed upon.

The allegation by the Federal Housing Administration as to my financing of a trip to Florida for Mr. and Mrs. James F. Swan is correct. Mr. and Mrs. Swan were personal friends of both my wife and me, having visited each others' homes on numerous occasions over a period of years. In December of 1949 I told Mr. Swan that I was going to Florida for a few weeks and hoped to clear up a sinus condition from which I suffer. I also suggested to him that he come down for a visit with the thought that it would also be a benefit to his sinus condition. Mr. Swan told me he could not afford the trip and I advised him that I would take care of the expenses. I asked Mr. Peters if it would be appropriate for me to entertain Mr. Swan and his wife in my house as guests and he stated he saw no objection to it.

The CHAIRMAN. Did you tell him you were going to pay their expenses?

Mr. GLUECK. No, sir, I didn't.

Thereupon, Mr. Swan and his wife came down to Florida with Mrs. Glueck and I met them there and they were my guests for 4 or 5 days. I would like to state that I did not deny paying Mr. Swan's transportation expenses when questioned by the Federal Housing Administration's investigator, but merely stated in answer to his specific questions that I did not go to Florida with Mr. Swan. I realize, now, that even though Mr. and Mrs. Swan were personal friends of ours, it was an unwise thing to finance their Florida trip, and you have my assurance that actions of this sort have not and will not be repeated. I regret that I did not deem these matters to be of such importance as to require my reporting them to the corporation.

In conclusion, let me state that in any of the situations discussed a length in this letter, it was never my thought or intention to place either Mr. Peters or Mr. Swan under obligation to me for the considerations shown them, nor have I ever knowingly attempted to conceal from or mislead the administration in any matter or matters pertaining to the business of the administration.

Very truly yours,

CHARLES H. GLUECK,
President.

Now, I would like, if I may, to read just this brief letter from Mr. Richard M. Hurd, who is vice president—

The CHAIRMAN. Mr. Richard M. Hurd.

Mr. GLUECK. Hurd.

The CHAIRMAN. Who is he?

Mr. GLUECK. He was vice president of Teachers Insurance & Annuity Association.

The CHAIRMAN. Where are they located?

Mr. GLUECK. New York City, and they are the ones that made the mortgage—

The CHAIRMAN. On Florida Apartments?

Mr. GLUECK. On Florida Apartments.

The CHAIRMAN. They are the ones that finally purchased the mortgage?

Mr. GLUECK. They took it by assignment from me originally.

The CHAIRMAN. You want to read a letter—

Mr. GLUECK. A copy of a letter to Mr. Franklin D. Richards, Housing Commissioner, Washington, D. C., dated March 28.

The CHAIRMAN. You may read the letter.

Mr. GLUECK (reading):

DEAR MR. RICHARDS: I understand that Mid-City Investments, Inc., has been informed by the Federal Housing Administration that no further applications will be processed after April 1 until such time as the Commissioner feels that it will comply with the spirit of the rules and regulations of the FHA. This action was taken because of certain questions concerning the Florida Apartments property in Fort Wayne, Ind.

Mid-City Investments have acted as our correspondent in the State of Indiana since 1947 and all dealings that we have had with this organization have been highly satisfactory. Mid-City is, at the present time, servicing \$9,285,849 for us. We have never found any attempt to conceal pertinent facts on the part of any of the employees of Mid-City and, in fact, we place full confidence in their honesty and integrity.

In the particular case of Florida Apartments, Mr. Peters, State director, stated to me—

The CHAIRMAN. Who was that?

Mr. GLUECK. Mr. Peters, State director. [Continues reading:]

stated to me in the presence of Mr. Glueck, president of Mid-City, that he hoped to get clearance from the FHA in which case he would take over the ownership of Florida Apartments. About 11½ years ago, he stated to me, again in the presence of Mr. Glueck, that he had received clearance. Under the circumstances, I saw no reason to question his statement and likewise think it quite natural that Mr. Glueck had no reason to question his statement. In other words, I believe that Mr. Glueck handled the matter without intending to hide any pertinent facts from the FHA and accepted Mr. Peters' statements at face value.

I believe the publicity which has recently appeared in the Gary, Indianapolis, Chicago, and other midwestern papers has done great damage to Mid-City Investments without proper justification. I urge upon you the lifting of the ban as I am sure that Mid-City Investments will, in the future, not only comply with the rules and regulations of the FHA but also with the spirit underlying those rules.

Very truly yours,

RICHARD M. HURD.

The CHAIRMAN. You are still handling FHA mortgages?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. You were suspended and reinstated?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. And today you are still handling mortgages?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. In the letter that you wrote to your directors which you just read to us, you said very flatly, not only that you took the Swans to Florida, but you discussed the propriety of that with Mr. Peters before you made the arrangement.

Mr. GLUECK. The propriety of staying in my home. I didn't say anything to Mr. Peters about paying their expenses.

Senator BENNETT. A week ago you couldn't remember whether you paid their expenses down or whether your wife paid their expenses, whether they got on the train and rode in your wife's accommodations, or how they got down there. Can you remember now?

Mr. GLUECK. Yes, sir.

Senator BENNETT. Did you buy the tickets?

Mr. GLUECK. No, sir.

Senator BENNETT. Did your wife buy the tickets?

Mr. GLUECK. Yes, sir.

Senator BENNETT. Did she buy them with your money?

Mr. GLUECK. Yes, sir.

Senator BENNETT. It was necessary a week ago for Mr. Simon to say to you, "Does your wife have an income independent from yours?" And you said, "A small one. I mean she could write a check for me and has an account wherever she wants it."

Mr. SIMON. When your wife goes to Florida with the wife of a Government employee and the Government employee, wouldn't you know whether she bought the tickets?

And you said: "I wouldn't know."

Now, weren't you kind of hedging a little a week ago?

Mr. DRAPER. Senator, may I ask what page of the transcript?

Senator BENNETT. Pages 904, 905, and 906.

Mr. GLUECK. Senator, I wasn't hedging as to whether expenses had been paid. I didn't know the details of how they were bought, because I didn't go down with them. I met them there. I came down from New York.

Senator BENNETT. Let me read another part of your answer. I am on the bottom of page 905:

Mr. SIMON. Did you pay the expenses of the trip?

Mr. GLUECK. I think my wife and his wife and he came on the train together. They had a drawing room and what I don't know—and I don't know whether she bought the tickets or he paid for his. He got on the train in Indianapolis.

Mr. GLUECK. I said he got on the train in Indianapolis and I found out since he got on at Chicago. I didn't mean to——

Senator BENNETT. I was present when this was going on. You made, or you left the impression very clearly that a week ago you didn't know whether your wife, with your money, had paid the train fare for Mr. and Mrs. Swan to Florida, and yet in the letter you wrote to your board of directors you said very flatly that you had paid their expenses.

Mr. GLUECK. I have since refreshed my recollection. I didn't know what I was going to be asked here and since that time I looked up some of these things; these things happened 6 or 7 years ago and I didn't remember them, the details of them all.

Senator BENNETT. The thing that puzzles the Senator from Utah is that you were coming up here to discuss this problem with the committee. A week ago you couldn't remember. Didn't you review this statement you had made to your board of directors on this subject before you came up here?

Mr. GLUECK. No, sir.

Senator BENNETT. Mr. Glueck, did you write that statement you made to the board of directors?

Mr. GLUECK. Yes, sir.

Senator BENNETT. Did you have help?

Mr. GLUECK. Yes, sir.

Senator BENNETT. Who helped you?

Mr. GLUECK. Mr. Savill in my office. Some of the men in the office helped me phrase it and get it together.

Senator BENNETT. Did you have legal counsel? Since Mr. Draper wrote the covering letter, which rather surprised me, did Mr. Draper help you write that statement?

Mr. GLUECK. I don't know whether he did or didn't.

Senator BENNETT. Did you help him, Mr. Draper?

Mr. DRAPER. I don't have any recollection as to whether I did or not. I may have checked the letter over with regard to its grammar and punctuation, and something of that sort.

Senator BENNETT. Why did they come to you?

Mr. DRAPER. Beg pardon?

Senator BENNETT. Why did they come to you to write the covering letter?

Mr. DRAPER. I represented Mid-City, Senator, for 20 years, but not in connection with any FHA finance matters, or anything of the sort.

The CHAIRMAN. Who does represent you on FHA matters? Who is your attorney on FHA matters?

Mr. GLUECK. We don't have any FHA matters, other than—

Mr. DRAPER. I know nothing about this FHA situation.

Senator BENNETT. Both these letters were written the same day?

Mr. GLUECK. That is correct.

Senator BENNETT. I would expect that an officer of the Mid-City Corp. would address the FHA, and instead of that, the corporation's attorney addresses the FHA and encloses a letter written to the board of directors on the same day. So how much time did the board of directors have to consider your letter before Mr. Draper wrote to FHA? As a matter of fact, they didn't consider it.

Mr. DRAPER. Senator, let me say that I had talked with—whether it is Administrator or Assistant Administrator, or who—some member of the Administration, on several occasions, with regard to this situation. To the corporation it was very serious, and I had talked by telephone, and I think I had talked personally—I wouldn't swear to that.

Therefore, in communicating with the Administration, the corporation turned these matters over to me and I forwarded them to the Administration. I think Mr. Redman, whom I had met, on occasion being in Washington, I think in this matter.

I don't see any particular significance.

Senator BENNETT. There is none. I am just curious. This is a letter addressed to the board of directors but a copy of it was sent to FHA on the day which it was written. Certainly the chances are the board of directors didn't see it. Did they see the letter?

Mr. GLUECK. Yes, sir. They were in solid meeting there for a full day.

Senator BENNETT. Did they reply to the letter? Was there any reply from the board of directors to you to that report?

Mr. GLUECK. They passed a resolution, certain resolutions, and I tendered my resignation after that, which they accepted.

Senator BENNETT. Did you tender your resignation on that date?

Mr. GLUECK. No, sir.

The CHAIRMAN. Mr. Glueck, I have got two more questions and then we will be through. One: In the memorandum I read to you with respect to the charges or investigation by Mr. Fitzpatrick, he advised Mr. Bovard to turn the whole matter over to the Attorney General. Do you know whether or not any action was taken by the Attorney General?

Did they ever contact you?

Mr. GLUECK. I have no knowledge of anything on it, sir. I don't even know Mr. Bovard.

The CHAIRMAN. They filed no suits against you?

Mr. GLUECK. No, sir.

The CHAIRMAN. As far as you know, nobody ever came nosing around from the Attorney General, asking you any questions?

Mr. GLUECK. Not that I know of.

The CHAIRMAN. Now one more question and then we will be finished: Under date of June 24, 1949, filed June 29, 1949, the Tri-City Village, Inc., as the mortgagor, and your company, Mid-City Investments, as the mortgagee, filed an application with FHA in order to secure a mortgage insured loan on the Tri-City Apartment.

That was the day Mr. Polland signed the application for the mortgagor and you, for Mid-City Investments, signed it for the mortgagee. Under "Sources of equity," Tri-City Village put down \$300,000 for land.

Bear in mind that was on June 24, 1949. Did they own the land on that day?

Mr. GLUECK. No, sir.

The CHAIRMAN. They did not own the land on that date?

Mr. GLUECK. No, sir.

The CHAIRMAN. What were the circumstances of the land on that date?

Mr. GLUECK. I still owned the land, sir.

The CHAIRMAN. But nevertheless—

Mr. GLUECK. May I add this?

The CHAIRMAN. Yes.

Mr. GLUECK. All applications were based on a proposed mortgagor. As a matter of fact, notwithstanding any question to the contrary, when FHA issued a commitment, the commitment was then to a proposed corporation, and in that commitment they stated the amount of replacement reserve that that would be necessary to put in the articles of incorporation, so of necessity you could not form the corporation completely until the commitment had been issued.

The CHAIRMAN. This was signed by Alfred Polland on behalf of Tri-City Village, Inc?

Mr. GLUECK. That is right.

The CHAIRMAN. You have handled a lot of section 608 projects. Are you familiar with this form, an application for mortgage insurance to the FHA?

Mr. GLUECK. Yes, sir.

The CHAIRMAN. That is the only application you file with FHA when you want to get a project insured?

Mr. GLUECK. Under section 608, yes.

The CHAIRMAN. That is all you would file. In other words FHA depended upon all the facts and figures that were placed in this application in making a decision as to whether they would or would not make a commitment?

Mr. GLUECK. I don't believe so, sir. I think they depended on their own cost valuations.

The CHAIRMAN. What was the purpose of filing this?

Mr. GLUECK. That was requested by them. They would have to have some form. That is merely the builder's estimate.

The CHAIRMAN. Where it says "Source of Equity"—you have had a lot of experience and have already testified to this material, and that is why I am asking you—did this mean anything where it said "Equity, land, \$300,000"? Did that mean anything?

Mr. GLUECK. It was merely the builder's estimate, the owner's estimate of the value of his ground that he was putting in there.

The CHAIRMAN. It meant he owned it, did it not?

Mr. GLUECK. No. He would have to own it before he started to build the project. I could take actually—

Mr. CHAIRMAN. There is nothing here that says he doesn't own it. It says he does own it.

Mr. GLUECK. It says Tri-City Village, Inc., would own that before the FHA would insure their commitment.

The CHAIRMAN. There is nothing there that says they will. Here it says they do own it, period.

Mr. GLUECK. This is a proposed corporation will own it.

The CHAIRMAN. Who did own it at the time?

Mr. GLUECK. I did, sir.

The CHAIRMAN. You owned it?

Mr. GLUECK. My father and I owned it.

The CHAIRMAN. And yet Mr. Polland of the Tri-City Village, Inc., signed this document that he owned it.

Mr. GLUECK. I don't think he signed a statement that he owned it, sir.

The CHAIRMAN. Well, then, I give up. I don't know what you mean when you put down "land, \$300,000," where it says "Equity." I don't know.

Mr. GLUECK. These are all underestimated requirements. Everything in here is underestimated, and it says right at the head of it, "Proposed setup."

The CHAIRMAN. Proposed what?

Mr. GLUECK. Setup of the whole project, right on the top of the page, where you see that, on page 3 of the application. It says "Proposed setup."

The CHAIRMAN. This is page 2, my dear sir, that I am talking about. This is on page 2.

Mr. GLUECK. "Tri-City Village, Alfred Polland." Tri-City Village would own the land.

The CHAIRMAN. But they didn't own the land and they stated in an application to FHA that they did own it.

Senator BENNETT. Mr. Chairman, we had better get somebody from FHA down here.

The CHAIRMAN. We are going to. The man that ought to tell us about it is Mr. Powell, but he hides behind the fifth amendment. He was the head man for 20 years, running this business. He is the man that ought to tell us, because he is the top man, but he is a fifth-amendment fellow.

I want to say this: This is not the only one we have had like this. We are trying to find out if this meant anything. Do you think this meant anything? You are an experienced man—you testified. Did it mean anything?

Mr. GLUECK. In what way, sir?

The CHAIRMAN. Does it mean what it says, "Application for mortgage insurance"?

Mr. GLUECK. Let me put it this way: The FHA didn't necessarily need the information on that application to process. They did their own processing. They took the plans and specifications—

The CHAIRMAN. What did they have them filled out for?

Mr. GLUECK. I don't know.

The CHAIRMAN. Well, it is a nice way to do business.

Mr. DRAPER. Mr. Chairman, may I correct your impression that Mr. Glueck is an old hand at testifying.

The CHAIRMAN. I don't mean testifying. I meant an old hand on section 608's.

Mr. DRAPER. He has testified twice—today and last Friday.

The CHAIRMAN. I didn't mean an old hand at testifying. I meant he was an old hand on section 608's.

Mr. GLUECK. They told me life would begin at 40, but I didn't think it would begin with this.

The CHAIRMAN. He is a personal friend of Mr. Peters. He was doing very well. He lived in this apartment. How close were they together?

Mr. GLUECK. Next door.

The CHAIRMAN. He has financed 26 or 27 million dollars worth of section 608 projects.

Mr. GLUECK. Felix McWhorter lived next door, sir, too, so he was very close. I mean a lot of people lived there.

The CHAIRMAN. But you didn't loan Felix McWhorter \$7,500.

Mr. GLUECK. I didn't loan Mr. Peters \$7,500, either.

The CHAIRMAN. You didn't enter into any deals with Mr. McWhorter, either; he wasn't the FIA State director.

Any other questions?

Thank you very much, Mr. Glueck. We appreciate your testimony. We will relieve you, at least for the time, from your subpoena.

Is there anybody that has any questions this morning?

Does anybody want to testify?

Now we are going to recess until 10 o'clock Monday, July 12, at which time we will start these hearings again, and we will have hearings each day that week. We will be able to give you the names of our witnesses on Monday and Tuesday, July 12 and 13, about the middle of next week.

We have got to catch up now with our testimony and our details, so unless there is objection, we will now recess this hearing until 10 o'clock on July 12.

(Whereupon, at 12:30 p. m., Friday, July 2, 1954, the committee recessed to Monday, July 12, 1954, at 10 a. m.)

FHA INVESTIGATION

MONDAY, JULY 12, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Ives, Bush, Payne, Goldwater, and Lehman.

Also present: William J. Simon, general counsel F. H. A. investigation.

The CHAIRMAN. The committee will please come to order. Our first witness will be Mr. Gustave M. Berne, Rockway Crest Apartments, Far Rockway, N. Y.

Mr. Berne, will you be sworn, please?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BERNE. I do.

The CHAIRMAN. Who is he?

Mr. BERNE. He has the figures.

TESTIMONY OF GUSTAVE M. BERNE, ROCKWAY CREST APARTMENTS, FAR ROCKWAY, N. Y.

Mr. SIMON. Will you give the reporter your full name and address, please?

Mr. BERNE. Gustave M. Berne, Beechlane, Great Neck, N. Y.

Mr. SIMON. Your occupation, please.

Mr. BERNE. I am a builder.

Mr. SIMON. I gather you were a lawyer who found there was more money in the building business and gave up practicing law?

Mr. BERNE. That is right.

Mr. SIMON. I would like to ask you some questions with respect to the Rockway Crest project in New York. Are you the sponsor of that project?

Mr. BERNE. Yes, sir.

Mr. SIMON. Who owns the land on which the project is built?

Mr. BERNE. I do.

Mr. SIMON. When did you purchase the land?

Mr. BERNE. I signed a contract for that land in September 1949, and took title—I think it was January 1950.

Mr. SIMON. What did you pay for the land?

Mr. BERNE. The total cost of the land was—including title charges and legal fees—about \$280,000, or thereabouts, and the land included

a piece that was used for a shopping center, which we value at about \$50,000, so that the cost ascribed for the land that was leased to the Rockway Crest Corp. is about \$237,000.

Mr. SIMON. You did not sell that land or turn it in to the sponsoring corporation but merely leased it to them for 99 years, is that right?

Mr. BERNE. That is correct.

Mr. SIMON. And that land lease is now ahead of the Government-insured mortgage on the property?

Mr. BERNE. That is correct.

Mr. SIMON. It is a prior lien to the Government mortgage?

Mr. BERNE. That is correct.

Mr. SIMON. In connection with the FHA application, did the FHA put a valuation on that land?

Mr. BERNE. Yes, they did.

Mr. SIMON. At what amount did FHA value the land?

Mr. BERNE. They valued it in three parcels if I may speak for the whole project. They valued it at \$1,636,000.

The CHAIRMAN. That is the land you paid approximately \$237,000 for?

Mr. BERNE. That is right.

The CHAIRMAN. And FHA appraised it and put a value on it of \$1,636,000?

Mr. BERNE. Yes, sir.

The CHAIRMAN. Did you have a 99-year lease on the land?

Mr. BERNE. That is correct.

The CHAIRMAN. How much is the rent each year?

Mr. BERNE. Four percent of \$1,636,000. I think it is \$65,440—do you want me to figure it out?

The CHAIRMAN. That is close enough.

In other words, approximately \$65,000 for 99 years?

Mr. BERNE. That is correct.

The CHAIRMAN. On land that you paid approximately \$237,000 for?

Mr. BERNE. That is correct.

The CHAIRMAN. And FHA allowed you in your application to application to appraise it at \$1,636,000?

Mr. BERNE. That is correct.

The CHAIRMAN. And that is the first lien on the building that now sits on the land?

Mr. BERNE. It comes ahead of the FHA-insured mortgage.

The CHAIRMAN. What did FHA do about that?

Mr. BERNE. About what, sir?

The CHAIRMAN. I mean, didn't they object to having you own the land and have it come against the collateral?

Mr. BERNE. No, sir, that was the standard procedure in New York State.

The CHAIRMAN. Did you agree that in case FHA has to repossess the building to sell them the land?

Mr. BERNE. Under the FHA form of lease, they have the right. If they foreclose the mortgage, to buy the land at \$1,636,000.

The CHAIRMAN. In other words, they have to pay \$1,636,000 to you, now, for the privilege of repossessing your building, if the time ever comes when they have to repossess it?

Mr. BERNE. That is correct.

Mr. SIMON. Mr. Berne, were you able to put a mortgage on that land apart from the FHA mortgage on the building?

Mr. BERNE. That is right.

Mr. SIMON. What is the amount of that mortgage?

Mr. BERNE. \$1,600,000.

Mr. SIMON. Are you personally responsible for the repayment of that mortgage?

Mr. BERNE. I am not.

Mr. SIMON. Is the reason you were able to get a \$1,300,000 mortgage on land that you only paid \$237,000 for because it was ahead of the FHA mortgage, and the Government would have to pay \$1,636,000 for it if they ever wanted to take it over?

Mr. BERNE. Unquestionably.

Mr. SIMON. And your mortgage is at 4 percent interest, is that right?

Mr. BERNE. That is right.

Mr. SIMON. So although you still own the land you already have taken out \$1,063,000 more than you paid for the land itself?

Mr. BERNE. Not exactly, but over \$1 million.

Mr. SIMON. Now, the corporation that owns the building and has the lease for 99 years on the land, there are three of those corporations, are there not?

Mr. BERNE. That is correct.

Mr. SIMON. What is the capital stock in each of them?

Mr. BERNE. \$1,000.

Mr. SIMON. I take it that in connection with construction, you might have advanced money by way of loans to those corporations but those loans have been repaid to you, have they?

Mr. BERNE. They were advanced by others, guaranteed by myself, but they have been repaid.

Mr. SIMON. So the only capital or investment of any kind that you have in the three corporations is the total of \$3,000, is that right?

Mr. BERNE. Not at the present time. I know what you are trying to get at. As of the date I completed the project, that is correct. Subsequently there were losses, but go ahead.

Mr. SIMON. What was the amount of the FHA mortgage on those three buildings?

Mr. BERNE. \$14,486,100.

Mr. SIMON. What was the cost to you of constructing the buildings?

Mr. BERNE. You will understand there are some judgments by accountants in this next figure—items they capitalize and items they charge off as expense, but with that done to the best of the accountant's ability, the construction cost—you want it exactly, don't you?

Mr. SIMON. Yes, sir.

Mr. BERNE. The construction cost as figured by the accountants is \$13,475,485.04.

Mr. SIMON. That is approximately \$1,370,000 less than the mortgage?

Mr. BERNE. No, sir. You are including again the mortgage premium assignment.

Mr. SIMON. What was the amount of the mortgage premium?

Mr. BERNE. The mortgage premium was \$360,321.61.

Mr. SIMON. That was part of the proceeds of the mortgage?

Mr. BERNE. It was part of the proceeds of the project. I don't think it was part of the proceeds of the mortgage. I won't argue with you about terms. I wouldn't call it a part of the mortgage. It was part of what I got out of the operation, yes, sir.

Mr. SIMON. Mr. Berne, why did the purchaser of the mortgage pay you a premium for it?

Mr. BERNE. Well, at that time, the Government-guaranteed FHA mortgages were being sold by one banker to the next, at 104. That meant that the mortgage was worth four points over par, so that the banks were paying builders a premium to get mortgages on property they thought was desirable.

The CHAIRMAN. The mortgages were guaranteed by the Federal Government and were the same as a Government bond from that standpoint?

Mr. BERNE. Well, they weren't quite, Senator, but at that time they were worth approximately four points over par.

The CHAIRMAN. Anyone who bought them could not lose any money as long as the Federal Government remains solvent and stays in existence, is that correct?

Mr. SIMON. And that accounts for the four points premium, doesn't it, Mr. Berne?

Mr. BERNE. The initial offer was four points. Are you interested in details? You will notice there is \$336,000 less than four points, four points would have been \$580,000.

Mr. SIMON. But the premium resulted from the fact that these were Government-guaranteed obligations?

Mr. BERNE. Yes, sir.

Mr. SIMON. And the amount of the mortgage, plus the premium you got because it was a Government obligation, was \$1,370,000 less than the cost of the building; is that right?

Mr. BERNE. \$1,370,000 more than the cost of the buildings.

Mr. SIMON. That is right.

Excuse me. And that \$1,370,000 by which the mortgage and premium exceeded the cost of the building is in addition to the more than \$1 million that you got out of the land?

Mr. BERNE. That is correct.

Mr. SIMON. And I take it, of course, that the mortgage amortization payments on the mortgage are—you hope at least to be paid out of the income from the property and if nothing happens in the next 30 years, you or your family will own the \$15 million project, is that right?

Mr. BERNE. That was my hope. It hasn't eventuated to date. As I explained to you, the first couple of years of operation were disastrous and all that surplus has gone back into carrying the property so at the present time, in addition to using up the whole surplus, I have advanced moneys above that, but that is not the usual experience. Mine was a very sad experience in operation.

Mr. SIMON. I take it you have the option at any time just to walk away from the property and let it default if you want to? No permanent responsibility.

Mr. BERNE. There is no permanent responsibility, no, sir.

Mr. SIMON. So as of the start of this project, you had \$1 million out of the land and you either had or could have taken out \$1,300,000 on the mortgage, and the only one who was then bearing any further risk was the United States Government; is that right?

Mr. BERNE. I wouldn't want to answer that middle question about whether I either had or could have taken out—it was in the corporation.

Mr. SIMON. But the risk beyond the extent to which you are willing to try to carry the building is the risk of the Government, is that correct?

Mr. BERNE. That is correct.

Mr. SIMON. Now, who represented you in your application to FHA for a mortgage commitment?

Mr. BERNE. Lowell, Smith & Evers, Inc.

Mr. SIMON. Is that a law firm?

Mr. BERNE. That is a mortgage brokerage firm.

Mr. SIMON. Did George Grace represent you as a lawyer in filing your application with FHA?

Mr. BERNE. George Grace represented me as a lawyer. I don't know whether he was the lawyer for me or for the brokerage firm. I think at that time he was acting for the mortgage company. He was their attorney.

Mr. SIMON. Do you know whether or not he is one of the owners of that mortgage company?

Mr. BERNE. I don't know.

Mr. SIMON. He has testified that you paid him a fee of \$12,500.

Mr. BERNE. That is correct.

Mr. SIMON. And also permitted him to buy some stock which you then bought back from him at \$37,500 more than you paid for it, is that right?

Mr. BERNE. I want to be precise. When you say "he" if you include my corporations, that is correct. I didn't buy back the stock. I explained to you what the setup was. One of the corporations bought back his stock and it showed a profit to him of \$37,500, besides which the firm of Grace & Grace got a fee of approximately \$12,500. In trying to check my records—I don't want to drag out the record. I want to be precise—in trying to check my records, I have found it is \$12,400. I don't know why that is. My recollection was that I agreed to pay him \$12,500.

Mr. SIMON. At any rate, Mr. George Grace received from you or your corporation, a total of either \$50,000 or \$49,900, on this project?

Mr. BERNE. I am not trying to fence. I want to be precise. Grace & Grace received \$12,400. George C. Grace, for the sale of the stock, received \$37,500 more than he paid for it.

Mr. SIMON. When was this application filed?

Mr. BERNE. I think it was filed in May 1949.

Mr. SIMON. When was the project completed?

Mr. BERNE. The final completion would be about July 1952.

Mr. SIMON. Who was the FHA State director in New York, in May 1949?

Mr. BERNE. Thomas Grace.

Mr. SIMON. He is the brother of George Grace?

Mr. BERNE. That is correct.

Mr. SIMON. Was he a partner in the law firm of Grace & Grace?

Mr. BERNE. I wouldn't know that. It was my impression he wasn't.

Mr. SIMON. Did you ever go up to their offices?

Mr. BERNE. Yes, sir.

Mr. SIMON. Was his name on the door?

Mr. BERNE. I think it was.

Mr. SIMON. It was on the door?

Mr. BERNE. I have checked since and I think it was, yes.

Mr. SIMON. Do you know whether he received any part of this \$50,000?

Mr. BERNE. I only know I was told he received no part of it. Several times we discussed the situation and I wasn't so much interested in Tom Grace, I never considered him to be a partner of the firm, as I wanted to make sure that George Grace for himself had a right to buy this stock and that it shouldn't go to Grace & Grace. In the course of those conversations I was told that Tom Grace had no interest in the final—that is what George told me—second that he had a right to buy the stock forms in spite of the fact that he was a partner in the firm of Grace & Grace. We checked on that.

Mr. SIMON. Last week in an executive session of this committee, Mr. Thomas Grace testified that in 1949 while he was State director, he received \$19,000 from the law firm of Grace & Grace, and in 1950 he again received \$19,000 from the law firm.

Did you know that?

Mr. BERNE. No, sir. I am surprised.

Mr. SIMON. But you did know that George Grace was the brother of Tom Grace?

Mr. BERNE. Certainly. I knew the brothers. And I knew Pat who just died. They were friends of mine.

Mr. SIMON. Mr. Berne, you were a lawyer with very extensive experience in building matters, weren't you?

Mr. BERNE. I had experience, yes, sir.

Mr. SIMON. Why did you need to hire George Grace to represent you in this FHA application?

Mr. BERNE. I didn't need him to represent me. The story is this: In March 1949 George Grace came to me—first of all, let me say that in the middle of 1947 or thereabouts, I started to do business with Lowell, Smith & Evers.

Mr. SIMON. Did you know then that George Grace was one of the stockholders or partners?

Mr. BERNE. I don't know it now except what you tell me. If you say so, it is so.

Mr. SIMON. I only know that he testified under oath.

Mr. BERNE. Then it is so.

George and I became pretty friendly. He never represented me and I had no need for a lawyer with George's experience. He was representing the bank at all times.

In March 1949 he came to me and told me there was a piece of property down in Rockway that he wanted to buy. He had the same yen that some other lawyers had to go into the building business and wanted to know whether I would go in with him. It was about the time that I had just gotten through or was about to finish up with another job and told him I would be interested in going ahead with the job. I went down to Rockway, I liked the property, and the deal we made then was that depending on how we developed the property, I would give him some interest in the property.

Our initial intent was to build some one-family houses on a portion of the property and at the very start we negotiated with Herman

Stichman, the director of the New York State Housing Authority, to do a job guaranteed by New York State Housing Authority.

At about this time we heard that the section 608 program was going to go out and to protect ourselves in case we didn't work out a deal that we found satisfactory with the others, we filed a section 608 application, but at that time the agreement was not to hire George Grace but that George Grace who showed me the property would participate in the venture. The exact extent of his participation was indefinite because we didn't know how much money it would take.

He told me he would get \$10,000 to \$25,000 as his share of the capital.

Mr. SIMON. Mr. Berne, at the time you received this FHA application, did you contemplate or at least hope that you would be able to build this building for less than the amount of the mortgage?

Mr. BERNE. Yes, sir.

Mr. SIMON. Was it a common understanding among the builders in New York that you could build these buildings for less than the amount of money that FHA would guarantee?

Mr. BERNE. It was a common understanding that any capable builder who knew his business, unless he hit very bad conditions, would be likely to end up with a margin out of the mortgage, yes, sir.

The CHAIRMAN. You say the FHA people knew that?

Mr. BERNE. That is an easier question to answer when you are across the table. I had no way of knowing what was in their minds.

The CHAIRMAN. Do you think they encouraged it?

Mr. BERNE. I think they knew it but I cannot speak for what was in their minds, Senator.

The CHAIRMAN. It was common gossip in New York City that the proceeds of the mortgage could be and should be and would be greater than the total cost of the project?

Mr. BERNE. I think an honest answer is "Yes."

Mr. SIMON. Was it also understood that you had to hire the right lawyer to file the application?

Mr. BERNE. No, sir.

Mr. SIMON. Do you know any reason why George Grace should have represented about 25 section 608 builders?

Mr. BERNE. I am not answering your question directly. I don't know of any reason why he should have. I don't think that George Grace got any more from the FHA office than any one of the mortgage brokers doing business around that office. I think if you will compare the results—well, I don't want to be argumentative. I just want to answer your questions.

Mr. SIMON. Mr. Berne, a statute Congress passed provided that these mortgages should be 90 percent of the estimated cost, and in 1947, Congress amended the law to provide that the estimated cost should be as close as possible to the actual cost. Do you know of any reason why, in view of that statute by Congress, it should be common for people to be able to build these buildings for substantially less than the amount of the mortgage?

Mr. BERNE. Yes. They were included in the FHA cost allowances, and an allowance of 5 percent for architects which you never paid—

Mr. SIMON. What did you actually pay the architect?

Mr. BERNE. About 1 percent.

Mr. SIMON. As a matter of fact, there are a lot of buildings this size, where the architect gets a half of 1 percent?

Mr. BERNE. I don't know.

Mr. SIMON. You paid yours 1 percent?

Mr. BERNE. I paid 1 percent.

Mr. SIMON. At the time you filed your FHA application, did you have a commitment from an architect to do this job for 1 percent?

Mr. BERNE. Certainly at the time I filed my amended application I had that commitment, yes.

Mr. SIMON. Did you put in your application that your estimated architect's cost would be 5 percent?

Mr. BERNE. No, sir. I did not regard that as an estimate at all. I regarded that as an allowance—to my understanding and I think it was a common understanding, Mr. Simon, that they gave you an allowance of 5 percent for architect, and 5 percent for builders' fee.

The CHAIRMAN. In other words, that was 10 percent which took up the difference between 90 and 100; is that the idea?

Mr. BERNE. Not exactly.

The CHAIRMAN. We can find nothing in the law which gave them the right to simply allow 5 percent, knowing that the man was only going to spend one-half of 1 percent. Do you consider that good business?

Mr. BERNE. You want my opinion?

The CHAIRMAN. Yes.

Mr. BERNE. I think it was good business. I think it was because I think it was the policy of the Government at that time to encourage the construction. I would rather not express an opinion on that, Senator. I would prefer to answer as to the facts.

The CHAIRMAN. Were you your own builder in this instance?

Mr. BERNE. Yes.

The CHAIRMAN. Did you take the full 5 percent builders' fee?

Mr. BERNE. In the FHA application, it was 5 and 5; yes, sir.

The CHAIRMAN. What did you actually pay yourself for building it?

Mr. BERNE. Nothing.

The CHAIRMAN. Then you got 5 percent free? You got 5 percent free as far as the mortgage was concerned.

Mr. BERNE. This was an allowance for 5 percent for the building and 5 percent for the architect.

The CHAIRMAN. Then, you did it yourself?

Mr. BERNE. That is right.

The CHAIRMAN. You were doing you own work on your own project which you still own?

Mr. BERNE. That is right.

The CHAIRMAN. In other words, you still own this building?

Mr. BERNE. Yes, I do, and I think it is very valuable. I hope someday it will be free and clear and worth \$15 million or \$16 million.

The CHAIRMAN. Which you will be getting for a \$3,000 investment?

Mr. BERNE. That is not strictly so. The answer I gave was \$3,000 in stock. The investment as you know was well over \$1 million.

The CHAIRMAN. But you got the investment back. It was repaid to you. It was paid back to you?

Mr. BERNE. Oh, yes. The present investment, however, may be—

The CHAIRMAN. It is \$3,000.

Mr. BERNE. I have put in more money since then.

The CHAIRMAN. You have increased the capitalization?

Mr. BERNE. I haven't increased the capitalization. I have made loans.

The CHAIRMAN. Loans are not capital.

Mr. BERNE. Then it is \$3,000; is that correct?

Mr. SIMON. I would like to show you an application for an FHA loan and ask you if you signed the original application.

Mr. BERNE. Yes, sir; that is my signature.

Mr. SIMON. On page 3 in the left-hand column there is a place called "Estimated requirements."

Do you find that?

Mr. BERNE. Yes, sir.

Mr. SIMON. Under "Fees," there is a place for architects' fees.

Mr. BERNE. That is correct.

Mr. SIMON. Did you fill in 5 percent there?

Mr. BERNE. I signed the application in which 5 percent had been filled in, yes.

Mr. SIMON. Doesn't that say that you were estimating your requirements for architects' fees at 5 percent?

Mr. BERNE. I don't think so, Mr. Simon, no more than the fact that it said, "Builders' fee, 5 percent."

I can only say what we thought was the situation, all of us, including, I think, the FHA. We regarded that as being in the nature of an allowance and every single application that I know of, no matter what the builder expected to do, no matter what the architect got, had that 5 and 5 figure.

The CHAIRMAN. In other words, you considered that a sort of bonus that FHA was giving you to get you to build so you would build these projects?

Mr. BERNE. We regarded that as an allowance; yes, sir.

The CHAIRMAN. In other words, if you spent 1 percent on architects' fees and nothing on builders' fees then you would have 9 percent of a \$10 million project, which would be \$900,000.

Mr. BERNE. I think it was the intent to have an allowance of 5 percent for the builder and 5 percent for the architect and since they were giving you 90 percent of the total it worked out so that if you were fairly good—

The CHAIRMAN. Do you know anything in the law that gave FHA the right to allow you 5 percent architects' fees, knowing that you were only going to spend 1?

Mr. BERNE. I don't know.

Mr. SIMON. Mr. Berne—

Senator BUSH. Could we ask whether the FHA indicated to you in any way whether it was proper for you to put in the 5 percent?

Mr. BERNE. Yes, sir. The FHA at that time said the allowances were 5 and 5, just as now, under the section 207 program, they said the allowances were 3 and 5—I think it has been reduced now.

Senator BUSH. In effect, they encouraged you, they invited you to put in those figures; is that right?

Mr. BERNE. I think that is right. Nobody put in any less and no one was permitted to put in any more. They said they would allow you a 5 and a 5.

Mr. SIMON. Was anything ever put in writing to that effect, Mr. Berne?

Mr. BERNE. Not that I have ever seen; so, sir.

Mr. SIMON. You know of nothing you have seen in writing that says you can have a 5 percent architects' fee even though you pay the architect 1 percent?

Mr. BERNE. I do not.

Mr. SIMON. The application that you signed said that these were your estimated requirements. Now, if that 5 percent wasn't your requirement for architects' fee, why didn't you amend the application to state the true fact?

Mr. BERNE. Mr. Simon, that was the allowance given us by the FHA and that is the figure that went into every application. Five and five.

Mr. SIMON. So far as the printed portion of the application is concerned, the answer that you gave was incorrect, wasn't it?

Mr. BERNE. I don't think so.

Senator BUSH. I don't think that is necessarily incorrect. It says what his requirements were. He said those were his requirements, and in accordance with the encouragement which the FHA gave him to put those figures in, his willingness to go ahead with the project was dependent upon that requirement—it doesn't say he was going to spend it, he said it was a requirement to go ahead with the deal. Is that not right?

Mr. SIMON. Well, he said he knew at the time he signed this that he was going to pay the architect 1 percent.

Senator BUSH. Well, technically I think he is still correct. He has signed this in accordance with the encouragement of the FHA management, as being a requirement for going ahead with the deal. It doesn't say he was going to spend it all, as I understand it, now.

The CHAIRMAN. Does the Senator think it is right to make an application for a mortgage on the basis that you are going to spend 5 percent, spend 1, and then get an additional 4 percent on—what was the total amount of this mortgage. \$14,600,000, and have the Federal Government guarantee a mortgage for \$600,000 more than the man actually spent?

Senator BUSH. I didn't say it was right or wrong. All I said was that he was invited to state what his requirement was. It didn't say that he intended to spend it all, or that if he didn't spend it all it would be refunded.

Now, it seems to me, the point I am trying to make is, the way that application is worded invited him to put in the full allowance.

The CHAIRMAN. There is nothing in printing. He filled it in. Have you ever seen one of these?

Senator BUSH. No.

The CHAIRMAN. Well, take a good look at it. There is nothing in there about 5 percent. They fill that in themselves in longhand or on the typewriter.

Senator PAYNE. May I ask Mr. Berne a question, Mr. Chairman?

Senator BUSH. It doesn't say, "estimated expenses," it says, "estimated requirements."

The CHAIRMAN. I understand that but the point is they fill in the 5 percent; "5" isn't a part of the printed document.

Mr. BERNE. I understand that, Senator; yes.

Mr. SIMON. I take it what we are concerned about is whether estimated requirements means requirements for getting the application approved or requirements for building the building.

Senator BUSH. I think it is subject to that interpretation.

Senator PAYNE. Mr. Berne, were you familiar with law pertaining to section 608's?

Mr. BERNE. Not with the law. I never read the law.

Senator PAYNE. You never read the law so you weren't familiar with it?

Mr. BERNE. I have never read the law.

Senator PAYNE. You have never read the amendment put into the law in 1947.

Mr. BERNE. I shouldn't even say I have never read the law. I have read parts of the law. When they were being discussed, I was close enough to the industry that I would read the pertinent parts of the law, as I am reading them now, but I was no longer practicing law. I doubt whether very many lawyers practicing law were really familiar with the law and the legal implications and details. They knew what it provided, a 90-percent mortgage on a fee or a leasehold. They knew the provisions but I doubt whether very many people were really familiar with the law.

Senator PAYNE. You do not recall reading the amendment put into the law in 1947?

Mr. BERNE. That amendment I did not read.

Senator BUSH. Mr. Chairman, I would like to make my position as clear as I can on this. My criticism is of that document which says "requirement" rather than "expenses" and that the using of the word "requirement" invited the contractors to do just what they did, encouraged by and approved by the FHA management.

The CHAIRMAN. We have listened to many, many builders now in executive session and we haven't found one yet who paid the 5 percent. More generally it is about one-half of 1 percent.

Senator BUSH. But they all regard it as a requirement.

The CHAIRMAN. Now, what we have to find out is, was the 5 percent a requirement for getting the contract, or was it a requirement for building the buildings?

Senator BUSH. How did you interpret that?

Mr. BERNE. I thought it was in the nature of an allowance, sir. If I made any other answer I wouldn't be telling the truth.

The CHAIRMAN. Let me say this for Mr. Berne. He was in executive session before us and we haven't had anybody who is more frank and cooperative. I want to record to show that.

Mr. BERNE. Without being argumentative, because I have been warned to keep my big mouth shut, but you know in the law that is now being discussed, you've got the same 10 percent allowance, where the man is his own contractor, and everybody I ever met—and I say this—it is no more sincere or truthful than the other statements I have made but just as true, everybody in the building industry I know regards that as an allowance. I don't know of a single man who feels he is misrepresenting anything to put down 5 and 5.

Now, you go to section 207. They say you can't have 5 and 5. You put down 2 and 5 or 3 and 5.

With the FHA doing that, that may well be, but I don't think—

The CHAIRMAN. You see, the thing I don't understand is, it says "estimated requirements." You filled this in. You filled in estimated requirements, knowing when you filled it in that you were going to pay 1 percent.

Mr. BERNE. Well, it was filled in on every form and the mortgage broker who brought you the form—incidentally, this form was usually filled in by the mortgage broker and brought to you but that is no excuse for me. I signed it. I am not trying to say I didn't know what it said. If you raised the question they gave you the same answer: "This is the allowance permitted by the FHA in every single application." Whether it is right or wrong is not for me to say, but I can say that was no intent to deceive anybody and we certainly weren't deceiving the FHA when we put in 5 and 5.

The CHAIRMAN. FHA approved this from this document?

Mr. BERNE. That?

The CHAIRMAN. They knew you put in 5 percent builder's fee and 5 percent architect's fee, because there it is. It looks to me as though FHA participated in a grand scandal to the extent of millions and millions of dollars by allowing 5 percent architect's fees, knowing that the people were only spending one-half of 1 percent, or 1.

Talk about a Teapot Dome or an RFC and mink coats, they are Sunday-school contributions of one penny compared to this sort of thing.

Senator BUSH. I wanted to ask a question along that line if I might.

Do you think, Mr. Berne, that the FHA knew that contractors were spending considerably less than 5 percent for architect's fees?

Mr. BERNE. Yes, sir; I think they did.

Senator BUSH. They did?

Mr. BERNE. I am trying to avoid, Senator, debate about this thing, because it would do nothing but bring the building down on my head, but I think, as I said to you in your office, Senator—and I don't know as much about it as you do—I think that was the intent of the law.

The CHAIRMAN. To do what?

Mr. BERNE. To encourage construction.

The CHAIRMAN. I don't think there is any question but what, when Congress passed the law, that they wanted to encourage construction. Otherwise they wouldn't have passed the law. But I don't think it was ever the intention of the Congress and the Senators and the Congressmen, when they passed this law, that the Federal Government would guarantee any mortgages for costs that never occurred.

Mr. BERNE. Do you want me to answer that, Senator?

The CHAIRMAN. Yes.

Mr. BERNE. I think, Senator, that section 608 may have been carried by its useful period, but when section 608 was first brought into the law, it was during the war years. The only section 608 I had any connection with prior to Wave Crest was in Baltimore during the war years, and I think there, sir, it was recognized—we were later fooled; these properties became very valuable—but I think at that time it was contemplated these buildings we were building up in war areas would have no value beyond the war years, and I think it was the attitude that, "If we allow these people 5 and 5, so the mortgage actually covers their cost, it will be less than public houses and clear construction."

That was my impression.

The CHAIRMAN. Let me say this: We are discovering in our executive sessions that they are mortgaging out of defense housing on section 207's and cooperative housing—the pattern doesn't seem to be any different on those than on section 608.

Mr. BERNE. I never did a section 213. If you questioned me if I did, I said positively not.

The CHAIRMAN. The same thing is happening in your instance here. In other words, the proceeds of the mortgage are greater than the total cost of the project—under section 213's, under 207's, under defense housing. We are finding that out in our executive sessions.

Mr. BERNE. I am surprised about the section 207's. I didn't think the section 207's—you asked me that question in your office.

The CHAIRMAN. It looks like the ingenuity of these gentlemen is beyond imagination. It is really a great lesson in ingenuity to sit in on these executive sessions.

Senator LEHMAN. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator LEHMAN. What is the normal architect's fee?

Mr. BERNE. If you had 1 building here, Senator, the normal architect's fee would run to 5 percent and maybe over. That is the gimmick here. You see out of these buildings, there were actually 38 buildings out of 2 planned, so if you employed this architect to do just 1 building, he couldn't afford to do it for 5 percent because of the repetition. He did better here with the 1 percent than he would have done on 7 or 8 percent, if it were just 1 building without repetition. That is the reason why you find in the big section 608's that the architect's fees—I am surprised here that they ran as little as one-half percent, but 1 percent was a liberal payment. I am a liberal payer in the profession, and I felt that 1 percent was adequate.

The CHAIRMAN. I want to place in the record at this point a wire from George Grace.

It says:

DEAR SENATOR: Sudden death of my brother, Patrick, makes the appearance of my brother, Tom, and myself impossible for Monday. I would appreciate adjournment until some future date.

Mr. Grace called me this morning, and we arranged for him to appear a week from tomorrow. I wanted it known that it is not his fault that he is not here today.

Senator LEHMAN. If you did not have FHA's guaranty, what would the ordinary fee of this building have been?

Mr. BERNE. It would depend on the size of the project and whether he gave you a guaranteed price. If he just gave out the contract a fee basis where he wasn't guaranteeing anything, on a job as large as this you could have gotten it for 4 or 5 percent, maybe less.

I imagine today in the highly competitive market he might do it for three, if there was not a firm contract.

You must remember, Senator, we were taking the risk.

As I understand it, 1 out of 6 or 1 out of 7 of these jobs ended in a profit and others broke even and others brought less substantial money in. But I certainly—and I am not trying to conceal this fact—certainly when I went into this project I had every hope that the amount of the mortgage plus the premium would exceed the cost of the project.

Senator LEHMAN. But ordinarily if you had to employ a builder—

Mr. BERNE. On a firm price?

Senator LEHMAN. Well, on a firm price or on a cost-plus basis.

Mr. BERNE. Well, on a firm price, if you want the guaranty, I don't think you could have gotten—well, I want to be careful about

that—no, I don't think you would have gotten the builder to take a firm contract at this particular time at the mortgage price, considering the risk he would take.

Senator LEHMAN. You were an experienced builder, and you wanted to build this building yourself. Undoubtedly that was the procedure in many of these projects. Have you any idea what percentage of the projects were built through the employment of outside builders to do the actual construction work?

Mr. BERNE. I don't know of a single job that was built by giving out a firm contract to a general contractor.

The CHAIRMAN. You say you do not know of any?

Mr. BERNE. That is right.

The CHAIRMAN. Well, we have had them in executive session.

Mr. BERNE. In New York, Senator?

The CHAIRMAN. I don't remember that.

Mr. BERNE. I don't know of any.

The CHAIRMAN. You see, Mr. Berne is primarily a lawyer who went into the building business.

Senator LEHMAN. Do I understand that the greater number of these contracts were taken by lawyers or others who did not qualify as construction men or builders in the general accepted sense?

Mr. BERNE. I was a builder, Senator. I regard myself as a very capable builder. There were jobs where people who weren't builders who heard about the big profits we made came in and financed jobs with some builder, but in all the jobs I know, at least one of the important persons was an active, and in most cases, a competent builder.

I don't think an outsider coming in without a partnership with the builder would find it easy going in section 608's in our territory.

The CHAIRMAN. Unless there are further questions, thank you very much.

Our next witness will be Mr. Sidney Sarnier.

Senator LEHMAN. May I ask one question.

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. You testified you bought this property, I believe, in 1948 or 1949.

Mr. BERNE. The contract was signed in 1949 and paid in 1950.

Senator LEHMAN. What reason can you give for the great increase in the value of the land between the date of its acquisition by you and the date in which it was valued at \$1,636,000—\$100,000—

Mr. BERNE. There were several factors involved. One factor—I think I bought it very cheap. I think the property was then assessed at \$636,000, and I think the property was worth \$700,000 or \$800,000 in its raw state.

In addition to which there was the question of title, because of the California land cases, which detracted considerably from the value, and I straightened that out with the city. The boulevard went through and I think we did a pretty good job. Without going into detail, I think you could show that the property was worth—now I don't want to become argumentative again, but I think it would show that it was probably worth what the FHA appraised it at.

Senator LEHMAN. Even assuming, now, that you bought it very cheap. Let's say the property was worth \$600,000. There would still be a gap of \$1 million in the appraised value of the land by the FHA

between the time you acquired it and the time it was appraised or valued for mortgage purposes by the FHA.

Now was there any great development out in that area which would justify increase of that sort?

Mr. BERNE. No, sir, but I think the property had just been undervalued.

The CHAIRMAN. Mr. Berne, I have one question: Were you surprised when FHA gave you a commitment in which they said they would pay you some \$1,600,000 for this land if and when they ever had to repossess the building?

Mr. BERNE. No, sir.

The CHAIRMAN. You were not.

Mr. BERNE. We could figure it on this basis. We compared it to what they were allowing in similar areas.

The CHAIRMAN. Why didn't they make you put this land in the corporation as part of the \$3,000—you put up \$3,000 in cash. Why didn't they make you put the land in the corporation until such time as the FHA was paid off?

Mr. BERNE. I don't know, sir. At that time, in New York City they were making mortgages on leaseholds.

The CHAIRMAN. You owned the land, you were the builder, you were going to own the project, you do own the project, and yet they permitted you to appraise this land, or they appraised it for \$1,600,000, they agreed that you could have a 99-year lease at \$65,000 a year, approximately and if they—FHA—ever had—if they ever had to repossess the building, they would have to pay \$1,600,000 for the privilege of repossessing what really amounts to their own property.

Mr. BERNE. That is correct, except I don't go along with that statement that it amounts to their own property, but that is right.

The CHAIRMAN. Well, they guaranteed the mortgage to begin with.

Mr. BERNE. Yes, sir.

The CHAIRMAN. And yet you were able to talk them into giving you a contract providing if they ever had to repossess that property, they would pay you \$1,600,000?

Mr. BERNE. I didn't talk them into it.

The CHAIRMAN. You didn't?

Mr. BERNE. No, sir.

The CHAIRMAN. They entered into a contract to do it.

Mr. BERNE. That is right.

The CHAIRMAN. They did it of their own free will?

Mr. BERNE. Yes, sir.

The CHAIRMAN. They voluntarily did it?

Mr. BERNE. Yes, sir. I don't know of a single conversation with the appraisers that it was going to be \$1,636,000 and there was no conference afterward.

The CHAIRMAN. Has that any connection with the fact that the FHA State director's brother was your lawyer?

Mr. BERNE. I do not think so.

The CHAIRMAN. Thank you very much.

Our next witness will be Mr. Sidney Sarnier of the Linwood Park Apartments, Teaneck, N. J.

Mr. Sarnier—

Mr. MARCUS. My name is George I. Marcus. I appear as counsel for Mr. Sidney Sarnier. Before Mr. Sarnier is sworn, I would like to make a statement for the record.

The CHAIRMAN. When we finish, we will permit you to make the statement.

Mr. MARCUS. Then Mr. Sarnier will not testify.

The CHAIRMAN. That is perfectly all right.

Will you be sworn? Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth so help you God?

**TESTIMONY OF SIDNEY SARNIER, LINWOOD PARK, TEANECK, N. J.
ACCOMPANIED BY GEORGE I. MARCUS, COUNSEL**

Mr. SARNIER. I do.

The CHAIRMAN. Will you be seated.

This statement you have, is it a prepared statement?

Mr. MARCUS. No; I am prepared to make it without having it prepared.

The CHAIRMAN. How long will it take you?

Mr. MARCUS. About 5 minutes. It may be less than 5 minutes.

The CHAIRMAN. If you are permitted to make this statement, will Mr. Sarnier then testify?

Mr. MARCUS. It will be up to him to determine whether he will continue.

The CHAIRMAN. Will he testify after you have made the statement?

Mr. MARCUS. I don't know yet.

The CHAIRMAN. May we ask him a few simple questions?

Mr. MARCUS. You can ask him his name and address.

The CHAIRMAN. That is all?

Mr. MARCUS. That is all. Because I want to say this to you, sir. We appeared before the executive session. We were trying to be very fair, make statements to Mr. Simon, which were taken down; Senator Bennett was present. I assumed when I got my record that that testimony, until it was made public, was going to be confidential. My record so indicated. It was marked "Confidential."

The following day that testimony was turned over to Mr. McKenna, and Mr. McKenna and you, sir, made statements to the press which appeared either locally, and throughout the Nation, whereby my client, by innuendo, insinuations, and conclusions, not based upon fact, made it appear as though he was one of the outstanding builders who had received a windfall, unnecessarily, in cahoots with the FHA or something of that sort.

We have not been charged with any crime. We know of nothing. Our records are open and free, and if there is any insinuation, I don't want Mr. Sarnier to be subjected to conclusions which you yourself make.

As I was sitting here, whereby, by inference and innuendos you appear on the record that a fellow who forms a corporation with a mere capital of \$3,000 can build a big project. Now you yourself know that that can't be done. You know that you have to put up capital.

The CHAIRMAN. Wait a minute. It was done. Period.

Mr. MARCUS. It wasn't done, sir.

Mr. SIMON. Let's get it under oath.

Mr. MARCUS. You won't get it under oath.

The CHAIRMAN. Will you be sworn in to prove that it wasn't done.

Mr. MARCUS. I don't have to be sworn in.

The CHAIRMAN. Will you be seated.

Mr. MARCUS. I will be seated, sir.

The CHAIRMAN. Let me say for the record that we have the testimony of the man himself, the owner, Mr. Berne, who testified that the only capital that was ever put into that corporation was \$3,000.

It hasn't been 30 minutes ago that he testified to that fact.

Now this gentleman comes in here—were you sitting there listening to the testimony?

Mr. MARCUS. I was listening, but you didn't give him a chance to prove the fact that he had put up FHA fees and other loans and other moneys. A builder just doesn't go in on a \$3,000 capitalization and build a project.

The CHAIRMAN. We brought that out. We said that he loaned himself a lot of money that was repaid. And the fact remains that the total capital, the sum total of all the capital that was ever put into that corporation was \$3,000.

Mr. MARCUS. And he could have lost every cent of investment that he put in.

Senator LEHMAN. May I ask this question: What is the accusation made by counsel, whose name I do not know, that after this witness, Mr. Sarner, was examined at executive session, any statement was given to the press or any of the facts disclosed at the executive session made public or allowed to be made public.

The CHAIRMAN. I don't know of any.

Mr. MARCUS. It was done so by Mr. McKenna and Mr. McKenna had a copy of the record. And this was only local newspapers.

The CHAIRMAN. Without objection we will place into the record at this point the newspaper stories from the Bergen Evening Record of Tuesday, June 29, 1954, of the Hudson Bergen Dispatch of Tuesday, July 6, 1954, and the East Bergen Bulletin of Thursday, July 8, 1954.

Mr. MARCUS. It appeared in the Newark News, the Telegram and other newspapers.

(The newspaper stories referred to follow:)

[Bergen Evening Record, Tuesday, June 29, 1954]

LINWOOD PARK AT FORT LEE CITED IN SIFT—BUILDERS GOT \$1,318,425 IN WINDFALL, SENATE PROBERS ANNOUNCE—POWELL IS CALLED

WASHINGTON, June 29 (INS).—The Linwood Park Apartments of Fort Lee, N. J., were used yesterday as an example of how builders collected million-dollar windfalls under the Federal Housing Administration's section 608 rental housing program.

The Fort Lee project, which has offices in Teaneck, N. J., was one of 27 put into the record of the Senate Banking Committee at an investigating session by Deputy Housing and Home Finance Administrator William F. McKenna.

McKenna said operators of Linwood Park raked in \$1,318,425 in windfall profits on a \$13,000 investment in the project. In addition, he testified that \$1,270,000 in loans were made by the firm to affiliate companies and FHA allowed Linwood to collect about \$1 million in rentals before starting payments on the loan.

He said: "Nevertheless, former Assistant (FHA) Commissioner Clyde L. Powell authorized these projects to charge any tenant who wanted to use television antenna service, \$40."

GIVEN ANOTHER CHANCE

Meanwhile, Senate investigators gave the ex-Government official a new chance today to abandon his refusal to tell what he knows about the multimillion dollar Federal Housing Administration scandals.

Senate Banking Committee Chairman Homer E. Capehart (Republican of Indiana) summoned Powell as a witness at the full-scale hearings. Capehart expressed hope that the fired chief of the FHA's rental housing unit will help to determine why there was no crackdown on builders who parlayed shoe-string investments into million dollar profits.

In his first appearance on April 19, Powell claimed the fifth amendment and refused to answer committee questions on grounds of possible self-incrimination. Capehart said he thought the witness was making a mistake.

CALLED KEY FIGURE

Subsequently Senator Harry F. Byrd (Democrat, of Virginia), called Powell the key official in scandals and declared that it was Mr. Powell whose losses in gambling first attracted the attention of the FBI.

Capehart said: "Powell ought not to hide behind the fifth amendment" in his second appearance, but the lawmaker said he had no indication whether the veteran FHA official was ready to talk to the committee.

The Indiana Republican said: "He might not want to discuss his actions after working hours but he should be in a position to answer questions about his work."

Powell's name figures in yesterday's testimony concerning the construction of the Linwood Park project, one of the cases placed in the record by McKenna to show how builders collected multimillion dollar windfalls as inflated FHA-insured loans far in excess of construction costs.

KNEW OF WINDFALLS

McKenna stressed that FHA officials knew builders were making excessive windfall profits on apartment projects yet took no action to stop them. Records supplied the committee indicated frequent violations of FHA rules and regulations.

Moreover, McKenna said it is now too late to begin prosecution of the cases because the time allowed by law has run out. He said that there is evidence that officials discouraged action on some violations of the home repair program.

To back his assertions, McKenna told how FHA helped a group of Britishers in New York to escape heavy English taxes by means of a \$336,000 windfall on a \$3,380 investment in the Oakland Gardens project, Bayside, Long Island, N. Y.

Another case disclosed that a group of New York builders raked in \$167,410 on a mere \$30 investment in the \$1,926,800 Hill Development Co., project, also located in Bayside.

[Hudson Bergen Dispatch, Tuesday, July 6, 1954]

ASKS REFUND TO LINWOOD TENANTS ON "WINDFALL" OF MANAGEMENT—
BISCHOFF ASKS FHA TO ADVISE ON RECOVERY

Jules Bischoff, 1053 Anderson Avenue, Palisade, president of Fort Lee regular Democratic organization, yesterday pointed out that he is directing a telegram to William F. McKenna, Deputy Administrator of Housing and Home Finance Administration, Washington, D. C., concerning McKenna's recent statement before Senate's Banking Committee relative to alleged violations of FHA rules and regulations.

Bischoff alleged that McKenna's statement indicates that Sarnier Management Co., developers and operators of Linwood Park Apartments, Fort Lee, has "extracted rental fees, in excess of regulations, which base rentals on actual construction costs." Bischoff, in his telegram, seeks to determine from McKenna what action, if any, is being taken to obtain refunds on overcharges for all past and present tenants of the project.

Bischoff, who was a resident of the project for 4 years, also asks advice as to what action tenants can take "either individually or in concert to recover overcharges pocketed by the developer and management company."

The message goes on:

MILLION IN RENTALS

"The excessive windfall profits enjoyed by the Sarner Management Co. are moneys out of the pocket of each and every past and present tenant, whose rental fee was to have been based on actual construction costs by FHA regulations. Recent public press statements at the hearing now in progress by Senate Banking Committee reveal that Sarner Management Co. raked in at least \$1,318,425 in windfall profits and collected over \$1 million in rentals before making a payment on the Government FHA loan.

"As a tenant of Linwood Park for 4 years I do not intend to forgo any action that may be necessary to return to the pockets of the tenants the moneys rightfully theirs. Already many of the present and past residents of Linwood Park have shown their desire to take a common action to force Sarner Management Co. to make restitution of that percentage of the FHA construction loan which was pocketed by him as a windfall profit. Competent legal counsel is now under consideration and preparing to advise procedures which may be necessary to recover the overcharges on rentals.

"I wish to clearly state now that Sidney Sarner, head of the management company, will in all probability charge me with politics and denying all. I have fought for fair treatment of the 1,200 families of Linwood before, and on this latest revelation I will fight again. I have been fighting for correction of the grossly inadequate existing rent control laws and under these laws I and my political party have been subjected to political persecution. No sympathy can be shown to a management whose unfair treatment of tenants; his unruly and disrespectful attitude to the governing body of Fort Lee and the State tenement housing regulations and a record of abject contempt of the basic American right of freedom from political persecution.

"I do not claim that we of the Democratic Party were the only ones who suffered at the hands of the Sarner Management Co., for many families whose only sin was to have children or who requested some adequate service, are victims of being forced out of their apartments."

[East Bergen Bulletin, Thursday, July 8, 1954]

TENANTS MAY SEEK TO RECOVER RENT FROM LINWOOD PARK

The Sarner Management Co., owners and operators of the huge Linwood Park development in Fort Lee, face court action in an effort by tenants, both present and past, to recover what are alleged to be overcharges in rentals by the management.

Jules Bischoff, president of the Fort Lee Democratic organization, who was a resident of Linwood Park for 4 years, this week made public a letter he has written to William F. McKenna, deputy administrator of the Housing and Home Finance Administration, at Washington, D. C., in which he indicates that a concerted action on the part of former and present tenants may seek to force restitution of excess rentals.

The move is an outgrowth of the recent revelation by McKenna that the owners of Linwood Park were among the builders of multifamily apartment houses throughout the Nation who received millions of dollars in "windfall" profits from Government loans on these properties.

McKenna's recent statement indicated that Sarner management received excess mortgage amount to \$1,318,425 and were authorized to collect more than \$1 million rentals before being required to make a payment on their FHA mortgages.

Bischoff, in his letter to McKenna, declares that tenants of Linwood Park, like tenants in other developments throughout the country, are getting together to try to recover what they claim to be excess rentals, based upon inflated mortgage payments. There has been a widespread movement throughout the United States, on the part of tenants of apartment houses involved in revaluations, to establish the fact that they overpaid their rents because these were based upon excessive or inflated mortgages or construction costs.

In his letter, Bischoff asks McKenna what the tenants, past and present, of Linwood Park, can do to recover on their claimed overpayments.

Bischoff now makes his home at 1053 Anderson Avenue, Fort Lee. In his letter he says, in part:

"As a tenant of Linwood Park for 4 years I do not intend to forego any action that may be necessary to return to the pockets of the tenants the moneys rightfully theirs. Already many of the present and past residents of Linwood Park

have shown their desire to take a common action to force Sarnier Management Co. to make restitution of that percentage of the FHA construction loan which was pocketed by them as a windfall profit. Competent legal counsel is now under consideration and preparing to advise procedures which may be necessary in order to recover the overcharges on rentals.

"I have fought for fair treatment of the 1,200 families of Linwood before, and on this latest revelation I will fight again."

Mr. SIMON. Mr. Sarnier, will you give the reporter your full name and address.

Mr. SARNIER. My name is Sidney Sarnier.

The CHAIRMAN. You feel publicity was given to this subject, which was wrong?

Mr. SARNIER. Absolutely.

The CHAIRMAN. Here is the place then to disprove what was said. We will give you every opportunity in the world now to disprove anything—

Mr. MARCUS. I cannot disprove Mr. Simon's questions and innuendoes. I have tried to do that and the record is here. We are perfectly satisfied, if we did anything wrong, that the proper forum should take care of it but I am not going to permit it in here, for you to publicize, or shoot your mouth off and say that there are so many builders who got windfalls. There was nothing abnormal for an architect to be allowed 5 percent or a builder 5 percent for building a project.

The CHAIRMAN. Will you please be seated. When we want you, we will ask for your testimony. You know so much about this whole business, we will possibly subpoena you and let you testify in your own right.

Will you proceed?

Mr. SIMON. Will you give the reporter your full name and address?

Mr. SARNIER. Sidney Sarnier, 325 East Clifton Avenue, Tenafly, N. J.

Mr. SIMON. Were you served with a subpoena requiring you to bring with you today a letter that you testified you received from FHA telling you you had to build a shopping center?

Mr. SARNIER. I am here on the service of the subpoena.

Mr. SIMON. Well.

Mr. SARNIER. May I answer your question, first. I will now stand upon my rights and refuse to answer by reason of the fifth amendment of the Constitution of the United States.

Mr. SIMON. Were you served with a subpoena requiring you to produce that letter?

Mr. SARNIER. I have the subpoena with me and that is why I am here.

Mr. SIMON. Do you have the letter with you?

Mr. SARNIER. I refuse to make any further answer. This is my answer, and it is ditto, right down the line.

Mr. SIMON. Senator, may I ask Mr. Marcus to be sworn.

The CHAIRMAN. Mr. Marcus, will you be sworn?

You solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. MARCUS. I do.

Mr. SIMON. Mr. Marcus, in the executive session to which you referred, did you say that you represented Mr. Sarnier in this matter?

Mr. MARCUS. I did.

Mr. SIMON. And did you say at that time that Mr. Sarnier had received a letter from the FHA requiring him to build a shopping center?

Mr. MARCUS. The record speaks for itself.

The CHAIRMAN. Please answer the question.

Mr. MARCUS. I refuse to answer it.

Mr. SIMON. On what grounds, sir?

Mr. MARCUS. I refuse to answer it on the grounds that you have no authority to ask that question and the record speaks for itself.

Mr. SIMON. Have you ever seen a letter from the FHA to Mr. Sarnier telling him he had to build a shopping center?

Mr. MARCUS. I refuse to answer. Whatever relationship I have with my client is confidential.

The CHAIRMAN. Well, you are pretty cocky, beyond that I would say here this morning—

Mr. MARCUS. Well, I am entitled to be.

The CHAIRMAN. You have been giving we Senators a lecture and you have been saying you knew a lot of things.

Mr. MARCUS. I happen to know a lot of things, and I think you are misinterpreting a lot of things.

The CHAIRMAN. You may know a lot of things but I'll tell you, you don't impress us when you bring your client in here and have him take the fifth amendment.

Mr. MARCUS. I didn't intend to make an impression on you sir, and it doesn't concern me whether I impress you or not. I am defending a client.

Mr. SIMON. Mr. Marcus, as you know, you did say in the executive session—not under oath—that your client had received, and you had seen, a letter from the FHA telling him to build a shopping center, and I now ask you the same question while you are under oath. Did your client receive that letter?

Mr. MARCUS. What I have said is a matter of record and I don't intend to answer it.

Mr. SIMON. But I am now asking you under oath the same question—

Mr. MARCUS. I don't care what you do, Mr. Simon. I have asked you for a courtesy and you haven't given me the courtesy.

The CHAIRMAN. What is the courtesy you have asked for?

Mr. MARCUS. I have asked him for 1 day's adjournment of this hearing. I sent you a telegram. I called the office for 3 hours trying to get an adjournment for 1 day and you wouldn't do it.

The CHAIRMAN. All right; we will adjourn your testimony until 10 o'clock tomorrow morning.

Senator PAYNE. Mr. Chairman, just before you adjourn I have had a chance to look at those press clippings that Mr. Marcus has introduced and you have made part of the record. He has made statements to the effect that testimony coming out of the executive hearing was made available to the public by both you and by Mr. McKenna. If I am able to read English language plainly there isn't one single item referred to in these clippings pertaining to anything that either the chairman of this committee or Mr. McKenna in executive session have ever released. It refers to testimony of Powell, himself, when he appeared before this committee and refused to testify, and then Mr.

McKenna in open session here, proceeded to outline this as one of the projects.

Now, you read the press items again but I think your statement here is absolutely unjustified, Mr. Marcus, and is not in keeping with what this committee has been trying to do through its chairman, to be fair to people, and to see that they are not unfairly treated in any way, shape, or manner. I think the chairman of this committee is entitled to an apology from you.

The CHAIRMAN. I think the best proof—of course, we want it to be fair—was that we ordered the clippings put in the record so everybody can read them.

I have no recollection of giving out any information whatsoever that was taken in executive session and I certainly can't swear that it wasn't because it may well have been. If it was given out it was given out contrary to my instructions and I personally have no recollection of giving it out. If it was given out, it was contrary to my instructions and whoever gave it out should be and will be subjected to severe criticism by this committee, if we find that it is true.

Senator LEHMAN. I glanced over these very casually, but I too, like Senator Payne, find no reference as referred to. I do find references to testimony on cross-examination of Mr. Powell.

The CHAIRMAN. That was in a public hearing, though.

Senator LEHMAN. At a public hearing?

The CHAIRMAN. We will excuse you until 10 o'clock tomorrow morning.

Mr. MARCUS. I want to go back and get some records. Could you make that Wednesday?

The CHAIRMAN. Would you rather come back at 10 o'clock Wednesday, that will give you more time?

Mr. MARCUS. May I talk to my client?

The CHAIRMAN. You bet you may.

Mr. MARCUS. My client has just conferred with me and he has indicated to me that as far as his testimony is concerned, he is going to stand on his privilege.

The CHAIRMAN. Even though he came back tomorrow or Wednesday, he would still stand on the fifth amendment?

Mr. MARCUS. That is correct.

The CHAIRMAN. Under those circumstances, then we will excuse you—just a minute, please.

Mr. SIMON. Before you are excused, I would like to make a record on whether the witness is producing the letter. There is no privilege against producing a letter.

Mr. MARCUS. I am not producing any testimony or I am not producing any correspondence or any records.

Mr. SIMON. On what grounds, Mr. Marcus, do you refuse to produce the written record?

Mr. MARCUS. On the ground that any correspondence I have had between my client—for and on behalf of my client's interests is confidential and I don't want to disclose my files.

Mr. SIMON. I am talking about a letter received allegedly from the Federal Housing Administration, an agency of the Government.

Mr. MARCUS. Now, wait a minute. Mr. Simon, you know, as a matter of fact, you have had the files of the FHA. You also know

that every commitment that was issued by the FHA, and if you read the first commitment you will see that as a condition for the commitment they said a shopping center should be built.

Mr. SIMON. I would like to have you produce it. We have subpoenaed you to produce what you now again say exists.

Mr. MARCUS. The files of the FHA are available to you I am sure and you have had possession of them.

The CHAIRMAN. Very well, the gentleman refuses to testify and hides behind the fifth amendment.

The next witness will be Mr. Fred C. Trump of the Beach Haven Apartments, Jamaica, N. Y. Mr. Trump.

Is Mr. Trump present? Mr. Trump is under subpoena.

Is there anyone here who knows anything about Mr. Trump?

Mr. BERK. Mr. Trump made a plane about 9:30 from New York. He is probably a little late.

The CHAIRMAN. Are you his attorney?

Mr. BERK. No, sir.

The CHAIRMAN. Inasmuch as this gentleman over here says that he knows Mr. Trump left New York at 9:30, or at least that is his best judgment, I suggest that we recess, then, until 2 o'clock, at which time we will hear Mr. Trump. Maybe something has happened to the plane and he has been delayed.

I am sure he will be here.

We will now recess until 2 o'clock, at which time we will hear Mr. Fred C. Trump, Beach Haven Apartments, Jamaica, N. Y.

(Whereupon, at 11:10 a. m., the hearing recessed to reconvene at 2 p. m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Trump. Will you please come forward, Mr. Trump.

Will you be sworn, please?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF FRED C. TRUMP, BEACH HAVEN APARTMENTS, JAMAICA, N. Y., ACCOMPANIED BY OREN G. JUDD AND MATHEW J. TOSTI, COUNSEL

Mr. TRUMP. I do.

The CHAIRMAN. Thank you, sir.

You may be seated.

Now, if you will give your name and address to the reporter, we will appreciate it very much.

Mr. TRUMP. Trump, T-r-u-m-p. Fred C. Business address, 8931 161st Street, Jamaica.

The CHAIRMAN. Then you are the attorney?

Mr. JUDD. Yes, sir, both of us. I am Mr. Orren G. Judd, 655 Madison Avenue, New York City, attorney for Mr. Trump.

Mr. TOSTI. I am Mathew J. Tosti, 8931, 161st Street, Jamaica, N. Y., general counsel for Mr. Trump.

Mr. SIMON. Mr. Judd, we would like to ask you some questions about the Bond Haven Apartments project.

Mr. JUDD. Mr. Simon, if I may make a statement at this time, we have a statement prepared which outlines the facts that I think are material and if we can proceed with that and you ask any additional questions about it.

The CHAIRMAN. We will be very happy to have you place in the record your statement when we get through asking the questions.

Mr. JUDD. If we could present the statement orally.

The CHAIRMAN. In answer to the specific questions you can use that portion of the statement which answers them and then when we are through today we will be very happy to have you put the full statement in the record.

Mr. SIMON. Mr. Trump, who is the owner of the land on which the Bond Haven Apartments project is located?

Mr. TRUMP. It is the Beach Haven Apartments, in Brooklyn.

Mr. SIMON. Excuse me.

Mr. TRUMP. William Walter and the Bank of Manhattan & Co. as trustee.

Mr. SIMON. They are trustees for whom?

Mr. TRUMP. Members of my family.

Mr. SIMON. Did you place the land in trust?

Mr. TRUMP. Yes.

Mr. SIMON. When did you first acquire the land?

Mr. TRUMP. About 10 years ago. In 1944.

Mr. SIMON. What did you pay for it?

Mr. TRUMP. I have here, in view of the fact the land-cost question came up at our last meeting, I prepared a one-paragraph statement here.

Mr. SIMON. Could you just tell us what you paid for it?

Mr. TRUMP. It wouldn't tell the right story. There have been a lot of stories in the newspaper about what we did pay for it, which were not so.

The CHAIRMAN. What did you pay for it?

Mr. TRUMP. We paid approximately \$200,000 for the land.

Mr. SIMON. From whom did you buy the land?

Mr. TRUMP. We bought it from, I believe, three different owners.

Mr. SIMON. Who are the three owners?

Mr. TRUMP. One would be Brooklyn Development Corp. One I believe is the Bronx Realty and the third I don't remember—and the city of New York, also.

Mr. SIMON. How much of the land did you buy from the Brooklyn Realty Co.?

Mr. TRUMP. The Brooklyn Realty Co., we bought, subject to probably 5 or 8 to 10 years' back taxes, back assessments and penalties—

Mr. SIMON. How much?

Mr. TRUMP. They had owned the land since 1891.

Mr. SIMON. How much did you buy from them and how much did you pay them for it?

Mr. TRUMP. In area, I don't know. We paid them, I would say—what did the land cost? Do we have a breakdown here? Brooklyn

Development, we purchased a part of the land from Brooklyn Development Corp. We bought that subject to all penalties, bad title, and everything. They wanted \$34,500 for a deed, and they were not interested in what the penalties were and what the back taxes were, as they had owned it since 1891.

Mr. SIMON. How much did you pay the Bronx Co.?

Mr. JUDD. I think he was going on with what the amount of the taxes were and other items in connection with it.

Mr. SIMON. I want to know what he paid for it and then what the taxes were.

Mr. TRUMP. You want to know what I paid Brooklyn Development?

Mr. SIMON. That is right.

Mr. TRUMP. We paid the city of New York \$44,000 in taxes on the original piece, which were back taxes.

Mr. SIMON. How much did you pay the prior owner of the land for the land?

Mr. TRUMP. That is what we paid; \$44,000 in back taxes.

The CHAIRMAN. You didn't pay the prior owner anything; you just bought it for the unpaid taxes?

Mr. TRUMP. We gave them \$34,000 for a deed, subject to bad title, subject to 4 or 8 or 10 years back taxes, assessments, and penalties. They were about to lose it to the city of New York, I believe, on tax lien sales.

Mr. SIMON. You said you bought this in three tracts, is that right?

Mr. TRUMP. Yes.

Mr. SIMON. The first tract you bought from this Brooklyn Co.?

Mr. TRUMP. That is right.

Mr. SIMON. The second tract you bought from the Bronx Realty Co.?

Mr. TRUMP. Yes.

Mr. SIMON. How much did you pay Bronx Realty?

Mr. TRUMP. Bronx Realty also had had title land in the bed of a creek and we paid—it says \$59,000 but I think we paid them \$75,000.

The CHAIRMAN. \$75,000?

Mr. TRUMP. Yes.

Mr. JUDD. \$75,000 includes what you paid the city of New York.

Mr. TRUMP. I see; \$75,000 total for the particular land covered by the Bronx Realty contract.

The CHAIRMAN. From who did you buy the third tract?

Mr. TRUMP. The city of New York.

The CHAIRMAN. What did you pay for that?

Mr. TRUMP. There were clouds on the title. They didn't actually own it. We needed them to join in a deed. We paid them \$16,300 plus \$3,506.

The CHAIRMAN. That totals about \$180,000 for the land and taxes, is that right?

Mr. TRUMP. I think it is less than that, but we have a few other items here that you don't have here. We paid a broker's commission on the deal of \$5,000, in January 1945. We had a title bill of \$767, a surveyor's bill of \$750, and this sheet here—well, it is about \$185,000 without taxes from 1944 to the date we started building on there in 1950.

Mr. SIMON. You bought the land in 1944, didn't you?

Mr. TRUMP. We bought some of it in 1944.

Mr. SIMON. You paid approximately \$180,000 for the land and the taxes that were then delinquent; is that right?

Mr. TRUMP. I would say about that, that is right, that is what this sheet says.

Mr. SIMON. When did you give the property to your children?

Mr. TRUMP. August 10, 1949.

Mr. SIMON. Did you file a gift-tax return on the gift?

Mr. TRUMP. Yes, we did.

Mr. SIMON. And what value did you place on the land for the gift-tax purposes?

Mr. TRUMP. At the time we placed a value, when we bought this entire parcel, some 10 years ago——

Mr. SIMON. What was the value you placed on it in 1949 for the gift-tax return?

Mr. TRUMP. In 1949, the assessed value of the entire parcel.

Mr. SIMON. What is the value placed on it in your gift-tax return?

Mr. TRUMP. We placed a value of \$180,000 in the gift-tax return which was a little more than the assessed valuation of the land.

Mr. SIMON. Did the Treasury accept that valuation?

Mr. TRUMP. No, they didn't accept it.

Mr. SIMON. At what valuation did you ultimately settle with the Treasury?

Mr. TRUMP. \$260,000.

Mr. SIMON. When did you reach that settlement with the Treasury?

Mr. TRUMP. October 1952.

Mr. SIMON. That valuation was made in October 1952, as of August 1949, is that right?

Mr. TRUMP. Yes.

Mr. SIMON. What did FHA value this land at? What was the FHA valuation of the land for your lease purposes?

Mr. TRUMP. With the completion of the Beach Haven project they valued it as improved land with 60 units built on that. No relation to when we bought raw acreage.

Mr. SIMON. Wait a minute. The land is owned by this trust, isn't it?

Mr. TRUMP. Yes.

Mr. SIMON. And the trust has no interest in the building, has it?

Mr. TRUMP. That is right.

Mr. SIMON. The building is owned by Beach Haven Apartments Corp., isn't it?

Mr. TRUMP. That is right.

Mr. SIMON. And the trust has leased the land for 99 years to the corporations; is that right?

Mr. TRUMP. Yes, with a renewal for 99 more.

Mr. SIMON. And that lease comes ahead of the FHA mortgage, doesn't it?

Mr. TRUMP. Yes.

Mr. SIMON. Now, for the purpose of fixing a rental on that 99-year lease, FHA put a valuation on the land, didn't they?

Mr. JUDD. If I may interrupt, Mr. Simon, it seems to me the FHA put a recapture provision, which is not the same as putting a value on the land because the rent that they fixed would not give an adequate return on that recapture.

The CHAIRMAN. What was the recapture, then?

Mr. TRUMP. The recapture on the 6 parcels—there were 6 corporations there—the recapture totals I believe about \$1,500,000.

The CHAIRMAN. They put a value of \$1,500,000 on that which cost you \$180,000 upon which you paid gift tax on a valuation of \$260,000.

Mr. TRUMP. Only if we build 1,860 apartment units. If we don't we don't get a dime.

The CHAIRMAN. Then, this trust arrangement that you set up for your children rented the land to the corporation that owned the building for how much a year?

Mr. TRUMP. For exactly the rent set up by the FHA.

The CHAIRMAN. How much was that?

Mr. TRUMP. \$60,000 a year.

The CHAIRMAN. In other words, they rented it for \$60,000 a year for 99 years?

Mr. TRUMP. That is right.

The CHAIRMAN. With the right to renew for another 99 years?

Mr. TRUMP. Yes.

The CHAIRMAN. So if FHA has to repossess the building, FHA agreed to pay you how much?

Mr. TRUMP. That is a very "iffy" question. We have already paid \$1 million off on the FHA mortgage.

The CHAIRMAN. My point is, if FHA has to repossess the building do you enter into a contract with FHA that they would pay you X amount of money?

Mr. JUDD. The question implies that FHA agreed to buy it. I understand FHA had a right to buy it.

Mr. SIMON. The Senator didn't say that. If FHA exercises its option to buy it, what do they have to pay for it?

The CHAIRMAN. Let me put it the other way around. If FHA has to come in and repossess the buildings on this land, which are now sitting on the land, which you are holding in trust for your children, where they are getting \$60,000 a year, for 99 years, if FHA has to repossess the land, how much are they to pay you for the land?

Mr. TRUMP. That would be the recapture price which I believe totals \$1,500,000.

The CHAIRMAN. In other words, if FHA must repossess the building they pay the trust you set up \$1,500,000.

Mr. TRUMP. That is right, but the "X" is not there. That is an "iffy" question which will never happen because we have already, in 3 years, paid off on the Beach Haven mortgage, close to \$1 million.

The CHAIRMAN. I understand that. Let me ask you this, then: Why didn't you turn the land in, as part of the Beach Haven Management Corp.?

Mr. TRUMP. For a very sound reason, Senator.

The CHAIRMAN. Why?

Mr. TRUMP. If we turned that in and mortgaged the fee, our rooms—where you throw the land in—the room size is much smaller, and with small rooms, the Beach Haven at Brighton project would not be the outstanding project in the city of New York which it is today, because our room size would be too small.

The CHAIRMAN. The mortgage includes \$1,500,000, does it not, for the value of the land?

Mr. TRUMP. No, it doesn't include that, Senator. If we threw the land in, we would have killed the project because our rooms then would

be as small as a lot of other projects and we wouldn't have 100 percent rental as we are today.

Mr. SIMON. That certainly isn't true if you put the land in at anything remotely approaching what you paid for it.

Mr. TRUMP. What we paid in 1944, Mr. Simon, has no bearing whatsoever on what land is worth. Suppose we paid too much for it?

The CHAIRMAN. When did you declare a \$260,000 gift tax valuation on it, what year?

Mr. TRUMP. That was as of—

The CHAIRMAN. 1949? Had the project been started at that time?

Mr. TRUMP. No, no.

The CHAIRMAN. When was the project started?

Mr. TRUMP. In the latter part of 1949.

The CHAIRMAN. Did you know you were going to build this project in 1949 when you declared a gift tax of \$260,000 on it?

Mr. TRUMP. We had a project in mind but we never knew it was going to be built. The gift tax was delayed 2 years.

Mr. SIMON. Mr. Trump, didn't you file the application with FHA 6 months before, or several months before the tax valuation?

Mr. TRUMP. Yes. That is filed with FHA. But many applications expire and the projects are never built. This project never would have been built if I wasn't able to secure a partner after the gift of the land.

Mr. SIMON. But you filed the application on April 29, 1949, is that right?

Mr. TRUMP. I don't know. I'll take that date, yes.

Mr. SIMON. It was in April, at any rate, wasn't it?

Mr. TRUMP. I see.

Mr. SIMON. Isn't that right?

Mr. TRUMP. If you have it there. Approximately, yes.

Mr. SIMON. I will be glad to show it to you if that refreshes your recollection.

Mr. TRUMP. Yes.

Mr. SIMON. As a matter of fact, if you will look on the reverse side Mr. Trump, you will find it is dated August 10, 1948, a year before the gift. Is that your signature on the back side there?

Mr. TRUMP. I believe that was for a different project that was never built.

Mr. SIMON. It was on the same land though, wasn't it?

Mr. TRUMP. We had filed for another project and we didn't build that project.

Mr. SIMON. On the same land?

Mr. TRUMP. On the same land, that is right. And this gift tax—the deed of trust was drawn a year and a half prior to August 1949, by an attorney who died in the middle of the picture. That is what delayed turning it over to the children.

Mr. SIMON. In any event for gift-tax purposes in August 1949, you and the Treasury agreed to a valuation of \$260,000, your children get a \$60,000 a year rent, and if FHA ever wants to recapture the land they have to pay \$1,500,000 for it?

Mr. TRUMP. The trustees, the Bank of Manhattan Co.

Mr. SIMON. That is right, isn't it?

Mr. TRUMP. Yes. If they recapture. That is if the mortgage is in default. That is the only time they can recapture. That "if" will never happen.

Mr. SIMON. What was the cost of section 1 of this project?

Mr. TRUMP. That is construction cost, is that the idea?

Mr. SIMON. That is right. The construction cost.

Mr. TRUMP. Could I read Mr. Simon, please—

Mr. SIMON. I would be grateful if you tell me what the cost was.

Mr. TRUMP. A very small statement here on land cost. It is just eight lines. I think it might be misinterpreted, what was said here this afternoon.

The CHAIRMAN. We don't want anything to be misinterpreted, I assure you of that.

Mr. TRUMP. I am sure you don't.

Land Cost: The question of cost of land is only useful to create misleading newspaper headlines and television and radio stories.

Now, I say that with due respect to this committee. I have no complaint, but this project has been highly publicized as the land costing \$34,000 and leasing it to my children at \$60,000, but not by this committee.

But the cost of land 10 years ago—

The CHAIRMAN. It didn't cost \$34,000, what did it cost?

Mr. TRUMP. \$200,000.

The CHAIRMAN. Your complaint that it is not \$34,000 but nearly \$200,000?

Mr. TRUMP. Yes.

The CHAIRMAN. You have no complaint about the fact that you did lease it for 99 years at \$60,000 a year.

Mr. TRUMP. And no complaint about this committee, Senator. No complaint at all.

Senator LEHMAN. When you set up the trust for your children, did you turn over the land or did you turn over the contract?

Mr. TRUMP. Only the land, Senator, was turned over. We had owned the land several years prior to that.

Ten years ago when the bulk of the land was purchased—

oh, I see. The question of land is only used to create misleading headlines.

Ten years ago when the bulk of the land was purchased I might have gotten it for nothing. On the other hand I might have paid \$2 million for it. The value of the land, today, with the Beech Haven improvement on it would not be altered 10 cents by what I paid for it 10 years ago.

The CHAIRMAN. But the fact still remains that the Federal Government guaranteed 100 percent and more, that building that went on there, that made that land valuable, isn't that true, too?

Mr. TRUMP. I wouldn't say that exactly, Senator.

The CHAIRMAN. You wouldn't? Well, who did guarantee the mortgage?

Mr. TRUMP. Without the guaranteed mortgage, built up, that land would be worth much more today than what the FHA allowed me.

Now, I just have three lines.

It is assessed today at approximately \$1,350,000 by the city of New York. That is the land. It was assessed when I bought it 10 years ago at approximately \$165,000.

It is worth over \$1.2 million more.

The CHAIRMAN. My big complaint on this is that you should have represented the land as a part and parcel of the corporation that owned

the building until FHA's mortgage was paid off. That is all. I don't care what you do as a private enterpriser.

Mr. JUDD. Isn't that a complaint against FHA rather than against the builder who was operating under FHA regulations?

The CHAIRMAN. It is not a complaint against him, particularly, it is a complaint against FHA, it is a complaint against the whole business.

Mr. TRUMP. I say here in the last line :

I am proud of this contribution to the city of New York, through my efforts in developing this land to its best use.

In other words, raising the assessed value from \$165,000 10 years ago to \$1,350,000 today.

Mr. SIMON. Mr. Trump, what was the cost of the construction of section 1?

Mr. TRUMP. You want actual cost with interest on the advances?

The CHAIRMAN. Is there any cost other than actual costs? You have just one set of costs, don't you?

Mr. TRUMP. There is a difference, Senator.

Mr. SIMON. We want all the money you paid out to anybody to construct section 1.

The CHAIRMAN. When all the bills were paid, what was the total?

Mr. TRUMP. How about real-estate taxes on the land during construction. Interest on buildings.

The CHAIRMAN. You have the figures. Just tell us the total cost after it was all paid.

Mr. TRUMP. We have here Beach Haven Apartments 1, schedule of construction costs, and it totals \$4,015,783.

Mr. SIMON. You don't want to be misunderstood, testifying under oath, that you paid that money out, do you, Mr. Trump?

Mr. TRUMP. No, I will explain this to you, Mr. Simon.

Mr. SIMON. What were your costs?

The CHAIRMAN. Your actual costs we want. Not the fees that you didn't pay such as these architects' fees and builders' fees. What did it actually cost you in dollars and cents, please? Give us that, will you please?

Mr. SIMON. Did it cost you \$3,627,332?

Mr. TRUMP. I would say roughly \$3,627,332, without figuring builders' fees, which we took ourselves.

Mr. SIMON. Did you pay any builders' fee?

Mr. TRUMP. We absorbed—we did the work you would ordinarily pay a builders' fee for and we are entitled to the builders' fee because the project was built. We performed the service.

Mr. SIMON. When you mow your own lawn, does anybody pay you a fee for it.

Mr. TRUMP. Let me put it this way, Mr. Simon, and I think it will be very clear.

Mr. SIMON. I think it is clear. You own the building, is that right?

Mr. TRUMP. Let me put it this way—I know you don't want this to be misinterpreted. We have had enough misinterpretation—not by your committee—on this particular project. If I am over cautious, I hope you will bear with me. If a tailor has one of his men make a suit of clothes, that suit will cost X dollars. If the boss tailor makes a suit of clothes, he can't sell that suit cheaper. That suit is worth just as much as though he paid a man to make the suit.

The CHAIRMAN. That may be true, but we are not asking for that.

Mr. TRUMP. When he sells the suit he will be compensated for his services but the suit is worth exactly what the other suit was worth that he had made. Now, whether we supervised the work ourselves or paid someone to do it we are entitled to the builders' fee.

The CHAIRMAN. I would agree 100 percent with you if you were selling the project but you still own the project. You are working for yourself. You still own it.

Mr. TRUMP. We might sell it. And then that builders' fee will be reflected for tax purposes. But until that time, the tailor doesn't report his suit and we don't report our builders' fee.

The CHAIRMAN. What was your cost, Mr. Trump, on section 1?

Mr. TRUMP. Without builders' and architects' fees?

The CHAIRMAN. Including everything you paid everybody no matter whom you paid or what it was for.

Mr. TRUMP. But without builders' and architects' fees allowed by FHA regulations.

The CHAIRMAN. If you paid them we want it included. If you didn't pay them we don't want it included.

Mr. TRUMP. The only reason we didn't pay them is because we performed the work ourselves.

The CHAIRMAN. We want every cost you paid.

Mr. TRUMP. The paid-out cost, \$3,627,000.

The CHAIRMAN. What was the proceeds of the mortgage?

Mr. TRUMP. The mortgage was \$4,140,700.

Mr. SIMON. That was the face amount of the mortgage, is that right?

Mr. TRUMP. Yes.

Mr. SIMON. What was the total proceeds of the mortgage?

Mr. TRUMP. Do you mean the difference between the two?

Mr. SIMON. No; the proceeds.

Mr. TRUMP. Oh, I see, "mortgage premium received: \$55,856."

Mr. SIMON. Then, the total proceeds of the mortgage was a little above \$4,196,000?

Mr. TRUMP. Yes, I'd say that, yes. About \$4.2 million.

Mr. SIMON. What was the cost of section 2?

The CHAIRMAN. What is the difference between the cost and the mortgage, of section 1? \$600,000?

Mr. TRUMP. This was before the architects' fee and the builders' fee, but both are allowed by the FHA regulation.

The CHAIRMAN. We understand that just as well as you do. We want to know exactly how much you did pay out in dollars and cents. We know that FHA allowed builders' fees and architects' fees, but just exactly how much did you pay out?

Mr. SIMON. The difference between the cost of the building and the proceeds of the mortgage is roughly \$568,000, is that right?

Mr. TRUMP. If you included the mortgage premium, Mr. Simon—I believe that should be taken out—that was due to a plentiful money market. It had no bearing on construction cost at all.

Mr. SIMON. Mr. Trump, in the figure you have given us of \$3,627,000, you include a \$53,000 FHA fee, don't you?

Mr. TRUMP. Yes. That is an inspection and appraisal fee during construction.

Mr. SIMON. And that is also a fee for FHA to insure the mortgage, isn't it?

Mr. TRUMP. Well, we call it an FHA appraisal and inspection fee.

Mr. SIMON. The only reason you paid FHA a fee was to get their insurance on the mortgage, didn't you?

Mr. TRUMP. To get their insurance on the mortgage? I wouldn't know. They charged a fee and we paid it. What it was for I don't know.

Mr. SIMON. Why did you go to FHA at all, if what you wanted wasn't their insurance of the mortgage?

Mr. TRUMP. Conventionally you can't get a mortgage in the amount that FHA Government-insured will give. The same bank that will take a Government-insured mortgage wouldn't loan you uninsured.

Mr. SIMON. Of course. The reason you went to FHA and the reason you paid them \$53,000 was because you wanted an FHA-insured mortgage, is that right?

Mr. TRUMP. That is a necessary construction cost, like you pay a bricklayer or a carpenter. It is just as necessary.

Mr. SIMON. You paid the \$53,000 to get their FHA commitment, is that true?

Mr. TRUMP. Yes, and we included it in construction cost.

Mr. SIMON. And because you had an FHA commitment, which meant the United States Government guaranteed the mortgage, you got a premium, is that right?

Mr. TRUMP. No, that doesn't work that way, Mr. Simon.

Mr. SIMON. Do you know of any mortgages in the amount of \$15,000,000, conventionally, where the banks gave premiums?

Mr. TRUMP. Where the banks gave premiums?

Mr. SIMON. Yes, on \$15,000,000 conventional loans.

Mr. TRUMP. I wouldn't know.

Mr. SIMON. Do you know of any?

Mr. TRUMP. No. All I know about is my Beach Haven project. I am not qualified to say.

Mr. SIMON. Do you think the banks would have given you a premium if it hadn't been guaranteed by the United States Government in the case of Beach Haven?

Mr. TRUMP. That I don't know.

The CHAIRMAN. The answer is "No" and it doesn't make any difference one way or another.

Mr. SIMON. They wouldn't have made a 90-percent mortgage let alone give you a 4-percent premium.

Mr. TRUMP. The money market was plentiful at that time. A little later we had to pay a point and a half to get mortgages. FNMA has a lot of mortgages they can't sell at a 10 percent discount. It has nothing to do with the insurance.

Mr. SIMON. You think you could have gotten a premium at the same time without an FHA guaranty.

Mr. TRUMP. I don't think I could have gotten the bank to go in on \$15,000,000. That is the first thing.

Mr. SIMON. What was the cost of section 2?

Senator LEHMAN. Before you answer that, you gave the figure of three-million-six-hundred-and-some-odd-thousand dollars. Does that include the builders' fee?

Mr. TRUMP. No, that doesn't include the builders' fee and it does not include a 5-percent architects' fee. We took care of inspections for the architect and supervision for the architect.

Senator LEHMAN. Are you builders?

Mr. TRUMP. Yes.

Senator LEHMAN. If you hadn't built this yourself, your corporation, would you have had to employ a builder?

Mr. TRUMP. Yes, we would have had to employ a builder.

Senator LEHMAN. What would you have had to pay them?

Mr. TRUMP. A builder might have charged anywhere from 7 to 10 percent to build the project, with much higher costs than what we paid also—construction costs.

Mr. SIMON. What was the cost of section 2, Mr. Trump?

Mr. TRUMP. That is roughly 25 percent. If you multiplied that by 4 you would have the picture all the way through but we have 6 sections which vary in size. This would give you the same picture multiplying it by 4.

The CHAIRMAN. What would the total be of the 4 projects?

Mr. TRUMP. Well, you multiply that by 4. The total mortgage was \$16 million so the picture would be about the same.

The CHAIRMAN. How much was the difference between the mortgage proceeds and the actual cost on this first one? \$600,000?

Mr. TRUMP. Is that exclusive of architects' and builders' fees?

The CHAIRMAN. That is right. Six-hundred-and-some-odd-thousand dollars? Then, you multiply that by 4 and get \$2,400,000? Is that the difference between the proceeds of the 4 mortgages and the actual cost that you received?

Mr. TOSTI. About \$2 million it would come out in round figures.

The CHAIRMAN. Something over \$2 million?

Mr. TOSTI. Pretty close.

Mr. SIMON. I figure the difference between the mortgage proceeds and the total cost is \$2,686,900.

Mr. TRUMP. You have \$500,000 mortgage premium my associate tells me.

Mr. SIMON. And I also allowed you an equal amount for FHA fees to earn the mortgage premium.

Mr. TRUMP. We still would have had to pay FHA fees if we got no premium on the mortgage or if we paid a point and a half penalty we would have had to pay the same FHA fees so that has no bearing on the amount of mortgage premium.

The CHAIRMAN. Do you still own the property?

Mr. TRUMP. We own the property, yes.

The CHAIRMAN. Are you operating it?

Mr. TRUMP. Yes.

The CHAIRMAN. Is it successful at the moment?

Mr. TRUMP. It is highly successful.

The CHAIRMAN. Have you made money on the operation of it?

Mr. TRUMP. I wouldn't know. We haven't made operating profit and depreciation. We have amortized our payments, but there has been no operating profit.

The CHAIRMAN. What did you do with the difference of some \$2 million between the actual cost of these four projects and the mortgage proceeds?

Mr. TRUMP. We have on hand about \$3,500,000.

The CHAIRMAN. \$2,600,000 coming from the mortgaging out and the other coming from operations?

Mr. TRUMP. Partial depreciation over three or four years.

The CHAIRMAN. But you have about \$3,500,000 cash. Have you declared any dividends?

Mr. TRUMP. I don't think we are getting it right. We also took in rents.

The CHAIRMAN. Have you declared any dividends?

Mr. TRUMP. No, we haven't declared any dividends whatsoever and I haven't drawn a salary.

The CHAIRMAN. What do you do with the \$3,500,000.

Mr. TRUMP. We have that in the bank at the present time.

The CHAIRMAN. Do you ever loan that to yourself?

Mr. TRUMP. I have loaned it to myself for periods not to exceed probably 90 days.

The CHAIRMAN. How much is the most you have borrowed at any one time from that fund?

Mr. TRUMP. Maybe \$500,000 or \$700,000.

The CHAIRMAN. Do you invest the balance in Government bonds or anything like that?

Mr. TRUMP. We had some invested. From time to time we invested it. I believe short-term notes or something like that.

Mr. TOSTI. There is a tax problem involved in New York State that they wouldn't know about. There is a local tax problem involved in investing money in a real-estate company in New York which you may not have in other States.

The CHAIRMAN. Why don't you take that \$3,500,000 and reduce the mortgage or at least take \$2,500,000 and reduce the mortgage by that amount so that the Federal Government won't have such a large liability?

Mr. TRUMP. It wouldn't pay to do that, Senator.

The CHAIRMAN. Why wouldn't it pay?

Mr. TRUMP. Could Mr. Tosti explain that? He is more familiar with it. It is an accounting procedure, and he is more familiar with it than I am.

The CHAIRMAN. Well, have you bought any mortgages with this \$3,500,000?

Mr. TRUMP. Yes, we have made investments with approximately \$500,000 of the mortgage payment.

The CHAIRMAN. That is in addition to the \$3,500,000 you have on hand?

Mr. TRUMP. That is right.

The CHAIRMAN. You had \$3,500,00 in cash?

Mr. TRUMP. That is right.

The CHAIRMAN. How much do you have in mortgages?

Mr. JUDD. Mortgages and stock?

Mr. TRUMP. Mortgages and stock, about \$500,000.

The CHAIRMAN. I would like to know why it wouldn't be a nice thing to pay off \$2 million or \$3 million on the mortgage that the Government is the guarantor of—

Mr. TOSTI. Senator, in the first place, under our project analysis we have a scale of rents. Up to this time we have been charging under the maximum scale of rents permissible by FHA.

No. 2. It is a fallacy to think that reducing mortgages is an economic way of running a project.

The CHAIRMAN. Well, I am just thinking in terms of reducing it so the Federal Government would have less liability.

Mr. TRUMP. We feel the Federal Government has little or no liability in our project, for various reasons: (1) Under the FHA directives which were handed down in 1947, if you will check back, I believe on January 2, they recommended the use of a declining balance method of depreciation for these projects and most people have used that. That means we depreciated 4½ percent roughly per annum. It also means that in 13 years the mortgages are going to be so far reduced that it is going to be economically not feasible to continue operating them and you are going to have to refinance them. These mortgages are going to be refinanced and FHA is going to be out of this picture in 14 years on our projects as they will on a number of others that have been continuously operated by the owner-builder.

The money that we have in the bank and the reserve for replacement which we are piling up year after year, we may need as a cushion for a conventional loan at that time.

In addition, you have to consider the individual owner such as Mr. Trump or any other builder, had a problem both in his estate if he should die, and for his own personal income tax, with mortgages that have been reduced, therefore it is almost impossible to get a purchaser to buy the project.

The CHAIRMAN. Have you paid any taxes on this \$4,500,000?

Mr. TOSTI. Not on the \$4,500,000 left over out of mortgage proceeds. We are now gradually getting into the position where we are paying income tax, and so do all of these projects.

The CHAIRMAN. I am not saying this is your fault, particularly, but isn't it a fact that when these mortgages are paid off—this FHA mortgage is paid off—\$15 million worth of it.

Mr. TOSTI. \$16 million.

The CHAIRMAN. And you have about \$4 million in cash and bonds and mortgages on hand.

Mr. TOSTI. That is right.

The CHAIRMAN. Mr. Trump's children who this trust is left for, will have about \$16 million worth of property plus cash, without ever having paid a nickel's worth of tax? Now answer the question. Isn't that true?

Mr. TOSTI. No, they won't get it because the leasehold has nothing to do with this project. And this leasehold has to continue for 200 years.

The CHAIRMAN. The children do not own the building?

Mr. TOSTI. They don't own the building at all.

The CHAIRMAN. They just own the land?

Mr. TOSTI. They only own the land.

The CHAIRMAN. Who owns the building?

Mr. TOSTI. The stock is owned by their trust—

The CHAIRMAN. How much capital was put in the corporation that owns this \$16 million property?

Mr. TOSTI. About \$260,000 in capital stock.

The CHAIRMAN. Was that paid for in cash?

Mr. TOSTI. Actual cash capital stock went in, and approximately \$1,400,000 in cash loans from these people to the corporation to get the project running.

The CHAIRMAN. That has since been paid back out of the proceeds of the mortgage; is that correct?

Mr. TOSTI. That is correct.

The CHAIRMAN. You did put \$275,000 cash in?

Mr. TOSTI. Right.

Senator LEHMAN. Who gets the rental?

Mr. TOSTI. The rental goes to the six owning corporations, Senator. There are six corporations, they collect the rents and pay the bills.

Senator LEHMAN. It doesn't go to the trust?

Mr. TOSTI. No, sir, the trust has nothing to do with it.

Senator LEHMAN. What income do they get?

Mr. TOSTI. They get \$60,000 on the ground rent.

Senator LEHMAN. Then the ground rent goes into the trust?

Mr. TOSTI. Just the ground rent, that is right.

The CHAIRMAN. The Beach Haven Management Corp. owns the building?

Mr. TOSTI. There are six separate corporations and Management just operates the buildings.

The CHAIRMAN. When the mortgages are paid off they will own those properties without ever having paid any income tax?

Mr. TOSTI. No, not necessarily.

As a matter of fact, if you check back at the original pamphlets that were issued, they recommended we use this theory in order to protect the mortgagee—this high depreciation—because they wanted the builders to recoup as quickly as possible, their investments in the projects.

The CHAIRMAN. We are checking into that but I think under the rules and regulations of FHA, the statement I made is true, isn't it? We are not blaming you gentlemen for some of these things. Maybe we ought to start out all our hearings here with the statement—what is it they use on Meet the Press, that the questions we are asking here don't necessarily—

Mr. TOSTI. Reflect the opinions of the committee?

The CHAIRMAN. Our problem here is to find out what has been going on and what is going on.

Mr. TOSTI. After about 5 years, regardless of—I mean because of declining balance depreciation, if these projects are rented up to approximately 95 percent they are going to pay income tax. There is no way they can avoid paying income tax. They will start paying it. We are paying it now. It isn't heavy yet but it will gradually get heavy as we go along.

The CHAIRMAN. I hand you a letter. Did you get this letter out, Mr. Trump, and if so, to whom? Read what the headline says.

Mr. TRUMP (reading):

July 29, 1954. Dear Tenant—

Now, this letter was gotten out.

The CHAIRMAN. Read the headline. What does it say?

Mr. TRUMP. This letter was gotten out the day after a tenant committee was formed due to these misleading headlines in all the newspapers.

The CHAIRMAN. What does that say in that letter?

Senator LEHMAN. What is the date?

Mr. TRUMP. July 29, 1954.

The CHAIRMAN. What does it say, Washington, what?

Mr. TRUMP (reading):

Washington headline hunters—

Senator LEHMAN. What is the date?

Mr. TRUMP. The letter was dated wrong, Senator. It was June 29.

The CHAIRMAN. What is the headline?

Mr. TRUMP (reading):

Dear Tenant: Washington headline hunters have been circulating false and misleading stories concerning Beach Haven at Brighton. Our advice is, keep cool and pay no money to anyone.

Now, here is the letter.

The CHAIRMAN. The reason for that was they were organizing a committee to get the rents reduced.

Mr. TRUMP. That is right.

Mr. JUDD. And in the tenants' letter they were citing headlines which had come from a release issued in Washington.

The CHAIRMAN. Who were the headline hunters?

Mr. JUDD. I don't think we tried to identify them.

Mr. TRUMP. It is not this committee. I will go on record saying it, Senator.

Here is the headline. Let me just read this. This is the front page of a highly respected Brooklyn newspaper.

The CHAIRMAN. The Brooklyn Eagle?

Mr. TRUMP (reading):

Charge \$4 million Windfall to Builder of Beach Haven. Federal investigators—
this is United Press, Washington.

The CHAIRMAN. And what should the amount have been?

Mr. TOSTI. We question the wording in here.

The CHAIRMAN. You weren't questioning the amount?

Mr. TOSTI. Some words that were used.

Mr. TRUMP (reading):

Federal investigators checking the housing loan scandals have accused Fred C. Trump, Jamaica, Long Island, builder of pocketing \$4,047,000 windfall on the Beach Haven Apartments in Brooklyn.

That means I drew it out and put it in my pocket and I have never drawn a salary the 3 years that Beach Haven has been operating.

The CHAIRMAN. You didn't draw it out, it is still in the bank. They were wrong?

Mr. TRUMP. But we owe \$16 million, Senator.

In other words, we have the real estate and we have the cash in the bank and on the other side we have a liability of \$16 million which has since been paid off, approximately, \$1 million. This is, I believe, very wrong and it hurts me. The only thing I am happy about is that it is not true.

Senator LEHMAN. Well, Mr. Trump, without going into the merits or the justification for your having this so-called windfall of \$4 million, isn't it a fact that that \$4 million, while not paid out to you in the form of a windfall, is in the treasury of the company and could be paid out, at any time? So it is not so very inaccurate as to the amount of the windfall.

Mr. TRUMP. I first have to take it out before I pocket it, Senator; isn't that right? I am happy we haven't taken it out.

The CHAIRMAN. Who is the president of these six corporations?

Mr. TRUMP. I am.

The CHAIRMAN. Who owns the controlling stock?

Mr. TRUMP. I do; 75 percent.

The CHAIRMAN. Who owns the other 25 percent?

Mr. TRUMP. William Tomasello.

The CHAIRMAN. Who is he?

Mr. TRUMP. A building contractor.

The CHAIRMAN. You two together, you 75 and he 25, own the \$4 million?

Mr. TRUMP. Yes.

Mr. SIMON. In the application you filed with FHA you listed architects' fees as exactly 5 percent; is that right?

Mr. TRUMP. I think so; yes.

Mr. SIMON. Is that true of all the applications?

Mr. TRUMP. Yes; that was an FHA application.

Mr. SIMON. Who was the architect?

Mr. TRUMP. Seelig & Finkelstein.

Mr. SIMON. How much were they paid for architectural services?

Mr. TRUMP. I would say a little under 1 percent, probably.

Mr. SIMON. When did you contract with them to furnish these architectural services?

Mr. TRUMP. Prior to the construction of the job.

Mr. SIMON. At the time you filed this application and said the architects' fee was estimated at 5 percent, did you know it was going to be less than 1 percent?

Mr. TRUMP. I didn't know it at the time. They didn't know what they would run into, but I believe the FHA—the 5 percent was the FHA regulation.

In other words, they give you help in filling out an application and they put for architects' and builders' fees 5 percent.

The CHAIRMAN. Would you have built these buildings had you known you were going to get credit only for the actual amount spent for architects, 1 percent instead of 5, perhaps?

Mr. TRUMP. Yes.

The CHAIRMAN. Would you have built the buildings had you known you weren't going to get the 5 percent builders' fee?

Mr. TRUMP. There, I would hesitate.

The CHAIRMAN. In other words, would you have built these buildings had you known that you were going to have to put any money in them of your own?

Mr. TRUMP. We were prepared to put money in, Senator. I signed a personal indemnity agreement which meant every dime that I owned in this world, and with a rising market of 8 percent, I would have been wiped out of what I built up over the past 27 years in the building business.

Mr. SIMON. When did you enter into your architectural agreement contract with Seelig & Finkelstein?

Mr. TRUMP. I don't have the date, Mr. Simon, but it is prior to the construction of the job. They had to prepare the plans.

Mr. SIMON. And they had to prepare the plans prior to the FHA application, didn't they?

Mr. TRUMP. They prepared sketches, with the application.

Mr. SIMON. Didn't you have some agreement with them as to the fees when they prepared the sketches?

Mr. TRUMP. They prepare on a lot of projects that never go through. They never get built. For me, as well as other builders. It is more or less elastic.

Mr. SIMON. Do you know of any \$16 million project of this kind in which the architect has received a fee anywhere near 5 percent?

Mr. TRUMP. I think that is the standard fee, 5 percent, except the FHA owner-builders, who are a new breed of low-cost builders just being discovered now. They pay less than 5, but I think in the trade, 5 percent is the standard architects' fee.

Mr. SIMON. Do you know of any \$16 million multihousing project of this kind in which the architect gets 5 percent?

Mr. TRUMP. I would imagine all public housing pays 5 percent. All State housing pays 5 percent.

Mr. SIMON. Do you know of any privately constructed housing?

Mr. TRUMP. That I wouldn't know, Mr. Simon. I only know of my own; that is all I know.

Mr. SIMON. Do you know of any?

Mr. TRUMP. No, I don't know of any fees at all except my own.

Mr. SIMON. When you filed this application did you contemplate you would have to pay as much as 5 percent for architects' fees?

Mr. TRUMP. That was in 1949. I really don't know what I contemplated. I assume that is what FHA allowed by the regulations and that was the standard architects' fee if you call the society.

Mr. SIMON. You paid the architect less than 1 percent?

Mr. TRUMP. The 5 percent, Mr. Simon, covered supervision which was required by FHA, which we performed for the architect.

Mr. SIMON. You paid him less than 1 percent; is that right?

Mr. TRUMP. Yes.

Mr. SIMON. Now, at the precise time you filed this application, what did you think you were going to have to pay the architect?

Mr. TRUMP. When we made the deal that we would take care of the detailed supervision of the project, I don't know just what the date was.

Mr. SIMON. When you filed this application, what did you contemplate the architects' fee would be?

Mr. TRUMP. Mr. Tosti tells me the FHA regulation called for 5 percent architects' fee.

Mr. SIMON. Could you get us a copy of that regulation?

Mr. TRUMP. I really don't know. I really don't know.

Mr. SIMON. Have you ever seen it?

Mr. TRUMP. It is my recollection if anyone needed assistance with FHA applications and they went to FHA, they would fill out a form and fill in architects' fee and builders' fee, knowing that they are necessary costs, whether you perform them yourself or not. They must be performed. Otherwise you wouldn't have a building.

Mr. SIMON. Have you ever seen an FHA regulation that says architects' fees were to be 5 percent?

Mr. TRUMP. I don't recall, but I will say this: FHA has processed every application—

The CHAIRMAN. There isn't any question about that. There is no question about that.

Mr. TRUMP. And it is provided by the regulations.

Mr. SIMON. What is provided by the regulations?

Mr. TRUMP. The 5 percent architects' fee.

Mr. SIMON. Have you ever seen a regulation that says that?

Mr. TRUMP. No, I am a builder.

Mr. SIMON. Then, how do you know these regulations provide for a 5 percent architects' fee?

Mr. TRUMP. They wouldn't have allowed it if they didn't.

The CHAIRMAN. There is nothing in the law, nothing in the regulations that we can find that talks about 5 percent.

We are trying to find out who it was with FHA that arrived at this idea.

In all our executive sessions—and we have listened to a lot of people—we haven't found one yet that used the 5 percent. Most of them were less than 1 percent or one-half of 1 percent, and in most cases they were their own builders so they didn't have any 5 percent fees. What it looks like is that there was a windfall here of about 8 percent on most of these projects, just through architects' fees and builders' fees. And on \$7 billion worth of this sort of thing, 8 percent of \$7 billion would be what, \$560 million.

Mr. TOSTI. You are talking about the home program?

The CHAIRMAN. Just on those two things alone.

Mr. TOSTI. The application would probably come within the scope of the Chief Underwriter. The Chief Underwriter probably laid out to his assistants how these applications were to be made up. When these applications were prepared by builders or by mortgage brokers, whoever prepared them, they were told to take 5 percent architects' fee and 5 percent builders' fee.

Mr. SIMON. Who told you that?

Mr. TOSTI. If you went into FHA and asked anybody in FHA to help you prepare an application, or if you would call them on the phone and say, "Look, what am I supposed to put down for architects' fee," they would say, "Put down 5 percent."

The CHAIRMAN. They would tell you that?

Mr. TOSTI. They would tell you that on the telephone.

The CHAIRMAN. Regardless of what it might cost you?

Mr. TOSTI. Yes. They would tell you right on the telephone. "Put down 5 percent."

Mr. SIMON. If you had an architect and you had an agreement to do it at 2 percent, why bother to call anybody, why not put in the 2 percent?

Mr. TOSTI. Because this is based on an estimated current cost and that is the formula under which FHA worked.

Mr. SIMON. Can you give us anything in writing that says that?

Mr. TOSTI. Of course I can't. I don't work for FHA. I called them many times and got information from them. The same as they put down, "legal fees, \$8,000."

The fellow in FHA didn't like it, he would change it to 6, change it to 7, do it anyway he wanted to.

Mr. SIMON. That is a different story.

Mr. TOSTI. What is the difference.

Mr. SIMON. FHA made their own analysis but your application was something that you filled out, wasn't it?

Mr. TOSTI. Mr. Simon, the only thing that a builder, in signing one of these applications was interested in or that he was submitting was one thing, only. It is right at the head of the first page. He was building a project consisting of 391 apartments and he wanted \$8,100 per apartment for it.

Mr. SIMON. That is the maximum for all that?

Mr. TOSTI. That is his application. That is as much as he knew.

Mr. SIMON. In other words, you are saying all he cared about was whether he warranted a mortgage for the maximum the law allowed. Is that right?

Mr. TOSTI. That is right, if he was entitled to it.

Mr. SIMON. And he didn't care at all about the other information on pages 2, 3 and 4?

Mr. TOSTI. When this application is submitted, there is submitted a plan, if you will look down here. A room plan. There is no final plan of 75 pages. What builder would know what this construction figure actually was supposed to be? He hasn't seen a plan on it yet. He has seen only a plot plan of a room size without a finished plan. He doesn't know whether it is tile, he doesn't know whether it is concrete floors, I don't know whether it is casement, or anything else.

Mr. SIMON. Then, you think the estimates in the application, except other than the request for the maximum, were all meaningless, is that right?

Mr. TOSTI. Not completely meaningless. It was probably our best estimate of what the total would be.

Mr. TRUMP. The big problem is, when you file with FIIA it takes from 6 months to a year to get a commitment. Now, no one knows what is going to happen in that 6 months to a year. I would say 6 months is a very, very short time. We don't know what we are up against. On our Beach Haven project we gave out contracts for 6,500,000 feet of lumber, during that very short recess just prior to Korea, at \$70 a thousand. Six months later, one of the lumber yards couldn't deliver a portion of their contract and we had to pay \$110 to another lumber yard to complete that first contract that was given out 6 months prior at \$70. That is an increase in lumber over a 6 months' period, of 60 percent. There is approximately 8 or 9 or 10 million dollars worth of material in this Beech Haven. 60 percent would be close to \$6 million which would put any builder in bankruptcy.

Now, where an architects' fee might have been a little high, maybe they were wrong on tile. We don't know what the market is. We hear concrete goes up \$1 a thousand. Nobody says that is \$180,000 on the job but a dollar a yard is \$180,000 on a job like that.

Senator PAYNE. Mr. Trump can I ask you this. At any time following the construction of this project, did anybody ever come out and contact you to see what your actual costs of construction were?

Mr. TRUMP. I don't think so, no. I don't remember, no.

Senator PAYNE. In the figures of costs of construction that you gave just a few minutes ago to Mr. Simon, or several minutes ago, was there included in that cost of construction, maintenance of your office, builders' offices as such and expenses such as that?

Mr. TRUMP. Our offices are very meager. It was built right on the project as part of the storage sheds, you might say.

Senator PAYNE. I mean you had certain expenses in that connection, didn't you?

Mr. TRUMP. Our overhead was cut down very low.

Senator PAYNE. What I am getting at, the ordinary contractor—

Mr. TRUMP. They go in for classy offices, but we don't have that.

Senator PAYNE. The cost of those operations were included?

Mr. TRUMP. Yes, but it is just an office to get out of the rain, that is about all.

Senator PAYNE. But all of the paperwork and everything else in that connection was likewise charged to the project?

Mr. TRUMP. To give you an idea—

The CHAIRMAN. You have a big general office somewhere?

Mr. TRUMP. Yes.

The CHAIRMAN. Where did you buy all the material?

Mr. TRUMP. Right from the project.

The CHAIRMAN. From this little house you are talking about?

Mr. TRUMP. Yes.

Senator PAYNE. And that material was charged to the project at cost?

Mr. TRUMP. That is right.

The CHAIRMAN. And you kept records of all that?

Mr. TRUMP. Yes.

Mr. JUDD. Senator Payne asked, "At cost?"

Mr. TRUMP. At cost, yes.

Mr. SIMON. All the supervisory help you had was charged to the project?

Mr. TRUMP. That is right, yes.

The CHAIRMAN. Had there been a law in effect at the time requiring that when you finished this project you could only get 90 percent of the actual cost of construction, would you have built these projects?

Mr. TRUMP. No. Do you mean to invest 10 percent? You couldn't do it. That would only be a paper loss, which could not mean anything.

The CHAIRMAN. Just wouldn't do it?

Mr. TRUMP. You couldn't do it.

The CHAIRMAN. In other words, unless you could get your money out—at least get your money out—you wouldn't do it? Do you think that is true of other builders?

Mr. TRUMP. Senator, you couldn't do it. There is a difference of probably 40 percent between general contractors who are general contractors, with elaborate offices and who do important work, or us penny-ante FHA builders. There is a difference of 40 percent in cost figures.

Now, when you say 90 percent, well, how are some of these expensive fellows going to work out? They would be putting 30 percent in it over the loss. Every builder builds at a different cost. There is no such thing as one cost. Some builders are more efficient than others, some have a better credit rating, and so on.

The CHAIRMAN. You just wouldn't have built these buildings if you had to put any of your own money in them?

Mr. TRUMP. Well, I don't say any. All the money that I have and that I can borrow.

The CHAIRMAN. I am talking about capital investment now. In other words, under the law, what Congress thought they were doing—

or at least what I think they thought they were doing—this cost \$16 million. Congress thought you were going to put \$1,600,000 in it.

Mr. TRUMP. We had \$1,900,000 invested in this project.

The CHAIRMAN. That was a loan?

Mr. TRUMP. Well, it was in there at the time of the critical stage.

The CHAIRMAN. I am talking about \$1,600,000 worth of capital stock. If you had to put \$1,600,000 worth of capital stock, which is 10 percent of the amount of this mortgage, would you have built the 6 buildings?

Mr. TRUMP. Now, would you include a builders' fee for us or not?

The CHAIRMAN. 90 percent of your actual costs.

Mr. TRUMP. We couldn't do it. If we had a rising market we would be right out of business on the first job.

The CHAIRMAN. Not at 90 percent of the actual cost?

Mr. TRUMP. Yes, because costs go up while you are waiting for the FHA.

The CHAIRMAN. It would still only be 90 percent because you are going to certify when the building is finished.

Mr. TOSTI. Your mortgage is static. That doesn't go up.

The CHAIRMAN. I am saying had the law been on the basis that you were to get 90 percent of your actual cost, would you then have built it?

Mr. TRUMP. No.

The CHAIRMAN. Are there any other questions, Senator Payne?

Senator PAYNE. I have no questions.

The CHAIRMAN. Thank you very much.

Mr. JUDD. Senator, we have a statement. It is not inordinately long. I would like for him to be able to read it if he can. It is about 10 minutes, I would think.

The CHAIRMAN. Do you have extra copies of it for the press?

Mr. TRUMP. My name is Fred Trump.

The CHAIRMAN. Now, this will take more than 10 minutes, Mr. Trump.

Mr. TRUMP. Suppose you stop me in 10 minutes, Senator, if that will be all right and I will try to hustle through with it.

The CHAIRMAN. Why do you insist on reading it when it is going to be made a part of the record? Give this copy to the press.

Mr. TRUMP. Senator, there are some facts here that we haven't gotten to.

The CHAIRMAN. I am going to have to leave here and go to your great city of New York in a minute and be back tonight, but before you start reading this, then, will you let me make an announcement.

Mr. Simon, you tell them the three resolutions that the committee agreed to in executive session here a couple of hours ago.

Mr. SIMON. First, the committee voted to refer the transcript of this morning's session to the legislative counsel for a legal opinion as to whether the refusal to answer questions by George I. Marcus constitutes contempt of the Senate—I am sorry, that is the legislative counsel of the Senate.

Secondly, the committee voted to refer to the legislative counsel of the Senate the transcript of this morning's session for an opinion as to whether the refusal of Sidney Sarnier to produce a document called for in the subpoena constituted contempt of the Senate.

Thirdly, the committee voted to refer to the Attorney General the transcripts of the executive sessions of the testimony of Sidney Sarner and of his former partner, Ralph J. Solow, and to release the transcripts and make them a part of the public hearings if the Attorney General advises that their release would not interfere with any possible proceedings he may wish to bring.

The CHAIRMAN. Are there any questions by the press on that? I am going to have to leave here possibly before this statement is completed.

This committee has a rule that we will not release any executive hearings to the press without a vote of the committee.

If the Attorney General tells us this transcript will not interfere with any procedures he cares to take, we will release it and make it public property.

Mr. SIMON. There is no inference that he was not within his rights in taking the fifth amendment but merely whether he had the right to refuse to produce the document that was called for.

A VOICE. What was the letter?

The CHAIRMAN. It was a letter from FHA telling him to build a shopping center.

Now, do you want to proceed with reading your statement? You may.

Mr. TRUMP. I will chop it up, Senator, and make it very short.

The CHAIRMAN. We don't want to cut you off.

Mr. TRUMP. On the land, there is one item here on land.

The CHAIRMAN. Without objection, the entire statement will be made a part of the record, as will the remarks that you are about to make. They will likewise be made a part of the record.

Go ahead.

Mr. TRUMP. Under the "Ground leases":

Were the Beach Haven ground leases to be liquidated—

We didn't mention that. If the trust wanted to get cash for the land.

The annual ground rent would be capitalized at a realistic return of at least 5 percent and would represent a value of \$1,200,000. It would be something less than that if we got cash. We talked about \$1,500,000. It will never happen. In cash it is worth from \$1 million to \$1,200,000.

The current assessed value of the land is approximately \$1,250,000. It is the opinion of qualified land appraisers, were this land appraised today, with the appreciation which has taken place in the area since 1951, it would show a value close to \$2 million.

The complete job Beach Haven at Brighton is a well constructed and well located community. It was awarded a prize in 1952 as the best designed project in the New York City area. I am proud, and FHA can well be proud of having taken part in the development of Beach Haven at Brighton. The 1,860 family units are fully rented apartments, and approximately \$1 million has already been paid off on the mortgage. The land is assessed by the city of New York for approximately \$1,350,000 and the entire project pays real-estate taxes of close to \$500,000 per year to the city of New York.

The project was constructed at a cost of less than \$8,100 per unit, which is at the rate of less than \$2,300 per room. Comparable construction by banks in New York operating through independent contractors cost approximately \$3,400 per room. Similar construction by State and Federal housing agencies for public housing has averaged \$3,500 per room, or almost \$14,000 per unit.

If the Beach Haven project was constructed either by banks or State or Federal agencies, it would have cost 30 percent more than the Beach Haven mortgage amount.

There is no question about it, these hearings have established the fact that the FHA builder-owner can produce housing at a 30 percent lower cost than any other method tried to date, resulting in housing at lower rents, on a full tax paying, unsubsidized basis.

And I believe the summary below indicates the owners invested \$1.9 million—we had \$1.9 million in it when it was raw land, when the gamble was greatest. Once the building was finished and we paid ourselves back the gamble wasn't great but in the early stages we put in \$1.9 million of our own money.

FHA has already received \$318,000 in fees and premiums paid to FHA, with no loss actual or prospective, and no cash invested. \$1 million between a reserve for replacement and the amortization has already been paid off in reduction of the mortgage.

I want to take this opportunity to thank you for listening to our story.

The CHAIRMAN. Thank you. We are glad to do so. We are trying to get the facts on this whole business. Sometimes it is easy and sometimes it is hard.

Mr. TRUMP. I have a reference here, Senator. I would like to just let you know about it. I felt badly about these stories where we paid \$34,000 and leased it to ourselves. One of the papers said the two gentlemen—referring to my partner and myself—well, the partner had nothing to do with the land. He came in and put close to \$500,000 in the job, knowing that the ground lease was \$60,000 a year—he had no money in the land whatsoever.

However, I have here something:

"The statement issued by the FHA to radio and television and headlined in Brooklyn newspapers on June 12, 1954, that, "Federal investigators have accused Fred C. Trump of pocketing \$4,047,900 from the Beach Haven Apartments," was completely untrue and very unfair.

I wish to report to this committee that I have received no dividends whatever from any of the Beach Haven corporations and that all mortgage proceeds remain in the Beach Haven bank accounts. Also, the statement at the hearing 2 weeks ago that the "land costs for the Beach Haven project was \$34,500, which they rented to their building corporation at \$60,600 a year" was a serious understatement and very misleading, and was designed to create an impression of uncovering serious wrongdoing. These stories, as well as many similar stories have done untold damage to my standing and reputation as well as to the Beach Haven projects.

(Mr. Trump's prepared statement follows:)

STATEMENT OF FRED C. TRUMP

Mr. Chairman, my name is Fred C. Trump. I am president of Beach Haven Apartments, Inc. Nos. 1 to 6 inclusive, in Brooklyn, N. Y.—an FHA project containing 31 6-story elevator apartment buildings housing 1,860 families with garage accommodations for approximately 700 cars—on which the FHA has insured mortgages totaling approximately \$16 million.

I appeared voluntarily before an executive session of this committee on June 18, 1954, to give the facts which were desired concerning my participation in the section 608 FHA loan on the Beach Haven projects in Brooklyn. I was told at that time that if I were called for a public hearing I would first be notified about any additional material and given opportunity to prepare.

However, instead of receiving such notice, I learned on Friday afternoon, while I was on a day's vacation that a subpoena had been issued for me returnable Monday morning. In spite of requests through my counsel to the Washington office for additional time, he was told at 4:30 on Friday that I would have to be here on Monday morning. As I was not in the city, and in a spirit of cooperation with this committee my counsel at 5:15 Friday afternoon accepted service on my behalf.

My key personnel had already left for the weekend, making it difficult to gather detailed information on the matters this committee may be interested in, but, again in the spirit of cooperation we have produced as much as we could obtain. I do seek the privilege, however, of having this statement fully received,

to put an end to the misleading publicity that has developed through releases of the Federal Housing Committee and its investigators, to press, radio and television.

For instance: The statement issued by the FHA to radio and television and headlined in Brooklyn newspapers on June 12, 1954, that "Federal investigators have accused Fred C. Trump of pocketing \$4,047,900 from the Beach Haven Apartments" was completely untrue and very unfair. I wish to report to this committee that I have received no dividends whatever from any of the Beach Haven corporations and that all mortgage proceeds remain in the Beach Haven bank accounts. Also, the statement at the hearing 2 weeks ago that the "land costs for the Beach Haven project was \$34,500 which they rented to their building corporation at \$60,600 a year" was a serious understatement and very misleading, and was designed to create an impression of uncovering serious wrongdoing. These stories, as well as many similar stories have done untold damage to my standing and reputation as well as to the Beach Haven projects.

I am 48 years old and have been in the building business since I was 21. I have built approximately 2,000 1- and 2-family homes in Brooklyn and Long Island, as well as apartment units for over 5,000 families, and have gained a reputation, which I believe I can say with proper modesty, for building sound residences within the reach of the middle-income group and always gave a little more value than the standard dwelling built by others. An indication of the reputation for quality which I have earned is the fact that when dwellings are offered for resale, they are sometimes advertised in the Brooklyn papers as having been "Built by Trump," which denotes in real estate in Brooklyn "a mark of quality."

I am proud of the name I have earned as a builder and of my reputation for honesty. The fact that through competence and efficiency the Beach Haven Apartments were built for less than the FHA estimate, does not seem to me to justify in any way the vilification that I have suffered in recent months.

Land

The Beach Haven projects were built on 40 acres of land which I had begun to assemble in 1944. In addition to the cash payments and many years of tax arrears and penalties which I assumed on some of the land, there was an unusual amount of time and expense necessary to clear clouds on title. I had to negotiate with the city of New York to buy the part of the bed of former Coney Island Creek which ran through the land and buy additional parcels to round out a suitable plot. On most of the land I had paid real-estate taxes and other carrying charges for many years before I obtained the FHA commitment. The land at that time was assessed by the city of New York at approximately \$180,000. Annexed hereto is a table of approximate costs.

Ground leases

Were the Beach Haven ground leases to be liquidated, the \$60,600 annual ground rent capitalized at a realistic return of 5 percent would represent the yield on approximately \$1,200,000. The current assessed value of the land is approximately \$1,350,000. It is the opinion of qualified appraisers—were this land appraised today—with the appreciation which has taken place in the area since 1951, it would show a value close to \$2 million.

The land values for the 40-acre Beach Haven site which are indicated by the FHA recapture figures in the Beach Haven project do not reflect anything like the increases in value which have been realized in recent years on acreage in various areas of Long Island. Suburban acreage values on Long Island have increased an average of 10 times in some areas, to 20 times the 1946 value in other areas, without any increment resulting from construction.

Cost of construction

In estimating the cost of construction for the FHA application, I was guided largely by the general experience and opinions of the building trade concerning apartment house construction. I had to allow for the risk of inflation. Although during my building experience I had frequently been able to construct more cheaply than other contractors, I was not sure I could on this job with all the uncertainties that faced me.

This was the largest group of projects I had ever undertaken and represented a very serious commitment on my part.

The total mortgages approved for the 6 units in Beach Haven were approximately \$16 million. The FHA commitments required me to deposit almost \$700,000 as collateral for the mortgage, and also to give a personal guaranty of

completion. For almost 20 years in my previous experience I had avoided giving personal guaranties. Here I had to risk all that I had accumulated during my working life. I have never undertaken a job that did not succeed.

In order to construct the Beach Haven projects, I sold three other projects in which I had an interest. Those projects are now worth \$1 million more than the price for which they were sold. I sacrificed this prospective gain in order to insure the success of the Beach Haven job.

To protect myself, I also did something which I had generally avoided in the past. I took in a partner to pay 25 percent of the cost and he still has a 25 percent interest in the project. My partner and I had invested approximately \$1,900,000 in cash over and above the cost of the land before we received our first payments on the FHA mortgages.

There were several reasons which combined to bring about the financial success of this project.

(1) A sharp price decline in the building-material market due to the short recession just prior to the Korean incident. The price level could very well have gone the other way, and in fact, did, within less than a year. We would not have been able to build these projects as economically without prompt and energetic action. After placing contracts at extremely low prices, we found it necessary to make concessions to some contractors during the last stages of construction when the 1950 market costs were so much higher than those at which they had agreed to sell materials to us. For instance, we made contracts in late 1949 for our entire lumber requirements, 6½ million board-feet, at \$70 a thousand. In June 1950, when one of the contractors failed to complete his contract, we were compelled to pay \$110 per thousand board-feet for the balance of his contract, an increase of 60 percent in price, which was the current market price. With approximately \$8 million of building material required for the project, it is easy to understand how this short-lived recession was of material benefit; but also how disastrous the results would have been in a rapidly rising market.

(2) Another important factor was that we did our own building and supervision without any salary, and practically no overhead charges, so that it was not necessary to expend the 5 percent allowed by the FHA for builder's fees, or the major part of the 5 percent allowed by the FHA for architect's fees.

(3) Still another factor was the speed with which this project was constructed. A record of \$16 million of construction in less than 11 months due to proper job coordination * * * weekly contractors meetings, which developed a spirit of friendly cooperation among our contractors * * * and without the payment of any overtime whatsoever—saving hundreds of thousands of dollars in interest during construction, real-estate taxes, insurance premiums, and general overhead during construction and resulting in receipt by Beach Haven of close to \$2 million in rents during the 18-month period which would have been required by most builders * * * and was allotted by FHA * * * for the construction of the project * * * On the other hand strikes and other contingencies could very well have delayed the project and the financial result could have been disastrous.

(4) Another important factor was that we were able to obtain a premium in placing the mortgages.

The complete job "Beach Haven at Brighton" is a well-constructed and well-located community. It was awarded a prize in 1952 as the best designed project in the New York City area. I am proud, and FHA can well be proud of having taken part in the development of Beach Haven at Brighton. The 1860 family units are fully rented apartments, and approximately \$1 million has already been paid off on the mortgage. The land is assessed by the city of New York for approximately \$1,350,000 and the entire project pays real estate taxes of close to \$500,000 per year to the city of New York.

The project was constructed at a cost of less than \$8,100 per unit, which is at the rate of less than \$2,300 per room. Comparable construction by banks in New York operating through independent contractors cost approximately \$3,400 per room. Similar construction by State and Federal housing agencies for public housing has averaged \$3,500 per room, or almost \$14,000 per unit. If the Beach Haven project was constructed either by banks or State or Federal agencies, it would have cost 30 percent more than the Beach Haven mortgage amount.

There is no question about it * * * these hearings have established the fact that the FHA builder-owner can produce housing at a 30 percent lower cost than any other method tried to date, resulting in housing at lower rents * * * on a full taxpaying, unsubsidized basis.

Another feature to note is that the FHA has already received over \$418,000 in fees and insurance premiums on the Beach Haven properties, without the invest-

ment of a dime of Government cash. This is all profit to the FHA. It has never lost a cent on any project that I have built, and has never had to furnish any money to correct any default. I do not begrudge to the FHA a profit on its insurance business, but I believe that I should not be criticized for efficiency and competence. Had we operated in an inefficient manner and expended the total mortgage proceeds, our reputation would not be under attack.

Below is the summary of the Beach Haven project :

1860 units fully rented.

Construction cost below \$8,100 per apartment.

Owners invested over \$1,900,000 before receiving first advances on mortgages.

\$418,000 fees and premiums paid to FHA with no loss, actual or prospective, and no cash investment.

\$1 million already paid in reduction of mortgage since completion.

The CHAIRMAN. We release you from the subpoena and might want you later but I don't think so.

We will now recess until Wednesday at 10 o'clock, at which time our witnesses will be Mr. Loftus and Mr. Sonnenblick. You will remember Mr. Loftus was connected with Shirley-Duke Apartments and the Minneapolis concern, Investors Diversified, and he has projects—he is connected with projects at Columbus, Ohio; Delaware, and Cleveland. He will be here. Mr. Sonnenblick was the gentleman you will remember whose name was used and he said he knew nothing about it. We will have also Mr. Bonner, from Norfolk, on Wednesday. Then we will hold hearings again on Thursday and Friday. On Wednesday we will announce who our witnesses will be Thursday and Friday.

Otherwise, we will stand in recess until 10 o'clock Wednesday morning.

(Whereupon, at 4:40 p. m., the committee recessed to reconvene Wednesday, July 14, 1954.)

FHA INVESTIGATION

WEDNESDAY, JULY 14, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding. Present: Senators Capehart, Beall, Maybank, and Lehman.

Also present: William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will come to order.

Senator LEHMAN. Mr. Chairman, I have a short statement which I would like to read in toto and in order to save time may I be permitted to read it now?

The CHAIRMAN. Certainly. The Chair recognizes Senator Lehman.

Senator LEHMAN. Mr. Chairman, I have received a great many complaints from individuals in my State with respect to the cooperative housing program. These complaints have stemmed mostly from the fact that individuals have become cooperators under a builders' sponsored type cooperative. This type of cooperative is one organized by an individual or a corporation which sponsors the project, then attracts individuals on the basis of plans for that project.

This is the so-called self-propelled type of cooperative in which individuals band together for the specific purpose of creating a cooperative to build their own housing projects. In the past several weeks, I have been asked by cooperative groups that they be given an opportunity to testify before the committee during the course of this investigation.

A typical request is that contained in a letter from Mr. Leigh Medine, acting chairman of the Conference of FHA Section 213 Cooperatives, which is contained in a letter dated June 29, 1954, to the chairman of this committee.

Inasmuch as the original of this letter was addressed to the chairman and I received only a carbon copy, I should like the chairman to agree that this letter should be inserted in the record. This, as I say, is in the nature of a general complaint concerning the section 213 program and the request to testify before the committee.

Mr. Chairman, I also have been in correspondence with individuals who have more specific complaints.

A typical example of a specific complaint is contained in the correspondence I have had with a Mr. Herbert L. Feay of Forest Hills, N. Y., who states that he has made a cash payment of over \$1,500 to a builder-sponsor project.

He is greatly disturbed by recent disclosures regarding the FHA and he wishes to consult with his fellow cooperators so that they might take adequate steps to protect their individual investments. Unfor-

tunately, despite advice from the Washington office of the FHA, despite meetings with the developer of this project, Mr. Feay has been unable to obtain a list of the other owners of shares of stock in the cooperative and has been unsuccessful in his attempts to have the developer call a meeting of either the board of directors or the stockholders.

Mr. Chairman, it seems to me that despite our attempts to convince the FHA that it should take an interest in the individuals who are buying or renting homes constructed with the assistance of FHA insurance, we have to date not been very successful. Why is it that an individual who is attempting to buy a home, who is investing \$1,500 to do so under an FHA program, can neither get adequate information about the unit he is buying nor the names of the other individuals who are buying similar units?

Mr. Chairman, I hope these groups will have an opportunity to testify and that this committee will take steps to inform the FHA and the other housing agencies that they are in existence to serve the public.

Mr. Chairman, I ask unanimous consent to place in the record at this point copies of correspondence which I have received from Mr. Herbert L. Feay which will substantiate the statements I have read.

The CHAIRMAN. Without objection, those will be made a part of the record.

(The documents referred to follow :)

FOREST HILLS, N. Y., May 6, 1954.

Senator HERBERT H. LEHMAN,

Senate Office Building, Washington, D. C.

DEAR SENATOR LEHMAN: Thanks for your reply of April 28 to my letter concerning cooperative housing and the present investigation by the Senate Banking and Currency Committee of FHA procedures and practices.

Louis H. Pink, president of the United Housing Foundation, 345 East 46th Street, New York 17, N. Y., has offered to help us in organizing the tenant-owners of the Murray Hill cooperative development, 149th Street and Roosevelt Avenue, Flushing, N. Y., in advance of the completion of the project. Advance organization will give the tenant-owners a chance to check on the builder before the closing of the mortgage. You, of course, know Mr. Pink, who was your superintendent of insurance in Albany. Mr. Pink is in a position to give you complete and unbiased advice regarding legislation that may be needed in the cooperative housing field.

I wrote a letter to William F. McKenna, Deputy Administrator of the Federal Housing Administration, 70 East 10th Street, New York, N. Y., on the date of April 23, 1954, asking for help and advice. To date, I have not received a reply from Mr. McKenna.

One reason why Mr. McKenna has not replied probably is the shortage of help to do the amount of work that is required of his Bureau. The FHA should not be blamed too much for mistakes when an economy-minded Congress reduces appropriations to such an extent that the agency is greatly understaffed and thus unable to do the work that is required for efficient and satisfactory housing developments.

Sincerely,

HERBERT L. FEAY.

MAY 20, 1954.

Mr. HERBERT L. FEAY,

Forest Hills 74, N. Y.

DEAR MR. FEAY: I was interested in hearing of your interest as a cooperator in the Murray Hill cooperative development, a 213 housing cooperative. It is difficult to advise what should be done by cooperators in any specific project for they all vary somewhat.

We in the Congress are examining very carefully the legislative authority for section 213 cooperatives in the hope that we can protect individuals from the excesses that characterized the section 608 projects.

I have a great confidence in Mr. Louis Pink, whom I have known for many years. As long as your group is consulting with him, I am sure you are getting sound advice. Needless to say, I would be glad to consult with Mr. Pink at any time that such a meeting would be useful.

With respect to your request for a list of the names of individual cooperators, it should be pointed out that, as a shareholder in a cooperative, you have the right to obtain from the sponsors or the board of directors, such a list. You may also wish to request the sponsor to call a meeting of stockholders to present requests or obtain information.

I hope these observations will be helpful to you.

Yours very sincerely,

FOREST HILLS, N. Y., June 10, 1954.

HON. HERBERT H. LEHMAN,
Senator from New York,
United States Senate, Washington, D. C.

DEAR SENATOR LEHMAN: Thanks for your letter of May 20 in regard to section 213 housing cooperatives and specifically in regard to my problems as a cooperator in the Murray Hill cooperative development in Flushing.

Upon the advise of Mr. Pink, I am writing to Albert M. Cole of the Federal Housing Administration and am enclosing a copy of my letter.

You will note from my letter to Mr. Cole that the developer has refused to give me a list of the individual cooperators in this development and that he has indicated that he will not call a meeting of the cooperators until at least 75 percent of the project has been completed. He is still considering whether or not to promise in writing to call such a meeting.

In the next to the last paragraph of your letter you indicate that I had the right to obtain a list of the individual cooperators from the sponsors or the board of directors and that I had the right to request a sponsor to call a meeting of the stockholders.

Sincerely yours,

HERBERT L. FEAY, *Actuary.*

Thanks for your help and advice.—H. L. F.

FOREST HILLS N. Y., June 10, 1954.

MR. ALBERT COLE,
Administrator, Federal Housing Administration, Washington 25, D. C.

DEAR MR. COLE: I am writing you on the suggestion of Mr. Louis H. Pink, president of the United Housing Foundation, 435 East 46th Street, New York 17, N. Y.

I am a holder of stock and have signed an occupation agreement for an apartment in the Murray Hill Cooperative Apartments, Inc., 38-15 149th Street at Roosevelt Avenue, Flushing, N. Y. and I desire to take action to protect the interests of myself and all the other persons who will be the tenant owners of this cooperative apartment house.

Under date of May 6, 1954, I wrote to the president of the Murray Hill Cooperative Apartments asking that he call an immediate meeting of the stockholders and that he furnish me with a complete list of the names and addresses of the owners of the shares of stock for the Murray Hill Cooperative. I have not received a written reply to my letter and I have not been furnished with the list of names and addresses.

Mr. Sussman, the developer for this project and an attorney, telephoned me and arranged for me to meet him and Mr. Liebowitz at the development on May 26. Mr. Leigh Medine, an attorney who is president of a committee of 213 cooperative apartment developments, went with me to see Mr. Sussman and Mr. Liebowitz. Mr. Sussman stated that he would not give me the list of owners of shares of stock and that he would not call a meeting of the stockholders until the building was 75 percent completed. He advised us that he had received a directive from the FHA requesting that a meeting of the tenant owners be held after the building was 75 percent completed. Mr. Medine understands that this directive has been suspended at least temporarily.

We asked Mr. Sussman to promise in writing to hold the meeting after the building was 75 percent completed. He claimed that he could not do so until he consulted the balance of the board of directors. Since our meeting, Mr. Sussman advised Mr. Medine that the sending of the letter was still under consideration but that if the letter were sent he would want a letter from me in return promising not to take any further action until the meeting was called.

I wrote to Hon. Herbert H. Lehman, Senator of New York, in regard to the Murray Hill Cooperative development and I received a reply dated May 20. A copy of Mr. Lehman's reply is enclosed. You will note that Mr. Lehman states that I am entitled to a list of the cooperators who are shareholders in the cooperative development.

I have written letters to the New York City office of FHA addressed to Mr. McKenna but have never received a reply. It is for this reason that I am writing direct to you.

I would be pleased to have your comments on these problems. Is the FHA primarily concerned with the builders of the 213 development or will the FHA take action to help the stockholders in these cooperatives to protect their interest? Can anything be done if the contracts made between the dummy board of directors set up by the builder and the builder give the builder excessive profits as occurred for the section 608 projects?

I am sending copies of this letter to Senator Lehman and to Mr. Pink.

Very truly yours,

HERBERT L. FEAY, *Actuary.*

P. S. Neither Mr. Liebowitz, the president of the board of directors as set up by the developer nor Mr. Sussman, they advise me, expect to have an apartment in the building. The building has been started and the brickwork is about up to the second floor level.

FOREST HILLS, N. Y., *June 25, 1954.*

Hon. HERBERT H. LEHMAN,
Senator from New York,
United States Senate, Washington, D. C.

DEAR SENATOR LEHMAN: This will supplement my letter of June 10 which is in reply to your letter of May 20 concerning section 213 cooperatives and especially the Murray Hill Cooperative development in Flushing.

Mr. Cole has not yet replied to my letter of June 10, a copy of which I sent to you with my last letter. I am writing another letter to Mr. Cole at this time and am enclosing a copy.

Thanks for any help that you can give me in this matter.

Sincerely yours,

HERBERT L. FEAY.

FOREST HILLS, N. Y., *June 25, 1954.*

Mr. ALBERT M. COLE,
Administrator, Federal Housing Administration,
Washington 25, D. C.

DEAR MR. COLE: I do not find that I have received a reply from you to my letter of June 10 in regard to the Murray Hill Cooperative Apartments, Inc., 38-15 149th Street, Flushing, N. Y.

I would like to have a reply from you in the near future so as to determine whether or not I should proceed with the action to organize the stockholders in this cooperative so as to protect our mutual interest or whether I should endeavor to sell my stock in this cooperative because of the lack of opportunity for the stockholders to organize so as to assure themselves of a satisfactory building at a proper cost.

Mr. Daniel Maschler is an owner of stock in the Murray Hill Cooperative Apartments and has signed a cooperative agreement. Mr. Maschler has also written a letter to Mr. Liebowitz of the Murray Hill Cooperative Apartments requesting an immediate meeting of the tenant-owners so that they can protect their interests.

Very truly yours,

HERBERT L. FEAY.

JUNE 29, 1954.

Senator HOMER E. CAPEHART,
Banking and Currency Committee,
United States Senate, Washington, D. C.

DEAR SENATOR CAPEHART: As acting chairman of the Conference of Presidents of Federal Housing Administration Section 213 Cooperatives, I want you to know that we have an intense interest in the hearings now being held on the Federal Housing Administration.

My associates and I are presidents of cooperatives wherein dwell some 9,800 individual tenant-owners. To varying degrees we have been subjected to unnecessary abuse at the hands of the builder-sponsors as well as the FHA and we are therefore particularly anxious to put before your committee constructive suggestions to reduce the possibility of such abuses in the future.

By and large the problems we have faced fall into three categories of which the first is most important:

1. Inability of stockholders to find out the basic facts about the corporation they own. This makes it impossible for them to protect their, and the corporation's, interests prior to completion of the buildings. Once the buildings are finished, naturally, the damage is done and legal remedies are both slow and inadequate.

Flowing from this basic failing are such matters as:

2. Payment of excessive land rentals contained in the monthly carrying charges.

3. Failure of proper performance of the construction contract.

Naturally, my associates and I have given considerable thought to these problems and how they can be eliminated without removing financial incentive to builder-sponsors who wish to participate in the program. I would like, therefore, the opportunity to present our problems to your committee and respectfully request that you advise me by telegram at our expense when it would be convenient for me to appear.

Very truly yours,

LEIGH MEDINE, *Acting Chairman.*

The CHAIRMAN. I might say for the benefit of the record that we have had the same correspondence the Senator has plus much more, I am certain, and it is our intention to hold public hearings in New York City a little later, but we cannot do it at the moment. We felt it would be too expensive for the committee to bring down the witnesses from New York to Washington because there were so many of them.

It is our intention to hold hearings in New York City at a later date on the complaints that we have had from individual groups representing cooperative housing projects.

I think we have so informed some of the groups: maybe not all of them. We have informed many of them, however. It is our intention to look into each and every one of those cases and hold public hearings in New York City a little later on the theory that we could hear more witnesses at less expense if we went to New York.

Senator LEHMAN. I merely wished to bring the views of the writers and others to the attention of the chairman.

The CHAIRMAN. We are glad you did and the cooperative section 213 is proving to be just as troublesome as other sections such as the old section 608 and others, primarily because they are not really cooperatives at all. Some promoter gets an idea and he gets together a few people and organizes the board of directors and he controls it and operates it and runs it for his own personal benefit.

They are really not cooperatives at all. In the conference that we had yesterday between the House and the Senate we discussed this title very carefully and decided at that time that we were going to really get into it in a big way after the first of next year to see whether something cannot be done to either straighten it out or completely eliminate it, because they are not cooperatives at all. They are just some

promoters getting together and deciding they want to do it. The promoter sets up his own board of directors and proceeds to operate it and run it.

We have found cases where they have been mortgaging out and using the same ingenuity on section 213 and cooperative housing as they did on old section 608's.

We are glad to get that information from the Senator and glad to get it for the record.

Our first witness this morning will be Mr. Ralph J. Solow of Lynwood Park, Fort Lee, N. J., and Teaneck Gardens, Teaneck, N. J.

Mr. Solow, will you please come forward?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SOLOW. I do.

The CHAIRMAN. You may be seated.

The committee has already voted to do this, so we will place in the record at this time the testimony in executive session of Mr. Sidney Sarnar and George I. Marcus, his counsel, and David L. Konigsburg, his accountant, and Mrs. Margaret Monastero, assistant, taken by this committee under date of June 22, 1954.

We will likewise place in the record at this point the executive session testimony of the witness before us, Mr. Ralph J. Solow of Englewood, N. J.

Presiding at both of these executive session meetings was Senator Bennett, and Senator Payne part of the time. William Simon, the chief counsel was conducting the hearings.

Without objection we will place those in the record.

(Transcript of the testimony of Sidney Sarnar and Ralph J. Solow, taken in executive session before Senators Bennett and Payne on June 22, 1954, follows:)

**SPECIAL INTERVIEW TO INVESTIGATE
FEDERAL HOUSING ADMINISTRATION,
UNITED STATES CAPITOL,
June 22, 1954.**

EXECUTIVE SESSION

The hearing convened pursuant to notice in room F-59, United States Capitol, at 10 a. m.

Present: Senator Bennett.

Also present: William Simon, general counsel, FHA Investigation.

Also present: Sidney Sarnar; George I. Marcus, counsel; David L. Konigsberg, accountant; and Mrs. Margaret Monastero, assistant.

Mr. SARNER. We are here on a cooperative basis. We are not here to deceive.

Mr. SIMON. I hope you are here on a cooperative basis. I can tell you better when we finish.

Mr. SARNER. I come with that spirit. But at the same time if there is a question I am going to give you a direct answer, and I expect a direct question. I think this is fair, is it not?

Mr. SIMON. We have every intention of being fair with you. We are asking only for the facts, and we can't know until we get the facts whether there is anything involved.

Mr. SARNER. I am just trying to make ourselves understood when we start, so if you ask me a question which is aimed to deceive, you see, then how can you get the right answer?

Mr. SIMON. I have no intention of doing anything but finding out the facts.

Mr. SARNER. I just wanted to know our lines of demarcations.

Mr. SIMON. I can't get the facts unless I ask you simple questions.

Mr. MARCUS, I suppose you are Mr. Sarner's attorney.

Mr. MARCUS. That is right.

Mr. SIMON. Mr. Sarner, would you give the reporter your full name and address.

Mr. SARNER. Sidney Sarner, 325 East Clinton Avenue, Tenafly, N. J.

Mr. SIMON. Mr. Sarner, were you associated with or connected with a housing project in Teaneck, N. J., known as Lynwood Park, Inc.?

Mr. SARNER. There is much confusion on that score. Lynwood Park is not in Teaneck, N. J. There were several projects I was connected with. One was in Teaneck, N. J., called Teaneck Gardens. Lynwood Park is in Fort Lee, N. J.

We originally had our offices in Teaneck, you see, and Lynwood Park was incorporated and that was the office. However, now our offices are in Fort Lee. Do you follow that?

Mr. SIMON. Yes, I do. Lynwood Park, Inc., is a corporation, is it?

Mr. SARNER. That is correct.

Mr. SIMON. How many corporations are there by that name?

Mr. SARNER. There is only one corporation by the name of Lynwood Park, Inc., but we have 13 sections, each individual corporations, which are numbered 1 to 13.

Mr. SIMON. Are those corporations Lynwood Park, Inc. No. 1, etc.?

Mr. MARCUS. No. Let me correct that. The corporations are known as Lynwood Park, Inc., section 1; Lynwood Park, Inc., section 2, and sections 3 to 13.

Mr. SIMON. And the Section 1 goes after the "Inc."?

Mr. MARCUS. That is right.

Mr. SIMON. Is that a roman numeral one?

Mr. MARCUS. Written out, o-n-e.

Mr. SIMON. And there are 13 of those?

Mr. MARCUS. Thirteen different projects.

Mr. SIMON. Who are the stockholders of Lynwood Park, Inc., Section One?

Mr. SARNER. Myself and my 2 brothers.

Mr. KONIGSBERG. Plus the corporation itself owns half the stock. It is treasury stock.

Mr. SIMON. What are your brothers' names, Mr. Sarner?

Mr. SARNER. Leonard and Maurice.

Mr. SIMON. Your accountant said a minute ago that the corporation itself owns half the treasury stock. I take it you bought that from Mr. Solow?

Mr. SARNER. That is right.

Mr. SIMON. So initially you and your two brothers owned half the stock and Mr. Solow owned half. Is that correct?

Mr. SARNER. All right.

Mr. MARCUS. Initially Sidney Sarner and Ralph J. Solow were the owners of all the stock except one qualifying share. Subsequently

the Solow stock was divided partly to treasury stock and partly to—the rest of it was Sidney Sarnar and Maurice Sarnar and Leonard Sarnar.

Mr. KONIGSBERG. That is not right, either. The Solow stock was transferred to the treasury as treasury stock. Mr. Sidney Sarnar owned the other shares outside of what Mr. Solow owned, but his 2 brothers had a participating interest which was not recorded on the books until after Solow stepped out.

Mr. SIMON. Are you saying that initially Sidney Sarnar held half the stock in trust for himself and his two brothers?

Mr. KONIGSBERG. That is right. That is what it amounted to.

Mr. SIMON. And the beneficial ownership was in the three of them from the beginning?

Mr. KONIGSBERG. But not in equal proportions.

Mr. SIMON. Is the same stock ownership true of the other 12 corporations?

Mr. SARNER. Yes. Oh, no, not in Teaneck.

Mr. KONIGSBERG. Yes.

Mr. SARNER. Yes, that is correct.

Mr. SIMON. We are talking about the 13 Lynwood Park corporations.

Mr. SARNER. That is correct.

Mr. SIMON. Does Lynwood Park, Inc.—and I am talking now about all 13 corporations, and if there is any difference in one of them I would be grateful if you would point that one out—own the land on which its buildings are constructed?

Mr. SARNER. Yes.

Mr. SIMON. From whom—

Mr. SARNER. Lynwood Park individually. Each one of the corporations owns the land.

Mr. SIMON. Who did those corporations acquire the land from?

Mr. SARNER. They, I believe, acquired it from Lynwood Park, Inc.

Mr. KONIGSBERG. From Lynwood Park, Inc.

Mr. SIMON. Without the section on it?

Mr. KONIGSBERG. That is right.

Mr. SIMON. Who are the stockholders of Lynwood Park, Inc.?

Mr. SARNER. They were the same at the time, were they not?

Mr. KONIGSBERG. The same.

Mr. SARNER. They followed the same pattern.

Mr. SIMON. Is Lynwood Park, Inc., still in existence?

Mr. MARCUS. Yes.

Mr. KONIGSBERG. Yes.

Mr. SIMON. What is its business?

Mr. SARNER. It holds, as I know, the land in the rear. Does it not?

Mr. KONIGSBERG. It holds the land and also certain small buildings.

Mr. SIMON. Does it have any other assets?

Mr. KONIGSBERG. That is all.

Mr. SIMON. How much land did Lynwood Park, Inc., originally have?

Mr. SARNER. Purchase?

Mr. SIMON. Yes.

Mr. SARNER. Sixty-five acres.

Mr. SIMON. And how much of it did it sell to the three corporations?

Mr. SARNER. Approximately 30 acres. It may be 29 or 28.

Mr. SIMON. So it has approximately 35 acres left?

Mr. SARNER. No. Six acres were used for a business center, so it has about 29 or 28.

Mr. KONIGSBERG. Then you bought some more under your option.

Mr. SARNER. Yes. Then under an option we purchased how much?

Mr. MARCUS. About 6 acres. No?

Mr. SARNER. No. About 2 acres.

Mr. MARCUS. Two acres.

Mr. SARNER. These are details but they are not accurate.

Mr. MARCUS. We are giving an approximation. They are all reflected on the books and records of the corporation.

Mr. SIMON. Who did Lynwood Park, Inc., acquire this 65 acres from?

Mr. SARNER. From the Allison Land Co.

Mr. SIMON. Do you have any interest in that company?

Mr. SARNER. No, sir.

Mr. SIMON. Did Mr. Solow?

Mr. SARNER. No.

Mr. SIMON. Is that company completely independent of you?

Mr. SARNER. I will give you a little picture of it. The Allison Land Co. consisted of an estate left by a party by the name of Allison in the New Jersey area. He left his estate for the good of the people and to God. This was the Allison Land Co.

Mr. SIMON. And you purchased it from them?

Mr. SARNER. That is correct.

Mr. SIMON. What was the purchase price?

Mr. SARNER. We paid \$2,500 an acre. That is correct, is it not?

Mr. KONIGSBERG. That sounds right.

Mr. SIMON. When did you buy it?

Mr. SARNER. Anything I do say here is recorded, and if I am in error here the record isn't correct?

Mr. SIMON. That is correct. When did you buy this land from the Allison Land Co.?

Mrs. MONASTERO. You started in 1948. The transaction wasn't closed—

Mr. MARCUS. I think it was sometime in 1947.

Mrs. MONASTERO. Teaneck was completed in 1948, and during that interval they negotiated for the land, in early 1948, and I think it was closed about the end of 1948 or 1949.

Mr. MARCUS. Some of these dates, Mr. Simon, if you will give me a letter setting forth what information you want I can get you the accurate dates because they are all a matter of record insofar as deeds and contracts are concerned.

Mr. SIMON. I take it that Lynwood Park, Inc., acquired the land directly from the Allison Land Co.

Mr. SARNER. That is correct.

Mr. SIMON. How long after Lynwood Park, Inc., acquired the land did it sell the 30 acres to the 13 corporations?

Mr. SARNER. The transaction actually came at the closing or at the point of commitment.

Mr. MARCUS. Upon the closing of the mortgage on commitment.

Mr. SIMON. How long after you acquired the property was that?

Mr. SARNER. I would say about a year.

Mr. MARCUS. Approximately a year.

Mr. SIMON. And how much did Lynwood Park, Inc. receive from the 13 corporations?

Mr. KONIGSBERG. Cost.

Mr. SIMON. Exact cost?

Mr. KONIGSBERG. Plus carrying charges. The basic cost-plus carrying charges at the date of transfer.

Mr. SIMON. There was no profit on it?

Mr. KONIGSBERG. No.

Mr. SARNER. No profit.

Mr. SIMON. When did Lynwood Park, Inc., sections 1 to 13. file their FHA applications?

Mr. MARCUS. I think that we will have to furnish you that because I don't think you ought to speculate on that.

Mr. SARNER. If you have some paper we will make some notes.

Mr. SIMON. For my purpose here you can just give me your best approximation.

Mr. SARNER. I would say the applications were filed in approximately 6 months.

Mr. MARCUS. I wouldn't venture to guess.

Mr. SARNER. Margaret, do you recall that?

Mrs. MONASTERO. As an approximation, it is in early 1949.

Mr. SIMON. Do you recall the valuation given the land in those FHA applications?

Mr. SARNER. No, I do not. You mean the valuation given by who?

Mr. SIMON. By you.

Mr. SARNER. We don't give any valuations.

Mr. SIMON. The printed form of the FHA application has a place for the value of the land that the building is going to be built on.

Mr. SARNER. I don't recall of any. I will have to look up the record and find out, but I don't recall giving them any valuation at any time.

Mr. SIMON. Senator, we are talking about a project named Lynwood Park, involving 13 sections. Thus far Mr. Sarner has told us that the land that they built these sections on was acquired by another company that he controlled at \$2,500 an acre and sold to these corporations at his cost without any profit. We were going on from there.

You don't recall what value was put on this land?

Mr. SARNER. I don't believe there was a value put on.

Mr. SIMON. What was the capital stock of each of these 13 corporations?

Mr. KONIGSBERG. The preferred stock was 100 shares.

Mr. SIMON. That is \$100 owned by the Federal Housing Administration?

Mr. KONIGSBERG. The common stock was \$200, no par.

Mr. SIMON. So there was \$1,000 of capital in each corporation, or a total of \$13,000 capital?

Mr. KONIGSBERG. That is right.

Mr. SIMON. Who constructed the buildings?

Mr. SARNER. The Sarner & Solow Construction Co.

Mr. SIMON. Owned by yourself and Mr. Solow?

Mr. SARNER. That is correct.

Mr. SIMON. Did you have a fixed-price contract for the construction of those buildings?

Mr. SARNER. Between ourselves or between the FHA and ourselves?

Mr. SIMON. Well, if it is different I would like both.

Mr. SARNER. We operated at cost to the corporation. Is that correct?

Mr. MARCUS. According to the FHA requirements, they set up a lump-sum cost construction contract which was executed at the time of the mortgage commitment, but the corporation thereafter adopted a resolution amongst them that Sarner and Solow was only to receive the actual cost of construction.

Mr. SIMON. Do I gather from what Mr. Marcus has said that there was a construction contract between Sarner and Solow and these corporations, that you gave a copy of it to FHA?

Mr. SARNER. That is correct.

Mr. MARCUS. That is correct.

Mr. SIMON. Who prepared that contract?

Mr. SARNER. Who prepared that contract?

Mr. MARCUS. I prepared a contract in accordance with the requirements of the FHA.

Mr. SIMON. What requirements, Mr. Marcus?

Mr. MARCUS. The FHA sets up what I would call a punch list, setting forth the various documents which they require to be prepared and submitted to them for approval prior to the closing of the mortgage loan commitment. It is passed by the attorney for the FHA. I prepare it and it is passed by the attorney. In their commitments they set forth what the lump-sum contract should be.

Mr. SIMON. Are you telling me that the FHA required a lump-sum contract?

Mr. MARCUS. Yes, sir.

Mr. SIMON. Was that requirement in writing or orally?

Mr. MARCUS. It is required not only orally but in writing, and it has to be a matter of record insofar as the mortgages and insofar as the FHA is concerned.

Mr. SIMON. Can you tell me where I can find anything in writing about that?

Mr. MARCUS. That is the regulations as far as I know.

Mr. SIMON. Can you tell me what regulation?

Mr. MARCUS. I don't know any specific point now but there was a regulation which said that the contract must be not to exceed a certain amount and it must be in writing and it must be filed and is required not only by the FHA but by the lending institution and is a matter to be recorded.

Mr. SIMON. They did require a written contract?

Mr. MARCUS. That is right.

Mr. SIMON. But you said they required a lump-sum contract.

Mr. MARCUS. That is right.

Mr. SIMON. I would like to know where you find that requirement.

Mr. MARCUS. I think you can check the regulations as well as I can.

Mr. SIMON. I have checked them and I tell you I know of no such regulation.

Mr. MARCUS. You couldn't close a mortgage-loan commitment without having a lump-sum contract.

Mr. SIMON. Without it?

Mr. MARCUS. That is correct, and I have closed dozens and dozens of them.

Mr. SIMON. Could you furnish us with the regulation that said that?

Mr. MARCUS. I can't find the regulation if you can't, probably, but I can furnish you with the list of requirements furnished by the FHA which says that there should be executed a lump-sum contract.

Mr. SIMON. I would be grateful if you would give me a copy of that.

Mr. MARCUS. I will be glad to.

Mr. SIMON. What was the lump-sum contract for any one of these 13 buildings or all 13 of them?

Mr. SARNER. They were individual contracts.

Mr. SIMON. What was the amount of that?

Mr. SARNER. They varied, depending upon the structure.

Mr. SIMON. What was the total of the 13?

Mr. SARNER. Do you remember the figure?

Mr. MARCUS. I don't think we ought to be—I will be glad to furnish those things.

Mr. SARNER. It would be an approximation of \$8 million.

Mr. KONIGSBERG. That was the mortgage.

Mr. SARNER. He wants to get a picture. If we don't give him—

Mr. MARCUS. Just a moment, Mr. Sarnier.

Mr. SARNER. George, please. I am trying to clarify and I need cooperation. If I can give him it approximately so we can get a picture I want to do it. This I want to do.

Mr. MARCUS. You are not asked to be giving figures of construction contracts.

Mr. SARNER. He is not asking in that spirit. He is asking for an approximate figure.

Mrs. MONASTERO. You can't give him an approximate figure of the whole thing. You don't have it and you can't establish it here.

Mr. SIMON. Let me ask you a different question. What was the total amount of the mortgages which FHA insured on the 13 buildings?

Mr. SARNER. That is simple, \$8 million.

Mrs. MONASTERO. Approximately \$8 million, I think.

Mr. SIMON. Was it \$8,875,000?

Mrs. MONASTERO. That is approximate.

Mr. SARNER. That is approximate.

Mr. SIMON. Was the total amount of the 13 contracts entered into between these 13 corporations and your construction company for the construction of those 13 buildings which Mr. Marcus has just talked about as a lump-sum contract in excess of \$8,875,000?

Mr. SARNER. No, sir.

Mr. SIMON. It was less than that?

Mr. SARNER. Yes, sir.

Mr. SIMON. Do you know about how much less?

Mrs. MONASTERO. You don't know.

Mr. SARNER. You would have to take each commitment and see what it was.

Mr. SIMON. We have 13 separate contracts now for lump sums and the total of these 13 contracts was less than \$8,875,000?

Mr. MARCUS. You don't know that, Mr. Sarnier. It is covered off-site improvements, too. Please, Mr. Sarnier. I will be glad to submit to the committee or to you, Mr. Simon, copies of these contracts if you would like them; and that, I think, is the best evidence.

Mr. SIMON. Does your accountant know whether the contracts were for more than \$8,875,000?

Mr. MARCUS. No; we wouldn't know now.

Mrs. MONASTERO. I wouldn't know that now, either.

Mr. SIMON. Then subsequently, as I understand it from Mr. Marcus, the corporation passed some resolution.

Mr. MARCUS. Modifying those contracts so the contracts would be on a basis of actual cost.

Mr. SIMON. Actual cost to Sarnier and Solow?

Mr. MARCUS. To Sarnier and Solow and Lynwood Park would actually pay the cost of Sarnier and Solow.

Senator BENNETT. May I ask a question here? Were the modified contracts, or copies of them, submitted to the FHA?

Mr. SIMON. That was the very next question I was going to ask.

Senator BENNETT. I don't want to take it out of your hands.

Mr. SIMON. Was the modified contract submitted to the FHA, Mr. Sarnier?

Mr. MARCUS. I don't think so.

Mr. SARNIER. Not that I recall.

Mr. SIMON. Did FHA ever know that the buildings were not built pursuant to the contract which was submitted to them?

Mr. SARNIER. According to our records, the recording passed in our minutes, and by way of a preferred stockholder he did know eventually, did he not, because our annual statements reported that, did they not?

Mr. KONIGSBERG. Our annual statements reflected the actual cost of the building.

Senator BENNETT. But there is nothing that would require—I can't say that categorically, but it would be unusual if you would submit a copy of a contract or include a copy of this modified contract in your minutes?

Mr. MARCUS. Would you repeat what the Senator said, please?

(Question read.)

Mr. MARCUS. That is not so, Senator. As a matter of fact, our minutes reflect a resolution to that effect.

Senator BENNETT. A resolution setting up the contract, but does it reflect the text of the contract?

Mr. MARCUS. Oh, no.

Mr. SIMON. Mr. Marcus, was FHA as a stockholder in the corporation given notice of the meeting at which you modified the contract?

Mr. MARCUS. I am not prepared to say now. I wouldn't know at this time whether they did have a notice of the meeting.

Mr. SARNIER. I don't recall that they were given notice, and I don't think it was a requirement.

Mr. SIMON. So that except to the extent that they might have been able to learn the fact from reading the annual statement that you sent them, FHA had no notice of the modification of the contract. Is that right?

Mr. SARNIER. I believe that is correct. I know of none.

Mr. SIMON. What was the total cost to the 13 Lynwood Park corporations of constructing these 13 buildings?

Mr. SARNIER. That was reflected in our statements to the FHA.

Mr. SIMON. I am informed by the FHA that those statements reflect the total cost of \$6,662,500. Is that correct?

Mr. SARNIER. If that is the total of the statements it is correct.

Mr. SIMON. And that shows, Mr. Sarnier, that the construction costs were \$2,426,821 less than the mortgage.

Mr. SARNER. In approximation I believe that is correct.

Mr. KONIGSBERG. It sounds right.

Mr. SIMON. And I am also advised that these 13 corporations contributed, by way of dividends, \$2,588,425.

Mr. KONIGSBERG. That is not true.

Mr. SARNER. That is not true.

Mr. SIMON. How much was contributed?

Mr. KONIGSBERG. Nothing was contributed as dividends. Just Mr. Solow's stock was purchased as treasury stock for \$1,400,000 and the balance is still in these corporations.

Mr. SARNER. The balance is still there.

Mr. SIMON. Mr. Solow owned 50 percent of the stock, for which he paid \$6,500. Is that right?

Mr. KONIGSBERG. Yes, half of the \$13,000.

Mr. SIMON. And he received \$1,400,000 in return?

Mrs. MONASTERO. Approximately.

Mr. SIMON. How long an interval was there between the time he put up the \$6,500 and the time he got the \$1,400,000 back?

Mr. KONIGSBERG. I have no idea but he took that money out in August of 1950.

Mr. SARNER. Before we were completed.

Mr. SIMON. And he put the money up sometime in 1949. Is that right?

Mr. KONIGSBERG. I don't know, offhand.

Mr. SARNER. This isn't actually a true picture. Mr. Solow did advance funds during construction which he received back.

Mr. SIMON. How much did he advance?

Mr. SARNER. Oh, I don't know exactly. It may have been in total, advancing and getting it back progressively—it may have totaled in the amount of \$200,000, would you say?

Mrs. MONASTERO. Approximately. That is an approximation.

Mr. SARNER. Over what I put in. We both advanced a certain amount of funds to begin with. This doesn't reflect actually what was required. There was other capital which we started with. Beyond what we equally contributed he advanced beyond that about, I would say, an approximation of \$200,000.

Mr. SIMON. Is \$200,000 the maximum amount of the advance outstanding at any one time?

Mr. SARNER. No, I don't think it was that, with what I had or beyond me, I am talking about.

Mr. SIMON. I would like to know for each of you what was the maximum advance outstanding at any time.

Mr. SARNER. I would have to see the record on that.

Mr. SIMON. Would you say that it was less than \$20,000 for each of you?

Mr. SARNER. To give you a general picture, I think it was.

Mr. SIMON. And that was merely loaned to the company. Is that correct?

Mr. SARNER. That is correct.

Mr. SIMON. And was repaid out of the proceeds?

Mr. SARNER. That is correct. It came from the proceeds but it was loaned to the contracting company. It was loaned to the construction company.

Mrs. MONASTERO. That is right, and for various expenses he would advance \$50,000 or so, and we disbursed that only after the funds came through from Lynwood Park paying the construction company.

Mr. SARNER. Mrs. Monastero, is my assistant, and many of those transactions——

Mr. SIMON. Is this accurate, that the construction company was building the building and you and Mr. Solow each advanced working capital from time to time which did not at any time reach \$200,000 for either of you, and that that money was repaid to each of you by the construction company when the building company had money to pay for the construction. Is that right?

Mr. SARNER. That is correct.

Mrs. MONASTERO. Yes.

Mr. SARNER. Only the amounts now, if I recall it, may have exceeded \$200,000. I don't know that amount.

Mrs. MONASTERO. There are times it could have exceeded that.

Mr. SIMON. Is it accurate to say that the only funds that ever went into the building corporations were the \$13,000 in stock and the proceeds of the mortgage?

Mr. SARNER. I think that would be correct, would it not? The only funds that went into it—we had money left over.

Mr. KONIGSBERG. The sections.

Mrs. MONASTERO. The sections.

Mr. SIMON. The 13 corporations that owned the buildings.

Mr. KONIGSBERG. I think you might have put some money in at that time to pay for the commitments.

Mr. SARNER. I don't understand the question. Would you mind repeating it, please?

Mr. SIMON. Were any funds ever put into the 13 corporations which owned these 13 buildings other than this \$13,000 of capital and the proceeds of the mortgage?

Mrs. MONASTERO. Yes.

Mr. SIMON. What was that?

Mrs. MONASTERO. The amount I can't give but definitely there have been funds put in there to meet payments for the FHA when the closing fees, and so forth, came due.

Mr. SARNER. And working capital.

Mr. SIMON. Who advanced those funds?

Mr. SARNER. I guess Solow and I did.

Mr. SIMON. As a loan to the corporations?

Mr. SARNER. That is right.

Mr. SIMON. And that was all repaid?

Mr. SARNER. That is right.

Mr. SIMON. What about the cost of the land? Where did the corporations get the money to pay the cost of the land?

Mr. SARNER. How was that handled, Dave?

Mr. KONIGSBERG. Apparently ultimately they got it. Since they only contributed \$1,000 they must have got it——

Mr. SARNER. The question is, where did the money come from? Solow and I put up the money to purchase the land, didn't we?

Mr. KONIGSBERG. That is true.

Mr. SARNER. And we were paid back, weren't we?

Mr. MARCUS. Lynwood Park was paid back.

Mr. KONIGSBERG. The source of the funds to pay that back must have come from the FHA proceeds.

Mr. SARNER. Not the source. The source came from us. We were paid back from the proceeds of the mortgage at our cost. Is that correct?

Mr. KONIGSBERG. I am looking at the end result.

Mr. MARCUS. He wants the picture so that he can understand it from its inception.

Mr. SARNER. Do you get what I am saying?

Mr. SIMON. Do I understand correctly that the proceeds from this FHA mortgage of \$8,875,000 was sufficient to reimburse you and Mr. Solow for all the advances you made for FHA, filing fees, and so on?

Mr. SARNER. That is correct.

Mr. SIMON. It reimbursed whoever put up the money to buy the land for the cost of the land?

Mr. SARNER. That is correct.

Mr. SIMON. It paid in full the construction company for all the costs of construction and it still had approximately \$2,400,000 left over?

Mr. SARNER. That is correct, sir.

Mr. SIMON. And then the corporation itself bought Mr. Solow's half of the stock for \$1,400,000, approximately?

Mr. SARNER. Approximately. \$1,300,000.

Senator BENNETT. Which corporation, Mr. Simon?

Mr. SIMON. The 13 building corporations.

Senator BENNETT. Each corporation bought part of it or was that million four hundred thousand spread over these 13 corporations?

Mr. SARNER. May I give you a little history of this so you can get the picture here?

Mr. SIMON. Answer the Senator's question. I take it that it was spread over the 13 corporations. Was it not?

Mrs. MONASTERO. Yes.

Mr. KONIGSBERG. Spread over, yes.

Mr. SARNER. Solow and I came to a disagreement on policy before the completion of Lynwood Park. I was the builder. Lynwood Park was not completed. So it was decided that he would sell his stock to the corporations. This was the transaction.

Senator BENNETT. Did he sell out of the building company as well as the—

Mr. SARNER. He sold everything. He sold Teaneck Gardens. This was a severance of complete relationship.

Senator BENNETT. Was the \$1,400,000 that part of the severance which related only to Lynwood Park?

Mr. SARNER. No. It included the land in the back, Teaneck Gardens, all in which we were associated.

Mr. SIMON. How much did he get for his stock in these 13 corporations?

Mr. SARNER. I would have to look up the record and give you the specific amount.

Mr. KONIGSBERG. Somewhere maybe about \$120,000 less than that. In other words, the other would take care of Teaneck Gardens.

Mr. SARNER. The land is in there, too.

Mr. SIMON. Is the land approximately \$200,000?

Mr. KONIGSBERG. That would be substantially correct, \$50,000 one way or the other.

Mr. SIMON. Is there any coincidence in the fact that the mortgaging out was \$2,400,000 and that you paid him half of that?

Mr. KONIGSBERG. It is a coincidence that it worked out that way.

Mr. SARNER. But it was not based on that.

Mrs. MONASTERO. No reflection.

Mr. SIMON. Mr. Sarner, how long an interval elapsed between the time you signed this lump-sum contract for the construction of the building and the time the corporations adopted a resolution modifying the contracts?

Mr. SARNER. I wouldn't know that. I think that was left in my accountant's and lawyer's hands. When was that?

Mr. KONIGSBERG. I wasn't the accountant at that time, but it was my understanding that is what was going to happen from the inception.

Mr. MARCUS. That is correct.

Mr. SIMON. At the time you drew the lump-sum contract it was then your intention to modify it a short time later?

Mr. SARNER. That is correct, to do the work for cost.

Mr. SIMON. Why, then, did you prepare the lump-sum contract and give it to FHA and not tell them that you had the intention of doing away with it?

Mr. SARNER. This is my lawyer and he says it was required by the FHA.

Mr. SIMON. Can you help us on that, Mr. Marcus, on why you did something that you intended not to fulfill?

Mrs. MONASTERO. Mr. Simon, if I may, it is hardly a point of whether they could fulfill it if they were going to do it at cost. There was nothing to guarantee that the cost wouldn't exceed the lump-sum contract which was submitted.

Mr. SIMON. Obviously. The only question I am trying to find out is—

Mr. MARCUS. His remark was directed to me.

Mrs. MONASTERO. I am sorry.

Mr. SIMON. If you didn't intend to build it on a lump-sum basis why did you give the FHA a lump-sum contract?

Mr. MARCUS. Let me get this straight. As part of the requirement for the closing of a mortgage loan commitment the FHA requires, as well as the lending institution and the title company, that certain papers and documents shall be prepared and submitted for approval and execution at the closing. There are some 37 different items required.

One of the items required is a lump-sum contract which is to be put on record, and in the State of New Jersey that is almost a necessity in order to prevent mechanics' claims.

In addition thereto, you are required to submit and file a building-loan agreement between the lending institution and the borrowing corporation. The lump-sum contract figure is given to you by FHA. You cannot vary that figure.

Mr. SIMON. I am not sure I understand that. You say that FHA tells the sponsor what he has to pay for building the building?

Mr. MARCUS. Yes. A lump-sum figure is given by the FHA. They determine it on a project analysis as well as the working capital.

Mr. SIMON. I want to make sure we don't misunderstand each other.

Mr. MARCUS. The FHA will submit to me what figures should be included in a lump-sum contract. I don't get it out of the air.

Mr. SIMON. The FHA issues a commitment telling you the amount of a mortgage which they will guarantee?

Mr. MARCUS. That is right.

Mr. SIMON. And that figure is 90 percent of what FHA estimates to be the replacement cost of the building?

Mr. MARCUS. That is right, or they do it either on replacement or sometimes the capitalization.

Mr. SARNER. But this was on replacement.

Mr. MARCUS. He is asking me now generally.

Mr. SARNER. All right.

Mr. SIMON. But in addition to issuing a commitment as to how big a mortgage they will guarantee, which is based on 90 percent of their estimate of the replacement cost, are you saying that they also tell you how much the sponsor must pay the construction company for the building?

Mr. MARCUS. Yes. They submit a figure and give you a breakdown of that cost.

Senator BENNETT. Is that the same figure as their estimate on which their 90 percent mortgage is based?

Mr. MARCUS. Generally it is.

Mr. SIMON. Can you furnish me with something in writing that indicates that FHA told you how much the contract had to be for?

Mr. MARCUS. Oh, sure, I can furnish it.

Mr. SIMON. All right.

Mr. MARCUS. Not only on this project but in numerous projects.

Mr. SIMON. So if I understand this correctly, FHA told you that the lump-sum contract had to be for a particular amount?

Mr. MARCUS. That is correct.

Mr. SIMON. And your people didn't ever intend to build the—

Mr. MARCUS. I don't know what they intended. It may have cost more or less, and for all we were concerned that was the requirement.

Mr. SARNER. May I, Mr. Simon—

Mr. SIMON. Just one second. My point is that they didn't intend to build it for that amount. Cost-plus might have been more or less—

Mr. MARCUS. Insofar as the construction contract is concerned, the actual cost may be far in excess of the cost of the lump-sum contract.

Mr. SIMON. Or it might have been less.

Mr. MARCUS. Or less depending upon the circumstances.

Mr. SIMON. But when they signed this lump-sum contract it was not their intention to build it under that contract?

Mr. MARCUS. I don't know whether it was or not. In this case they modified it.

Mr. SARNER. Mr. Simon, may I qualify Mr. Marcus? Mr. Marcus, I think, has closed more FHA commitments in the State of New Jersey than any three attorneys. I would voice here that I think it exceeds a hundred commitments. Is that correct?

Mr. MARCUS. Easily.

Mr. SARNER. So he is qualified as a closing attorney. He knows of what he talks as far as the requirements. In closing so much and

knowing what he is talking about he may be stating a fact which may not be clear to you but very simple and clear to him, and I think this is where the difficulty is getting in.

Mr. MARCUS. We are not getting into difficulty.

Mr. SARNER. I have found this a number of times in talking to me. They say to me, "What do you mean?" This was my first one. This was my reaction. I went to a mortgage company. I am a builder. They said to me, "Look, we tell you what the cost is."

I said, "How the hell can you tell me what my cost is?"

He said, "That is the way we do it."

I said, "How do you know the cost? I am the builder. How do you know the cost?"

This was paradoxical to me.

Mr. SIMON. Mr. Sarner, do I understand that when this lump-sum contract was signed and presented to FHA it was your intention to actually have the building constructed under a cost-plus contract?

Mr. SARNER. That is so. If it cost more or less it would have reflected to the benefit of the corporation.

Mr. SIMON. What amount of cash does this corporation now have on hand?

Mr. SARNER. What corporation?

Mr. SIMON. The 13 Lynwood Park corporations.

Mr. SARNER. That is reflected—

Senator BENNETT. Before you leave that, may I ask another question. Was this subsequent contract which was set up by resolution of the directors a net-cost contract or a cost-plus contract?

Mr. SARNER. Net cost.

Senator BENNETT. So there was to be no profit to the building company?

Mr. SARNER. No profit to the building contractor whatsoever.

Mr. SIMON. Were there any income-tax considerations in that, Mr. Sarner?

Mr. SARNER. If the construction company made no money on its contract, whatever the net cost would be, this would be reflected.

Mr. SIMON. Were income tax considerations a reason for that?

Mr. SARNER. I don't know. Whatever cost this company had it handed over to this other company. My accountant can answer that.

Mr. KONIGSBERG. The object in charging these things at cost was to leave everything for—it was for a practical reason.

Mr. SARNER. May I clarify a point here, too? This is the point that we overlooked. It was a condition of the FHA that a sponsor could not be a builder as one. He had to be a sponsor and an entity unto himself. The builder had to be a contractor, an entity unto himself. So in effect a builder could not be the sponsor even if he wanted to.

Mr. SIMON. Let me ask you the reverse of that. Do you know any reason why the sponsor could not be the builder?

Mr. SARNER. Yes. That was a regulation. As an individual you could not but he had to be a corporation after it exceeded a certain amount.

Mr. SIMON. Do you know of any reason why these 13 corporations could not have of themselves built these buildings by directly entering into contracts with a subcontractor?

Mr. SARNER. That could not be.

Mr. SIMON. Can you tell me what regulation it is?

Mr. MARCUS. That is the regulation. It is a requirement.

Mr. SIMON. Would you give me a citation of that? That is the third citation of regulations that you are going to give me.

Mr. MARCUS. I will send you a copy and I think the directives ought to be made available to you by the FHA.

Mr. SIMON. I have the regulations but I know of no requirements stating that.

Mr. MARCUS. It may be a requirement of the local director. There may have been a local requirement of the particular State director, but that is the way it was worded. I can understand the reason for it, too.

Mr. SIMON. I would be grateful if you could show me where it says that.

Mr. SARNER. Why not cite the reason?

Mr. MARCUS. The reason for having a separate entity is that they felt under the mechanics' lien law in the State of New Jersey that an owner, if he built the project without filing a written contract, would be subjecting the building to mechanics' liens and would be jeopardizing the rights of the mortgagee as well, because there would then be a question of proper advancements, proper payments, and so forth. Where you have a separate and distinct contract it is notice to creditors just what they could expect and what they should expect out of this project. The corporation would then only be liable for the payments under the contract. If he makes the advances under the building loan, the lending institution is protected against mechanics' liens.

Mr. SARNER. Is that clear to you? It is not to me.

Senator BENNETT. It is to me.

Mr. SARNER. George, look, please. You hold your horses, too.

Mr. SIMON. We will get Mr. Marcus to explain that to you on the way home.

Mr. SARNER. I don't mind if it is clear to you, but it is not clear to me.

Senator BENNETT. This is not particularly important.

Were you working with the New Jersey office of the FHA or the New York office?

Mr. MARCUS. New Jersey office.

Senator BENNETT. The construction company of Sarnier & Solow is still in existence?

Mr. SARNER. No, sir.

Senator BENNETT. Was it liquidated when Mr. Solow pulled out?

Mr. SARNER. It wasn't liquidated but at the time of separation it was agreed that Solow's name would be dropped from it within a period of 6 months, or something like that.

Mr. SIMON. Is the company still in existence?

Mr. SARNER. Yes.

Senator BENNETT. That is the point I wanted to get.

Mr. MARCUS. The charter is amended so it is now Sarnier Construction Co. instead of Sarnier & Solow.

Senator BENNETT. It still is in existence?

Mr. SARNER. That is right.

Senator BENNETT. And is active in the contracting business?

Mr. SARNER. It is inactive presently in the contracting business.

Mr. SIMON. At the time of the construction of these buildings what

was the approximate amount of the assets of the Sarnier & Solow Construction Co.?

Mr. KONISBERG. Whatever they were they were nominal because they were constructing at cost, and the only capital required was just to get the project started, which would be loans from the interested principals.

Mr. SIMON. Was it created for the sole purpose of building these buildings?

Mr. SARNER. It was created for the purpose to build the buildings, that is true, and it was a requirement of the FHA. But let me clarify something, if I may.

Mr. SIMON. What I am trying to find out is whether it had merely nominal assets and was a paper corporation or whether it was a real construction company.

Mr. SARNER. It was a real construction company because I qualified it as a construction company. I am a builder.

Mr. SIMON. What were its assets, in rough figures?

Mr. SARNER. The assets in rough figures were the assets of the principals.

Mr. SIMON. Wait a minute. This is a corporation. I would be glad to have you go ahead, but first will you tell me what were the assets of the corporation.

Mr. SARNER. They would be reflected in the books. I wouldn't know.

Mr. SIMON. Roughly speaking, were they \$1 million or \$50,000?

Mr. SARNER. I wouldn't know. I think they were negligible for the reason that I want to give to you.

Senator BENNETT. May I ask a question at that point? Something was said earlier about the fact that at the time of the dissolution certain funds were made to Mr. Solow for the Teaneck properties.

Mr. SIMON. That is another project, sir.

Senator BENNETT. Did Sarnier and Solow build the Teaneck place?

Mr. SARNER. Yes, sir.

Senator BENNETT. The same building construction company did both jobs?

Mr. SARNER. Yes, sir. Now, may I show you this. Sarnier and Solow were two principals who had equal interests in Lynwood Park, Teaneck Gardens, in everything they had. The construction company was a vehicle by which it complied with the FHA requirement, but in essence the two remained as one so there was no point in making a profit by the construction company and taking it out of this pocket and putting it in this pocket. For simplicity it was kept and reflected all in the owning corporations.

Mr. SIMON. What you are saying is that you and Mr. Solow decided to construct this project and you created a construction company with nominal assets and then you created 13 building companies with nominal assets.

Mr. SARNER. That is correct.

Mr. SIMON. Who put up the \$13,000 that went into these 13 corporations?

Mr. KONIGSBERG. You put that up yourself.

Mr. SARNER. The books reflect that.

Mr. SIMON. Did you personally put up \$6,500?

Mr. SARNER. My accounts would reflect that.

Mr. SIMON. Was that your own money, Mr. Sarnier?

Mr. SARNER. I would say it was.

Mr. SIMON. Where do your two brothers come into the picture?

Mr. SARNER. Now I have to go back further.

Mr. KONIGSBERG. They have only a small interest.

Mr. SARNER. They have a 10 percent interest.

Mr. SIMON. When did they acquire that?

Mr. SARNER. Maurice put up 20 percent of my money, did he not?

Mr. KONIGSBERG. Something like that. That is right, 20 percent of the total.

Mr. SARNER. 20 percent of what I put up. Then when we had enhanced our capital, from there we moved over to Lynwood Park. When we moved over into Lynwood Park I made no further requirement of my brother. The same 20 percent carried over there.

Mr. SIMON. Are you saying that he advanced to you for the Teaneck property 20 percent of the capital you needed and in return for that you gave him 10 percent of Lynwood?

Mr. SARNER. I gave him an equivalent to my interest in Lynwood.

Mr. SIMON. What is the approximate date—

Mr. SARNER. I have another, brother, so I don't want to be deceptive. So that my other brother was left out in the cold. We started the business sometime before, and my other brother wanted to go out. So Maurice said I had done this to him and I said to Maurice, "Now look, this you have gotten, and now give him half of yours, not only in Lynwood Gardens but in Teaneck.

Mr. SIMON. When was this, after the buildings were built?

Mr. SARNER. No; during this. This was done. Then when Solow went out the interest remained the same. Do you follow? This is how it came about.

Mr. SIMON. What is the approximate amount of cash in the hands of these 13 corporations at this time?

Mr. SARNER. It would be reflected by the statements. The capital has been enhanced.

Mr. KONIGSBERG. The cash fluctuates.

Mr. SIMON. Is it over \$1 million?

Mr. KONIGSBERG. The cash?

Mr. SIMON. Yes.

Mr. KONIGSBERG. I don't think so.

Mr. SIMON. It isn't?

Mr. KONIGSBERG. No.

Mr. SIMON. Are the companies making money?

Mr. KONIGSBERG. Yes.

Mr. SIMON. You had roughly \$2,500,000 surplus from the mortgage and you paid \$1,200,000 to Mr. Solow, which would leave roughly \$1,300,000. What happened to that \$1,300,000?

Mr. KONIGSBERG. Well, most of that went—it was loaned to the business center at 5-percent interest.

Mr. SIMON. What is the name of the business center?

Mrs. MONASTERO. Lynwood Park Business Center.

Mr. KONIGSBERG. Section 1.

Mr. SARNER. There were two of them.

Mr. SIMON. How much did each of them borrow from this company?

Mr. SARNER. This is section 1.

Mr. KONIGSBERG. It is unequal amounts. I don't recall the exact breakdown.

Mr. MARCUS. One corporation is incorporated, and the other is Lynwood Park Business Section No. 1.

Mr. SIMON. What is the total amount that the two corporations—

Mr. KONIGSBERG. Somewhere close to the figure you derived. I don't know exactly. We can get that information. It is easy enough.

Mr. SIMON. Of the \$2,500,000 roughly speaking, that you mortgaged out here, roughly \$1,200,000 went to Solow and roughly \$1,300,000 was loaned to these two business center corporations?

Mr. KONIGSBERG. Approximately.

Mr. SARNER. A million two. Actually, what went to Solow was \$1,333,000.

Mrs. MONASTERO. No. He is speaking of the Lynwood Park thing.

Mr. SIMON. As I understand it, \$1,200,000 is what came out of these 13 corporations.

Mr. SARNER. I see.

Mr. SIMON. And the other \$130,000 was the construction company and the vacant land. Is that right?

Senator BENNETT. Mr. Simon, maybe I am about to anticipate another question of yours. Does Mr. Sarnier own the two business corporations?

Mr. SIMON. Who are the stockholders in these two business corporations?

Mr. SARNER. The same, my brothers and myself, in the same ratio.

Mr. SIMON. And what was the capital put into these two corporations?

Mr. KONIGSBERG. \$10,000 each.

Mr. SIMON. And then they borrowed roughly \$1,300,000 from the other corporations?

Mr. KONIGSBERG. Approximately that. Somewhere over \$1 million.

Mr. SIMON. I take it in addition to that they have a conventional mortgage on the buildings?

Mr. KONIGSBERG. It is represented by serial notes maturing annually over a period of 20 and 25 years.

Mr. SARNER. You didn't answer the question, Dave. There is no mortgage on it. The building is free and clear of any mortgage.

Senator BENNETT. Are the buildings kept up and operating?

Mr. SARNER. Yes, sir.

Mr. SIMON. Is that a profitable venture?

Mr. SARNER. Yes, sir. It has a gross rent of over \$200,000.

Mr. SIMON. Each of the 13 corporations that were in the section 608 project is profitable, too. Are they?

Mr. SARNER. Yes, sir.

Mr. SIMON. And I take it this business center is adjacent to it?

Mr. SARNER. That is right. One helps the other. It makes the apartments more valuable because it makes shopping simpler and makes the business center better because we have customers right there.

Mr. SIMON. Was it your intention at the time you applied for the FHA loan or guaranteed loan on these 13 corporations to build this business center?

Mr. SARNER. They made it a requirement.

Mr. SIMON. They did make it a requirement? Is that in writing?

Mr. SARNER. Yes, it is in the commitment.

Mr. SIMON. Did you contemplate at the time using the funds of the mortgage to build a business center?

Mr. SARNER. No, I did not. That was only an after consideration. The shopping center was built after the buildings were completed.

Mr. SIMON. When you applied for the mortgage, I wondered whether you included—

Mr. SARNER. We had no way of knowing.

Senator BENNETT. When you applied for the mortgage did you know you would have to build a business center?

Mr. SARNER. Yes, sir. Not when we applied. It was later made a part of the commitment.

Senator BENNETT. Before the commitment was issued you agreed to build a business center?

Mr. SARNER. That is so.

Mr. SIMON. Was that commitment that you would build a business center financed by your own funds or out of the mortgage?

Mr. SARNER. There was no condition how it was to be financed. It was that we were to build it.

Mr. SIMON. Was it contemplated that you would get enough money out of the mortgage on the homes to build the business center?

Mr. SARNER. No, sir. How would we know that?

Mr. SIMON. That is what I am trying to find out. As a matter of fact, my next question is, Can you explain to us how on an \$8,800,000 mortgage which was supposed to represent 90 percent of the replacement cost of the property you could mortgage out \$2,500,000?

Mr. SARNER. Well, there's 1 or 2 reasons, that we were efficient and honest. That is the explanation.

Mr. SIMON. When you submitted your estimates to the FHA—

Mr. SARNER. I never submitted an estimate to the FHA. Mr. Marcus voiced to you that FHA told us what it was going to be.

Mr. SIMON. Did you file an application for a loan?

Mr. SARNER. No, sir. I filed it through a mortgage company, not direct. Here is my understanding of it. I don't know whether you have the same understanding. Certain approved mortgage companies which the FHA recognizes—these companies go out and solicit business and say, "Look, we are connected with a real-estate company" or whatever it is. "We will get you a loan." You are a builder and they come and look for business. "We can get you a loan for so much if you will build such a type of project."

Mr. SIMON. Is that what happened here, that a mortgage company came to you and said they would get you a loan if you would build the building?

Mr. SARNER. That is right.

Mr. SIMON. What company was that?

Mr. SARNER. The Alexander Summer Mortgage Co.

Mr. SIMON. Did they tell you how much it would be?

Mr. SARNER. Approximately.

Mr. SIMON. Did you ever sign an application for an FHA mortgage commitment?

Mr. SARNER. I believe so.

Mr. SIMON. Are you familiar with the form, Mr. Sarner?

Mr. SARNER. I wouldn't know. When you say I signed an application, if it had to be signed I signed it.

Mr. SIMON. Did you read it before you signed it?

Mr. SARNER. I don't recall. I may have. I probably did.

Mr. SIMON. There is one section of the application which has a number of places to fill in the requirements of the building corporation, and by requirements they break it down into the estimated cost of the building, the estimated cost of the land, and the estimated cost of each item.

Mr. SARNER. I don't recall such a form. I will see if it is in our files.

Do you recall such a form?

Mrs. MONASTERO. I don't think that you signed except to attest. Most of them were signed by Mr. Solow as president of the corporation.

Mr. SARNER. Well, that is a technicality but it has to be signed by the corporation, doesn't it?

Mr. SIMON. No. They could be signed by the sponsors, and in some cases they were signed before the corporation was incorporated.

Mr. SARNER. I would have to trace back my records to confirm or deny what you say because I have a vague recollection of the mortgage application. Whether I signed it or the mortgage company signed it, I don't know.

Mr. SIMON. You both had to sign it?

Mr. SARNER. I don't know. Truthfully, right now if I saw it, it might refresh my memory.

Mr. SIMON. Can you give me any other explanation, other than that you were efficient and honest, why you could get a loan which at 90 percent totaled almost \$9 million and build the building for \$2,500,000 less than the loan?

Mr. SARNER. Well, do you want my explanation for it?

Mr. SIMON. Yes.

Mr. SARNER. I have been thinking about this, and I don't mean to be facetious here but it seems to me that rather than look at what I have made here it is for you to look back at what was established in the law as being correct.

Now, there was established in the law as being correct a loan of so much per apartment, whatever the loan was.

Mr. SIMON. Those were ceilings, Mr. Sarner.

Mr. SARNER. They were ceilings, I grant you that. Those ceilings were established on a certain cost of a certain period. As the cost raised, you see, then the ceiling came below the cost of the company. This is the general belief, in the conception of the law.

Now, if this was right, the norm was right, not to exceed that, if it was the maximum, it is not wrong for us to make the money but to see what was wrong with that norm. If that norm was right and was correct at the time it was made, then there is no other explanation, that we must have been efficient and good builders and honest to so reflect it. There is no other answer that I can see.

Senator BENNETT. I think again we should emphasize in the record here that that was the limit. That was not the norm. That was the ultimate. That was the top ceiling.

Mr. SARNER. That was the top ceiling, I grant you that. This is my understanding and I am not talking authority beyond this. I am talking as I tried to see this thing, why we did it.

You asked me why we did it. As we see it and as I know we went along, later there were escrows required which indicate that the mortgage—the norm was below the—

Senator BENNETT. You keep using the word "norm." There is nothing in the law about norm. The only thing is the ceiling.

Mr. SARNER. The ceiling became the norm, let us say.

Senator BENNETT. I think that is an assumption that the law does not bear out. The ceiling is still the ceiling.

Mr. SARNER. The ceiling is that point. However, the ceiling, we can say, was adopted as the norm by the mortgage companies. Then when they came to me and said, "Look, we will get you a loan if you build on this part, on this piece of property, at \$2,000 a room." this is what we went to see. This made it interesting to us. O. K. So we were—I am not giving you exact figures. Maybe it came out instead of \$2,000 a room maybe \$1,850 a room, or instead of \$8,000 an apartment it may have come out seven thousand and some-odd dollars an apartment. So that if it could not exceed the ceiling, as you voiced, then the ceiling was used as the norm by the FHA. Let's voice it that way.

Mr. SIMON. Mr. Sarner, could you comment also on the fact that another provision of the law says that the mortgage could not exceed 90 percent of the estimated replacement cost.

Mr. SARNER. I am not quoting the law.

Mr. SIMON. You have to put the two together.

Mr. SARNER. You wanted to know why I did it.

Mr. SIMON. What I want to try to get is that the law does fix these ceilings that you have referred to, but it also has the 90-percent factor.

Mr. SARNER. The ceiling in effect is 90 percent.

Mr. SIMON. The law said that the mortgage could not exceed 90 percent of the estimated replacement cost of the building, which is a separate ceiling from the unit cost that you were talking about.

Mr. SARNER. I don't want to miss my train of thought. Now, we developed these buildings and this was the replacement value. I can take a tailor and maybe out of a piece of cloth he can only cut one suit. Maybe a better man can cut a suit and a half. But that we were able to cut more than one suit out of it apparently is evident.

Now, I don't think whether we are that much good—I would like to think we were that much better. However, these mortgages then were bid for and the values were there by the savings bank, and on Teaneck we got 5 percent over our mortgage and in Lynwood Park 3 points over our mortgage. Does that not reflect the value, irrespective of what we produced?

If I can produce this suit you are wearing for \$5 but the best you can buy this suit for is \$100 some place, and then I can sell it to you for \$25, it doesn't change the suit, does it?

Mr. SIMON. Except that wasn't what Congress put in the law.

Mr. SARNER. I know but I am trying to give similarly—there are differences in efficiency in every person. My method may be on this job I invented a piece of hardware that I say was inestimable in cost saving, made a better job, and more efficient for less cost. Yet I got a better commodity for less cost.

This is my business as a builder, not to do a lesser job for less cost but a better job for less cost, is what I see.

Mr. SIMON. Mr. Sarner, I believe you said you got a 3-percent premium on Lynwood.

Mr. SARNER. Yes, sir.

Mr. SIMON. That would be about \$300,000?

Mr. SARNER. Whatever you want to figure.

Mr. SIMON. Do you have an opinion as to why the mortgage companies were willing to give you a three percent premium on the mortgage?

Mr. SARNER. That is their business. I am not a banker. I don't know.

Mr. SIMON. Have you ever made during this period mortgages that were not insured by the United States Government?

Mr. SARNER. I have been in the real-estate business and associated contracting business since I have been 17 years old, and I am 46 now. 29 years. I have made mortgages on other occasions.

Mr. SIMON. During this period do you know of anybody who got a 3 percent premium on a mortgage not guaranteed by the Government?

Mr. SARNER. I don't know. I don't know of any.

Mr. SIMON. Is it fair to say that the reason you got a premium of \$300,000 for the mortgage was because it was an obligation of the Government?

Mr. SARNER. I don't know whether it is fair or unfair. Maybe it reflected the value. Maybe it was fair in the reflection of its value. But I could sell these buildings presently and realize a profit which would be indicative that the value is greater than the mortgage.

Mr. SIMON. I take it that all building costs have gone up since 1949, haven't they?

Mr. SARNER. Since 1949? I don't know. I would assume they did.

Mrs. MONASTERO. These were completed in 1950 and since then—

Mr. SIMON. Your applications were filed in 1949 and the FHA commitment was made in 1949. Isn't that right?

Mr. SARNER. That is of record. It is approximately right.

Mr. SIMON. It is true that building costs have gone up since 1949, isn't it?

Mr. SARNER. I don't know if it is true. Basically they have not gone up. If you are going to get philosophical with me, I can't say it is true. The cost has remained the same. The supply and demand have changed.

Senator BENNETT. Wait a minute. I am in the building business, too. I am in the building supplies business, and it is my guess that the costs have gone up at least 25 percent since 1949. You don't buy lumber today at the price you bought it in 1949. Haven't you done any building since you built Lynwood Park?

Mr. SARNER. Not since I finished the business, Senator.

Mr. MARCUS. What territory are you referring to, Senator?

Senator BENNETT. The national price levels move more or less in the same direction if not to the same extent.

Mr. MARCUS. I bought lumber in 1953 for less than I paid in 1950 on a job.

Mr. SARNER. That is the point I was trying to make.

Senator BENNETT. Hasn't lumber gone up since 1950? It may have gone down again under different circumstances.

Mr. MARCUS. I bought plumbing and heating for less in 1953 than I paid in 1950.

Senator BENNETT. We are talking about 1949 now.

Mr. SARNER. In 1949 I believe I bought lumber at approximately \$70 a thousand. The market price was somewhat around \$100 but there was a dip. I hit the dip. There was a dip, if you recall.

Senator BENNETT. There was a depression. There were 3½ million unemployed in 1949, and as soon as the Korean War came all prices went up.

Mr. SARNER. I did it in this dip, you see. Not that I planned the dip but I was fortunate.

Senator BENNETT. But Mr. Simon asked you the question whether or not building costs had not gone up since 1949. The fact that you say there was a dip is an indication that they have gone up. There was a low point in 1949.

Mr. SARNER. I don't know if it has dipped down lower now. I am not building, but I understand they are way down now. So you say, is it not true. I can't say it is true because I don't know. It sounds like they did, but I don't know it right now if they are lower than 1949 or higher than 1949.

Senator BENNETT. This is very interesting to me because you have done the best you can to explain to us that you are an efficient builder, you understand the business, but as soon as we start to talk about the business since the building of these apartments you don't know.

Mr. SARNER. Because I haven't done, truthfully, any construction work. Not 1 hammer or 1 nail has been driven since I have erected these buildings, the business center, which was an approximation at that time, so I can honestly say to you I don't know because I haven't purchased. So this is the truth.

Senator BENNETT. You don't know the general facts about the building industry?

Mr. SARNER. If I listened to what everybody told me when I am going to build, I would never build. They say the unions and this and that, and I would never build. So one starts out for himself and observes for himself and says "What was the hazard to another guy becomes simple to me."

I never let this influence me, Senator. This is my sincere effort in doing it. When I go into something I ask nobody for their advice. This is my job to do and this I seek to do to the best of my ability, and what another fellow broke his neck on and where I built in rock and cut sewers in 18 feet of solid rock everybody said I was crazy. It was crazy to buy the land. The land was purchased that cheap they feared I walked into it. But I solved the problem. Had I listened to the rock, and this and that, I would have never built.

Senator BENNETT. You are saying a lot of things that don't answer the question. I think you are answering the question by indirection.

Mr. SARNER. I am trying to give you what my feeling—the way I approach a problem. If you told me today costs went up, I wouldn't concern myself with that. I would take my cost of 1949 and I would try—this I know I did well, by reflection, and I would try to get the cost where I couldn't—I would try to find some way to do it. If I couldn't buy lumber in this market here I would go to California if my quantity was good enough. But I would seek a market—

Senator BENNETT. This is all just smokescreen. You are not answering the question directly, but you have answered it to my satisfaction.

Mr. SARNER. I am trying to answer your question directly by what I endeavor to do in my business.

Senator BENNETT. Your direct answer is you do not know whether costs are higher today than in 1949.

Mr. SARNER. Because I have not built since the business center. This is the reason. Had I built I could have had a comparison in truth and said, "Today it cost me so much and in 1949 it cost me so much."

Senator BENNETT. Today you are no longer a builder but an operator of a series of apartment buildings?

Mr. SARNER. That is correct.

Senator BENNETT. All right.

Mr. SIMON. Mr. Sarner, do you draw a salary from any of the Lynwood Park corporations?

Senator BENNETT. May I get back to one other question? I am going to have to leave in a minute. I would like to have the citation put in the record which required them to build the shopping centers. I would like to have the letter from the FHA or the regulation of FHA, because that certainly isn't in the law.

Mr. SIMON. There are four things, Senator, that I am hoping they will give us: The regulation of the FHA that says they had to have a lump-sum contract and the letter from the FHA telling them how much the contract had to be, the regulation of the FHA that said the sponsor couldn't be the builder, and the letter from the FHA that said they had to build a shopping center.

Mr. SARNER. Senator, may I enlighten you, possibly, on why they insisted upon it, and I think they were right in insisting upon it.

We built this up in the woods. There was no shopping available nearby. They figured if there was no place to shop for these people we wouldn't rent the apartments.

Senator BENNETT. I am not questioning your word, but we would like to see documented evidence that they required you to invest this money in that kind of service. Apparently they didn't require it before they signed the commitment with you but afterward.

Mr. SARNER. You say "this money"?

Senator BENNETT. You said that you invested something like \$1,225,000 in 2 corporations that built shopping centers and you have testified that you did that as the result of an FHA requirement.

Mr. SARNER. But what is "this money" that you referred to?

Senator BENNETT. The \$1,300,000.

I am sorry, I have got to leave. Thank you very much.

Mr. SIMON. My next query was, have you drawn salary from the apartments?

Mr. SARNER. Yes.

Mr. KONIGSBERG. He draws \$900 a year from each one right now.

Mr. SIMON. Each of the 13?

Mr. KONIGSBERG. Yes.

Mr. SIMON. Going to Teaneck Gardens, Mr. Sarner, when was that project built?

Mrs. MONASTERO. In 1947. It was completed in 1948.

Mr. SIMON. And the capital of that corporation was how much?

Mr. KONIGSBERG. Same thing.

Mr. SIMON. A thousand dollars? Did the Sarner & Solow Construction Co. build that building?

Mr. SARNER. Yes, sir.

Mr. SIMON. Did you have a lump-sum contract for that building?

Mr. SARNER. The same.

Mr. SIMON. And again by resolution you modified it?

Mr. SARNER. That is correct, isn't it?

Mr. MARCUS. As far as I recall.

Mr. SIMON. Was it your intention at the time you signed the lump-sum contract to supersede it with a cost-plus basis contract?

Mr. SARNER. Yes.

Mr. SIMON. And the mortgage in the Teaneck Gardens project, was that \$1,592,000?

Mr. KONIGSBERG. That was the original mortgage.

Mr. SIMON. Was the cost of that project \$1,566,000?

Mr. KONIGSBERG. I thought in that one our costs were higher than the loan, if I recall.

Mr. SARNER. Our cost?

Mr. KONIGSBERG. I saw the balance sheet. That included the land.

Mr. SARNER. Mr. Konigsberg was not Solow's accountant, but I would say the cost was under the mortgage.

Mr. SIMON. Approximately \$105,000.

Mr. SARNER. Whatever the books show.

Mr. SIMON. Did you distribute \$103,000 in dividends?

Mr. SARNER. No, sir. Wait a minute.

Mr. KONIGSBERG. You said right.

Mr. SIMON. Did the corporation buy Solow's stock?

Mr. KONIGSBERG. Yes.

Mr. SIMON. How much did you pay him for it?

Mr. KONIGSBERG. You have got it.

Mr. SIMON. One hundred three thousand?

Mr. KONIGSBERG. That sounds like the figure.

Mr. SIMON. He paid \$500 and he got \$103,000 for it. Is that correct?

Mr. KONIGSBERG. That is correct.

Mr. SIMON. Is that a profitable project?

Mr. SARNER. Yes.

Mr. SIMON. How long after the building was built did you buy Solow out?

Mr. SARNER. In this agreement——

Mrs. MONASTERO. The dissolution was August 29, 1950, Mr. Simon.

Mr. SIMON. That would be about 2 years after you started the project. Is that right?

Mr. SARNER. Believe me, I am not trying to be evasive but when you ask me a question of dates I am blank.

Mr. SIMON. From whom did Teaneck Gardens acquire the real estate on which that building was built?

Mr. SARNER. What was the company?

Mr. MARCUS. What is his name?

Mr. SIMON. Let me ask you this. Was the person or corporation from whom Teaneck Gardens bought the real estate a complete stranger to you?

Mr. SARNER. Yes.

Mr. SIMON. That is all I wanted to know.

Mr. SARNER. In fact, in both these cases, the Summer Co., who were our mortgage people, and also in the real estate business, sold us the land.

Mr. MARCUS. They were the brokers.

Mr. SIMON. Do you know what you paid for the Teaneck Gardens land?

Mr. MARCUS. Approximately \$46,000.

Mr. KONIGSBERG. Then we bought some extra land there for a couple of thousand.

Mr. SIMON. Do you know the valuation placed on that land in the FHA application?

Mr. MARCUS. I don't think so.

Mr. KONIGSBERG. Do they put a value on it?

Mr. SARNER. When you ask this, the value of the land placed by the FHA—

Mr. SIMON. I am asking for the value placed on the land in your application.

Mr. SARNER. You asked me that question before and I said I didn't place any.

Mr. SIMON. Is that provision in the application left blank?

Mr. SARNER. I don't know. I don't recall the application, but if the appraisal that the FHA puts on it is for improved land—we buy raw land, without sewage or water or drainage. It is appraised by the FHA and includes these utilities.

Mr. SIMON. How much did it cost you to put in these utilities?

Mr. SARNER. I don't know. I would have to refer—

Mr. SIMON. Do you have any other building projects which were financed by mortgages insured by the Federal Housing?

Mr. SARNER. No.

Mr. SIMON. These are the only two projects you ever were connected with?

Mr. SARNER. There are 14.

Mr. SIMON. These 14 corporations, 13 Lynwood Park and one Teaneck, are the only building projects that you were ever connected with on which the Federal Housing Administration had a commitment?

Mr. SARNER. That is correct, sir.

Mr. SIMON. Do you know a man named Clyde Powell?

Mr. SARNER. No, sir; I have heard of him.

Mr. SIMON. You have never met him?

Mr. SARNER. Never met him.

Mr. SIMON. I have no further questions. I would be grateful, Mr. Marcus, if you could get me that information.

Mr. MARCUS. I will read the transcript, and whatever information you ask for that I can furnish I will be glad to furnish.

Mr. SIMON. I would be glad to write you a letter, but I can tell you right now the four things I want.

Mrs. MONASTERO. I have the notes on it.

Mr. SARNER. Do you want anything from us?

Mr. SIMON. These four things.

Mrs. MONASTERO. I have the notes on them.

Mr. MARCUS. I will give you either the regulation or refer you to the requirements of the district director's office or give you punch lists which indicate it.

Mr. SARNER. And we can get the photostatic copy made of the commitment.

Mr. MARCUS. I have it. It says it is conditioned upon a condition that we close a certain number of mortgage commitments at one time, a condition that within a certain period of time we build a shopping center to provide shopping facilities.

Mrs. MONASTERO. That is right.

Mr. SARNER. In fact, it is stipulated in there, too, the height of the building.

Mr. MARCUS. It couldn't be over a certain height.

Mr. SIMON. I am most interested in that provision where they told you what the lump sum contract had to be.

Mr. MARCUS. I might say to you, Mr. Simon, that I think that I have closed more section 608 mortgage loan commitments in the State of New Jersey, and I don't know of any mortgage loan commitment that I closed that didn't have a lump sum contract.

Mr. SIMON. We are through.

(Thereupon, at 11:35 a. m., the hearing was recessed, to reconvene at 2 p. m.)

SPECIAL INTERVIEW TO INVESTIGATE FEDERAL HOUSING
ADMINISTRATION

EXECUTIVE SESSION

UNITED STATES CAPITOL,
June 22, 1954.

The hearing convened pursuant to notice in room F 59, United States Capitol, at 10 a. m.

Present: Senators Bennett and Payne.

Also present: William Simon, chief counsel.

Also present: Ralph J. Solow, 302 Fountain Road, Englewood, N. J.

Mr. SIMON. Mr. Solow, this morning we talked at quite some length to Sidney Sarner, who I gather was your partner in some of these projects.

Mr. SOLOW. He was.

Mr. SIMON. Solely to expedite matters, I may ask you questions which are leading to confirm facts that Mr. Sarner gave us this morning. If any of the questions should have an inaccurate fact in them, I will count on you to correct me, because I am not trying to tell you what the facts are but it will be a little quicker if I follow on from what he said.

Mr. SOLOW. Fine.

Mr. SIMON. What was your first association with anybody or on your own account in the building of any building insured by the Federal Housing Administration?

Mr. SOLOW. Prudent Homes, Inc.

Mr. SIMON. Where was that building?

Mr. SOLOW. That building was in Richfield, N. J.

Mr. SIMON. When did you build that building?

Mr. SOLOW. In 1939. These were private homes, not rental housing.

Mr. SIMON. I am talking about rental housing.

Mr. SOLOW. Oh, no.

Mr. SIMON. When was the first rental housing project?

Mr. SOLOW. That was Teaneck Gardens and that was in the city of Teaneck, N. J.

Mr. SIMON. What was the year?

Mr. SOLOW. 1937.

Mr. SIMON. Mr. Sarner was your partner?

Mr. SOLOW. He was my partner.

Mr. SIMON. How long have you been in the building business, Mr. Solow?

Mr. SOLOW. Before that?

Mr. SIMON. Yes.

Mr. SOLOW. Well, I would say 1939 to 1947. That is eight years.

Mr. SIMON. As far as you know, how long had Mr. Sarner been in the building business?

Mr. SOLOW. I couldn't tell you exactly, but I should think that he had been in it for at least 10 or 15 years. He said he got into it when he was about 16 years old, and he at that time must have been somewhere under 40. It is about 20 years anyhow.

Mr. SIMON. Now, Teaneck Gardens; what was the capital stock of that corporation?

Mr. SOLOW. That is something I really don't know.

Mr. SIMON. Was it \$1,000?

Mr. SOLOW. Probably.

Mr. SIMON. And did you own half of it?

Mr. SOLOW. I owned half.

Mr. SIMON. Did Teaneck Gardens ever have any assets other than the \$1,000 and things that it acquired through the proceeds of the mortgage?

Mr. SOLOW. Land.

Mr. SIMON. Who did it buy the land from?

Mr. SOLOW. We bought the land from Richard Ackerman.

Mr. SIMON. Who paid for it? Was it paid for by the corporation?

Mr. SOLOW. I am not sure whether we bought that in our individual names and transferred it to the corporation or whether it was bought by the corporation. I would like to explain this to you. I am in a position now where I have not got access to these books or records.

Mr. SIMON. I understand.

Mr. SOLOW. Because I am no longer a partner of Sarner's.

Mr. SIMON. Was the purchase price of the land ultimately paid out of the proceeds of the mortgage?

Mr. SOLOW. Oh, yes. Yes, indeed.

Mr. SIMON. In that building, as near as you can recollect, with the \$1,000 of capital that it had, did the proceeds of the mortgage account for the cost of the land and the entire cost of building the building and everything else that went with it and leave about \$100,000 left over?

Mr. SOLOW. I wouldn't say it was \$100,000. My recollection is that it was just about what we got on our mortgage premium that was left over.

Mr. SIMON. What was the mortgage premium?

Mr. SOLOW. Five points. The mortgage, I think, was \$1,590,000, so that would make it around \$77,000.

Mr. SIMON. Wasn't the mortgage \$1,900,000?

Mr. SOLOW. At Teaneck Gardens?

Mr. SIMON. Yes.

Mr. SOLOW. I don't think so. \$1,590,000, I think.

Mr. SIMON. Yes, that is right. Then you were bought out by Sarner, is that right?

Mr. SOLOW. That is correct.

Mr. SIMON. And he paid you how much?

Mr. SOLOW. Are you talking now—when he bought me out he bought Teaneck Gardens and everything else. I didn't sell anything separately. I sold all my interest.

Mr. SIMON. Who did you sell it to?

Mr. SOLOW. I sold it to Sidney Sarnier.

Mr. SIMON. Not to the companies?

Mr. SOLOW. Oh, no.

Mr. SIMON. Whose check did you get?

Mr. SOLOW. I got a check from Sidney Sarnier.

Mr. SIMON. His personal check?

Mr. SOLOW. I have a copy of a contract. I brought that with me. There it is. You can examine it and read it right through. I got his personal check.

Mr. SIMON. Mr. Solow, if I gave you a receipt for it, would you loan me this for a little bit?

Mr. SOLOW. This is my original copy. Do you want to go out and have it photostated?

Mr. SIMON. Yes, but I cannot do it in 2 minutes.

Mr. SOLOW. Can you do it in half an hour?

Mr. SIMON. No.

Mr. SOLOW. You asked me to bring my attorney and I just came down here because I wanted to offer you fellows whatever cooperation you wanted.

Mr. SIMON. We are grateful, but I am trying to expedite it. This is some 40 pages long.

Mr. SOLOW. Do you want me to show you the information that you are asking me now?

Mr. SIMON. Yes, but I also want a copy of it because I don't mind telling you that it is contrary to what Mr. Sarnier told us. He told us that the corporations bought your stock.

Mr. SOLOW. These corporations?

Mr. SIMON. That is right.

Mr. SOLOW. I swear on my word of honor that that is not so. There it is, Sarnier Bros., Inc.

Mr. SIMON. I am not quarreling with you for a minute, Mr. Solow, but I just tell you that this is different from what he told us.

Mr. SOLOW. Here it is.

Mr. SIMON. I understand.

Mr. SOLOW. Sarnier Bros., Inc., was a corporation formed at that time for the purpose of buying me out. It was not a corporation in which I had any interest.

Mr. SIMON. Sarnier Bros. was formed for the purpose of buying you out?

Mr. SOLOW. Purposely, right then and there. I couldn't get along with Sarnier. Sarnier pulled something really raw.

Mr. SIMON. What was that?

Mr. SOLOW. Well, he tried to appropriate about \$685,000 of the company's funds to himself.

Mr. SIMON. How?

Mr. SOLOW. Well, I will show you how. I am in another business besides this business. I am in the calendar business. I publish calendars for advertising purposes. That is the firm. I was located at 509 Fifth Avenue, New York, for about 24 years and for the past year or so I have been out in Englewood, N. J.

While I had these others interests, I was introduced to Mr. Sarner by a mutual friend and he was said to be perfectly O. K. and I found him O. K. for quite a while until we got into this Lunar Park deal. When we got into this Lunar Park deal, it seemed like when he began to see how wonderful this thing was he got kind of hoggish and his head was too big for his hat.

Mr. SIMON. By wonderful, you mean it turned out that you got about \$2,500,000 more cash on the mortgage than——

Mr. SOLOW. I don't think that is the fact. I saw that in a newspaper article. I don't think that is the fact.

Mr. SIMON. He said this morning it was.

Mr. SOLOW. Was \$2,500,000?

Mr. SIMON. I will give you the exact figure here. It was \$2,400,000, he testified. He told us this morning that he paid you \$1,200,000.

Mr. SOLOW. No, he did not. He paid me \$1,333,000.

Mr. SIMON. That is correct, but what he said this morning was that of the \$1,333,000, \$1,200,000 was for your stock in Lynwood and the other \$133,000 was for your stock in Sarner & Solow in Teaneck.

Mr. SOLOW. There was no diversification. Our contract will show it. There was no diversification at all. Let me tell you how I am ignorant of what happened. When this happened, this happened on June 14. I was telling you I was in another business.

Mr. SIMON. Of what year?

Mr. SOLOW. 1950. I was in another business. I came over periodically. All I did was to—I had the banking connections and I was able to finance it. I had worked with the mortgage companies and so forth and so on because of that. That was the extent of my work. He really took charge of the building and ran the operation. I was coming to that.

In June—what I used to do—and this will show you what I used to do—I used to sign checks in advance. I have got some of them here. I signed them in advance and the bookkeeper would use them to pay the contractors. I come around twice a week. I came in there one day and he and I had quite a set-to. He became arrogant and we had quite a set-to. He wanted to set up his own management company. He was going to run the management. In fact, here is a proposed agreement he got up. It was never entered into.

He was going to run the management company and make all the commissions and everything else and I was to be out of it. Then the shopping center came up. There was a question of taking some of the funds and putting some of the mortgage funds in the shopping center and I said I didn't want any part of that. I said, "You can't come in here and if we can't go in here equally and do this thing on a clean basis, I am finished with it."

Mr. SIMON. You would have been in equal partnership in the shopping center?

Mr. SOLOW. No, he didn't propose that. He turned that around and he wanted to take a 66 $\frac{2}{3}$ percent interest and give me a one-third interest. This is after we had created all the properties around there and created the value of the shopping center property.

When he got that way, I said, "Brother, you and I are finished. I helped you to—" originally we went into this Teaneck deal and he put up \$25,000. I put up \$75,000. Then I wound up with over \$200,000 of my own money in there. I never said one word.

Mr. SIMON. You got it all back out of the mortgage, didn't you?

Mr. SOLOW. Yes, sir, I did. When I say out of the mortgage, it was capitalized like you said for \$1,000 and the rest were loans. The loans were returned.

Mr. SIMON. The same is true of Lynwood, is it not?

Mr. SOLOW. I believe it was. So one day I came in there and we had this terrific argument. He said, "Oh, listen; you are out of bounds on this job. I am not going to finish it." I said, "All right, if you don't want to finish it you can step out. I will finish it." He went and got excited. He is quite excitable. He said, "Well, if you think I am going to sit idly by. All that you have done here is just put up money and go to a few banks and a few of this and that and the other thing and I am going to do all the work and you are going to collect half the profit." I said, "Look, let's not discuss that." He said, "All right, I will fix you."

Just before that the bookkeeper had come over to me and said to me, "Mr. Solow, there are some checks here and some bills; I don't know how many. Will you please sign these checks?" So I signed the checks. Here are some of them right now. I got them all back. These are checks that I signed. You see my signature on these checks. These are the ones that weren't used. But here are some that were used. Sarnier made himself out a check for \$492,000.

Mr. SIMON. What was that for?

Mr. SOLOW. He has got it right on here. I don't know what it was for. This is what happened. Here they are. Here are all the checks. I will just tell you how I was very fortunate in being able to stop these.

Anyhow, these checks—I called up the Chase National Bank with whom we were banking. I was very friendly to them and I had borrowed some money from them. They had known me and done business with me before. I told Mr. Fitzgerald what happened. I said, "John, I have a sneaking suspicion since I have signed some checks in advance that some of these checks are going to come through and if they are not for proper items I want you to stop payment on them and I want you to call me and I want to check with you on them." He said, "Just a minute and I will call the bookkeeper." That was on the 14th. There were no items in.

The first thing you know, in the morning he called me up and said, "Ralph, I want you to come right over." I come over and he shows me a flock of checks. I immediately called my attorney up and we came down there and I went and I stopped payment on these checks and I stopped payment on them by signing a series of papers of which here are copies of them, in which I said:

This is to advise you that you are to immediately stop payment on all the checks issued by the corporation and signed by myself, Ralph J. Solow, and Sidney Sarnier. I hereby withdraw my signature now on file and no checks are to be paid with my signature at present on file.

I signed that.

Mr. SIMON. Let me ask you, Mr. Solow, whether any checks of Mr. Sarnier did clear the bank.

Mr. SOLOW. No. None of them cleared. I went to all the banks and stopped all the payments. It was at that time that he came to me and he said to me—his wife came around and he came around and wanted to talk to me. I guess his whole idea was that he had turned around and here it was just before the time that all these contractors were go-

ing to be paid. He was going to take this money and say, "Now here, fellow, you are going ahead and paddle your own canoe." It might have been very difficult. I think I could have done it, though. It was very foolish on his part.

Mr. SIMON. He was going to take this extra money that turned up later on and divert it to himself through these checks?

Mr. SOLOW. No, these are the funds he diverted immediately.

Mr. SIMON. Tried to divert?

Mr. SOLOW. He tried to divert them.

Mr. SIMON. That is right.

Mr. SOLOW. He made an attempt. I don't mean that he did.

Mr. SIMON. His plan, I take it, was that the funds that ended up being surplus funds over the mortgage he intended to divert to himself. Is that right?

Mr. SOLOW. No, I don't think that was his intention. This is June 14. I don't think the final payments on this were made until December. That is why I say to you I don't know how the thing finaled out. You tell me right now \$204,000. I am amazed because he told me—don't you see, if he got hold of me and had these funds, he thought if he had me tied up and had all this money, how was I going to finish the job. He could then dictate terms to me and tell me, "You are going to get only a third of this shopping center. I am going to manage all these properties and collect that and you are not going to share any part of that." He was going to get 3 percent for management.

Mr. SIMON. You don't think he was trying to get this money into his own possession?

Mr. SOLOW. Oh, that is proof of it. He wasn't trying to get it into someone else's pocket.

Mr. SIMON. You think he was trying to divert the money to himself?

Mr. SOLOW. There is no question about that.

Mr. SIMON. You think his purpose was to strap the company?

Mr. SOLOW. To strap the company so he could drive a terrific bargain with me. That was the idea. I went back to the bookkeeper and I said, "Look, I want all the rest of these checks back," and I tore them right out of the checkbook.

Mr. SIMON. This contract you gave me seems to bear out what Mr. Sarner said this morning. Here is a breakdown of the \$1,333,000. \$1,235,000 for the Lynwood Gardens. Lynwood Park, Inc., \$500. The construction corporation \$500, does that mean Sarner & Solow Construction Co.?

Mr. SOLOW. That is right.

Mr. SIMON. And then Teaneck Gardens, \$97,000.

Mr. SOLOW. That is right.

Mr. SIMON. Where did Mr. Sarner get the \$1,133,000 to pay you?

Mr. SOLOW. As far as I know, the first money that he got was—I got a downpayment; the contract will bear it out if I am incorrect in my figures—\$650,000 he borrowed from, I think, the Masten Corp.

Mr. SIMON. Who owns the Masten Co.?

Mr. SOLOW. A man by the name of Schuman. They are a finance company.

Mr. SIMON. And they financed his taking you out; is that it?

Mr. SOLOW. They financed—in other words—here is what happened; he was to give me a downpayment of \$650,000. Then within, I think, 30 or 60 days, I don't remember which, the balance was to be

paid to me. So I got a certified check of \$650,000. I put my stock up in escrow with an attorney and the stock was not delivered to him until he paid the balance.

Mr. SIMON. I take it you had a total investment of \$7,500?

Mr. SOLOW. I beg your pardon?

Mr. SIMON. You had a total capital investment of \$7,500 in these corporations?

Mr. SOLOW. It is hard for me to answer that. Whatever the books show.

Mr. SIMON. What was the capital of Sarnier & Solow Construction Co.?

Mr. SOLOW. I think that was also probably \$1,000. Lynwood Park was 13 sections, maybe each being \$1,000.

Mr. SIMON. And Teaneck Gardens a thousand?

Mr. SOLOW. Probably so.

Mr. SIMON. And Lynwood Park, Inc.?

Mr. SOLOW. Probably \$1,000.

Mr. SIMON. That would be 13 corporations?

Mr. SOLOW. Thirteen Lynwood Park corporations. Teaneck was 14, the construction company 15 and Lynwood Park 16.

Mr. SIMON. So you probably had \$8,000 invested, is that right?

Mr. SOLOW. If you divide it by two.

Mr. SIMON. Yes. And you had been repaid all your advances?

Mr. SOLOW. Yes.

Mr. SIMON. So the \$1,333,000 was—

Mr. SOLOW. The \$1,333,000, what he paid me, was clear.

Mr. SIMON. Except for the \$8,000 that you had in stock. Everything above \$8,000 was profit, is that right?

Mr. SOLOW. Probably, if you figure it that way.

Mr. SIMON. Do I understand correctly that your quarrel with Mr. Sarnier arose over the shopping center?

Mr. SOLOW. Right, and management, both.

Mr. SIMON. He wanted to manage the companies?

Mr. SOLOW. Correct. Not only that, I didn't like the way he was arrogant and the way he talked to some of the men and some of the people. I didn't approve of anything like that.

Mr. SIMON. You sold out to him on the 29th of August 1950; is that right?

Mr. SOLOW. That is correct.

Mr. SIMON. But I take it that beginning shortly after June 12 you were negotiating to sell out; is that right?

Mr. SOLOW. Oh yes, yes. The break occurred on the 14th when I found out the checks were coming through.

Mr. SIMON. What was the status of the construction of the 13 Lynwood Park buildings at the time of your break?

Mr. SOLOW. At the time of the break I think it was probably half or less than half of those were finished.

Mr. SIMON. About half of them were finished?

Mr. SOLOW. Yes.

Mr. SIMON. And the other half?

Mr. SOLOW. All in the process of construction.

Mr. SIMON. So probably 6 or 7 buildings were done and the other 6 or 7 were in some stages of construction?

Mr. SOLOW. That is correct.

Mr. SIMON. Whose idea was it to build a shopping center?

Mr. SOLOW. That was both our ideas. We bought the land specifically for that purpose. We laid it out that way.

Mr. SIMON. Did FHA ever ask you to build a shopping center?

Mr. SOLOW. No, FHA never asked us to build a shopping center, but the only thing I recall in the commitment was that this shopping; they put limitation on the type of structure it would be so that it would be in harmony with the buildings, which was perfectly proper.

Mr. SIMON. But they didn't say you had to build a shopping center, but just if you built one it had to be a certain construction?

Mr. SOLOW. Exactly. It has to be no more than three stories and so forth and so on. But they didn't say you had to build it.

Mr. SIMON. Now, Mr. Solow, was Sarnier & Solow Construction Co. formed just so as to build these buildings?

Mr. SOLOW. Yes.

Mr. SIMON. And I take it it was mainly what you might call a general contractor and it sublet everything to subcontractors? The company itself was not a building company, was it?

Mr. SOLOW. Well, in effect it was, because we employed our own engineers. We did our own engineering and we laid out the streets in Lynwood Park. We did a lot of our own engineering. I would say we were in a position to do general contracting.

Mr. SIMON. Senator Payne, you might want to ask Mr. Solow some questions. We are talking about the Lynwood Park project which was built by Mr. Solow and Mr. Sarnier and they had \$1,000 of capital. Mr. Solow doesn't know what the mortgaging out was, but Mr. Sarnier told us this morning that these figures were right and they mortgaged out to the tune of \$2,500,000. During the middle of the construction they got into a disagreement and Mr. Sarnier bought Mr. Solow out for \$1,333,000. Mr. Solow had from time to time advanced moneys to the company but all the advances had previously been repaid.

At the time of the sale of this stock he had an \$8,000 investment for which they paid him \$1,333,000.

Also, they built a shopping center with the rest of the money and Mr. Sarnier told us this morning that FHA had insisted that he build the shopping center and Mr. Solow just told us that FHA had not insisted, that they had not asked him to build the shopping center but merely said if they did build it, it had to be in accordance with a certain design. Is that right?

Mr. SOLOW. That is correct.

Mr. SIMON. Also, Mr. Solow told us of about \$600,000 that Mr. Sarnier tried to divert from this project himself and Mr. Solow has photostats of canceled checks which never cleared the bank because Mr. Solow stopped payment on them.

Senator PAYNE. These did not clear the bank?

Mr. SOLOW. No.

Mr. SIMON. That is the basis of their controversy. His partner tried to divert that.

Is there anything else about your dealings with Mr. Sarnier that you think would be of interest to us, Mr. Solow?

Mr. SOLOW. I really don't know. I don't know what particularly you do look for but if you want the information I will be more than happy to give it to you.

Mr. SIMON. The two causes of your disagreement with Mr. Sarner were trying to divert the money to himself and his insisting on a management contract, is that right?

Mr. SOLOW. That was the third one. It was the management, it was him insisting that he wanted two thirds of the shopping center, and then the final straw was trying to withdraw \$600,000 worth of funds.

Mr. SIMON. Prior to June 12 had you been reimbursed for all the money you had advanced to the corporations?

Mr. SOLOW. I believe I was.

Mr. SIMON. And that was out of the proceeds of the mortgage?

Mr. SOLOW. I believe it was.

Senator PAYNE. I apologize for getting here late, but I presume probably he has already discussed somewhat how this project came into being and how it was formulated and built up in their own minds and whom they contacted in connection with it.

Mr. SIMON. No, sir.

Senator PAYNE. I am just curious, Mr. Solow, on a project of this type, whether you had been in this line of business before.

Mr. SOLOW. I was building small homes before I built Teaneck Gardens.

Senator PAYNE. How did you happen to, together with Mr. Sarner, hit upon this particular thing?

Mr. SOLOW. I will tell you about that. I was building homes. Mr. Sarner never built in New Jersey before he was partners with me. I had known of this piece of land since 1938. It was a beautiful site, a wonderful site. It is an excellent project, even though I am no longer there, I am sorry to say. I would have loved to have stayed in.

Senator PAYNE. It is still operating successfully?

Mr. SOLOW. Yes. It is a good project and it is fine. But I saw this piece of land and while Mr. Sarner was busy with the Teaneck Gardens, I negotiated with the Alexander Summer Co. for the purchase of this land. I looked it all over as carefully as I could.

Mr. SIMON. Mr. Solow, if I may interrupt you, did the Alexander Summer Mortgage Co. come to you and suggest that if you would buy this land they could get an FHA mortgage, you meaning you and Sarner?

Mr. SOLOW. They didn't say that, but I assumed they would because I wouldn't buy a piece of land like that without its being conditioned upon the approval of the FHA for a housing project. You don't go out and make an outright purchase. It was made subject to the approval of the FHA. You get a site approval from the FHA first.

Senator PAYNE. But there was an inference there that there would be no question about being able to build on it?

Mr. SOLOW. There was no inference to anybody. There was no inference. It was just that my own judgment told me that this was an excellent site and that the Federal Housing Administration would be happy to approve the site.

Mr. SIMON. Did the mortgage company ever expressly say that if you would buy the land they would get you the FHA commitment?

Mr. SOLOW. No.

Mr. SIMON. They didn't suggest that?

Mr. SOLOW. No; they never did.

Mr. SIMON. Mr. Sarnier testified this morning that the mortgage company came to him and said, "If you will buy the land from us, we will get you that loan." That is not true?

Mr. SOLOW. That is not true. They said, "We think it is a good site and we think the FHA would give you a site approval." I don't think they ever said, "If you will buy this we will get it approved for you." I don't think that is so.

Senator PAYNE. What did you pay for the land?

Mr. SOLOW. I believe it was—let's see. It was 64 acres. I think we bought it for \$2,500 an acre.

Mr. SIMON. Do you know the valuation that you put on it in the FHA application?

Mr. SOLOW. It must have been considerably higher than the land but remember this, that valuation—you have got to be fair about this. That valuation is after the land was improved with streets, sewers, and utilities.

Mr. SIMON. In your FHA application, didn't you also put in a figure for the cost of those utilities?

Mr. SOLOW. No, because the FHA wasn't interested in that. In fact, you got no mortgage on that.

Mr. SIMON. The printed form, the application, has a place for the value of the land and the cost of the utilities.

Mr. SOLOW. Has it?

Mr. SIMON. Yes.

Mr. SOLOW. That might be. As a sponsor, you don't get credit for it. The only thing that the FHA does is that they insist on you placing an off-site bond guaranteeing the completion of those utilities and those streets because without the completion of the utilities and the streets those buildings are useless.

Mr. SIMON. But the utilities and the streets and sewers and all of that were put in and paid for out of the proceeds of the mortgage, weren't they?

Mr. SOLOW. Oh, yes, indeed they were.

Senator PAYNE. Do you recall in the original application how much actual equity you two claimed you were putting into this development?

Mr. SOLOW. Senator, I recall there was a statement of that kind but I couldn't tell you what that was unless I actually had a copy of those papers. It is unfortunate, as I told Mr. Simon, that I am out of the project and the only papers I have got are what I have got here, a contract and some of these papers. That is all I have got. I haven't got the records of the company. Mr. Sarnier has those.

Mr. SIMON. Mr. Solow, Mr. Sarnier told us this morning that at the time you were going to go ahead with this project you signed a contract between Lynwood Park, Inc., or the 13 corporations, and the Sarnier & Solow Construction Co. for a fixed sum, a lump sum contract.

Mr. SOLOW. That is true. That was fixed by the Federal Housing Administration.

Mr. SIMON. Then he said it had always been his intention to modify that contract as soon as FHA approval was given and build it on a cost contract basis. Is that your understanding?

Mr. SOLOW. No; that is not true. Once the Federal Housing Administration—when you sign a commitment, when they issue a commitment and when you close the commitment, whatever figure they have

put on to the cost of construction to be paid to the construction company right then and there, a contract is signed and that contract is not to be modified. That is a fixed sum. You can't change that.

Mr. SIMON. He hold us this morning that by resolution of the board of directors of both companies the contract was modified from a lump sum contract to a——

Mr. SOLOW. What date was that done? Was that done while I was in?

Mr. SIMON. He didn't give us the date, but he said it was all agreed to at the same time and it was done very shortly afterward.

Mr. SOLOW. I am in no position to contradict that.

Mr. SIMON. You don't know anything about that?

Mr. SOLOW. I really don't know anything about that.

Senator PAYNE. How much interest did the mortgage company charge?

Mr. SOLOW. I think the mortgage was a 4 percent mortgage at the Bowery Savings Bank. You see, we had two loans there. We had a construction loan from the Paterson Saving & Trust Co. and then we completed the project and the Bowery Savings Bank came in and took the permanent loans in both these instances, both from Teaneck Gardens and Lynwood Park.

Senator PAYNE. Did you have to give them a bonus or anything?

Mr. SOLOW. No; they paid us a bonus.

Mr. SIMON. On both the temporary and the permanent buildings?

Mr. SOLOW. No, only on the permanent mortgage. In the beginning when the FHA came out with the section 608 program the builders and banks didn't want it. They had to go around actually begging for the buildings under section 608. Then the banks came around and they were first paying 99, which was under par. Then they came around and the first thing you knew, they had a lot of money around and no place to invest it and particularly this was true in the New York area because the banks were confined to making an investment within a 25-mile radius of New York City. They were really bidding high for some of these mortgages. So on Teaneck Gardens we got a 5-point premium and this deal was a 3-point premium.

Mr. SIMON. And you paid no bonus on the construction loans to anybody?

Mr. SOLOW. No bonus. In fact, the banks paid their own legal fees and everything.

Mr. SIMON. Mr. Solow, I would be very grateful to you if you would let us keep these canceled checks and the contract for a while. We will give you an itemized receipt for them.

Mr. SOLOW. I want to help you gentlemen as much as I can and whatever you want, I want to give it to you.

Mr. SIMON. This is exactly opposite from what Mr. Sarnier told us.

Mr. SOLOW. By George, I don't know what his purpose is in doing that. You could even subpoena the things if you wanted to. I can't see the purpose in him telling you anything to the contrary.

Mr. SIMON. That is the reason we would like to borrow these things.

Mr. SOLOW. If you will give me a receipt for these things and just tell me when you are going to return them, you can have them photostated. These are the only copies I have got. You don't want these blank checks, do you?

Mr. SIMON. We would like the photostats and the contract.

Mr. SOLOW. I will let you have those. Just give me a receipt for them and tell me when you are going to return them. Here are some more.

Mr. SIMON. We can return them to you either within 3 or 4 days or within 30 days. If we take 30 days we won't have to have them photostated ourselves. If you have any need for them before 30 days——

Mr. SOLOW. I have no need. These are my only records of this transaction. I am very glad to let you have them. If they are going to be of any help to you I will be very happy to give them to you. If there is any other information I have, I will be very glad to let you have that, too.

Mr. SIMON. Senator Bennett, this is Mr. Solow, who was the partner of Mr. Sarner whom we heard this morning. He tells us that FHA did not ask them to build the shopping center, that all FHA said was that if they built it they must build it according to the same design as the other buildings, but FHA didn't care whether they built it or not.

Is that correct?

Mr. SOLOW. That is right. I will tell you where they can find that. You can get the FHA commitment records and they will show that to you.

Senator BENNETT. The thing was so out of the usual pattern of the FHA organization that I was amazed.

Mr. SIMON. I also should add that Mr. Solow has loaned us a copy of his contract with Sarner for the purchase of that stock. You will recall that Sarner said the corporation bought the stock back but this contract is between Sarner personally and Mr. Solow.

He has also given us some photostats of checks that Sarner drew on the corporate bank account payable to himself, totaling about \$600,000, which Mr. Solow says Sarner was trying to take out of the company for himself. When Mr. Solow found out about it they had a disagreement and that is what led to their separation.

Senator BENNETT. Did he get it out?

Mr. SIMON. Mr. Solow says he stopped payment on these checks, but you will notice that they did clear one bank. They apparently were deposited in a bank but never cleared the bank on which they were drawn.

Mr. BENNETT. Did you countersign these checks?

Mr. SOLOW. I explained to Mr. Simon how this came about.

Mr. SIMON. Would you like to show the Senator these checks?

He has a whole stack of checks, Senator, which he says he signed in advance.

Mr. SOLOW. I was in another business. I am still in the calendar business. I used to come over on this job about two or three times a week, every other day. My sole work in the project was to make contacts with the banks, provide the finances, and it didn't have anything to do with the construction. So therefore we had accounts with different banks and when I wasn't around to sign a check I would sign a check in advance. Then it got to the point where the checks were very numerous and the contractors had to be paid. I would sign these checks in advance. I had known him from 1947 when I had business dealings with him and I had never known him to be dishonest.

Then along about 1950 it seemed that he became very arrogant to the help, to everybody. He treated everybody in really rough fashion. It seemed that—what I think was that he probably saw what was in this job—I didn't. I really didn't know. In fact, I was amazed when Mr. Simon told me that there was \$2,400,000 in this job.

You see, I got out in September. The final payments on these things didn't go through until December. I had no way of knowing. I could only estimate. This thing began to become a headache. I don't want to be in with somebody and fight all the time. I said I would get out of this thing. I figured I would pay my taxes and come out with \$1,000,000 net and let him make all the money in the world; I don't care.

Senator BENNETT. These checks, he said, were for services?

Mr. SOLOW. That is what he wrote on them, but I went to the bank and I signed a letter with the bank. I spoke to Mr. Fitzgerald of the Chase Bank and at the Paterson Savings Bank and I told them, "I have got to stop payment on these checks." So I signed a letter which stated in effect that I withdrew my signature and also stated that the checks presently outstanding and payable to Sidney Sarnier were issued without authorization of myself. I signed that with every bank and every one of them stopped the payment on it and that was that.

In fact, he threatened to sue the bank. He called up the Chase Bank and told them, "You have no business to stop payment. There is money in that account and you have to pay that." So Mr. Fitzgerald said, "Well, our general counsel tells us we can't. So that is just what we are doing. If you want to sue us, that is your business." That is the way that ended.

Mr. SIMON. If you will go with Mr. Carr, we will have an itemized receipt for those checks typed out.

Senator PAYNE. I have one other question. When you received this settlement, was that settlement broken down as to what constituted—

Mr. SOLOW. I didn't realize it, but the contract here stipulates that exactly. Mr. Simon picked that up. I just spoke from memory. There it is right there.

Mr. PAYNE. You bought the land in your own name when the land was purchased?

Mr. SOLOW. That may have been so. If I bought it in my own name it would be probably in our own individual names and we transferred it to the corporation or the corporation bought it, either way.

Mr. SIMON. In either event you did put up your own money and you were reimbursed for it out of the mortgage; is that right?

Mr. SOLOW. Yes, we were reimbursed out of the proceeds.

Senator PAYNE. You have no recollection of what that reimbursement was, because that would be over and above this amount here?

Mr. SOLOW. Oh, no.

Mr. SIMON. Mr. Sarnier said that the land was purchased by Lynwood Park, Inc.

Mr. SOLOW. That is correct.

Mr. SIMON. From the Allison Land Co. for \$2,500 an acre?

Mr. SOLOW. That is right.

Mr. SIMON. And then put into these corporations at the same price and that the corporations got that money back out of the mortgage?

Mr. SOLOW. That is true.

Mr. SIMON. The only money that he had in this \$1,333,000 figure was 50 percent of the stock in 16 corporations, with \$1,000 stock in each corporation, so he had \$8,000 stock for which he got \$1,333,000.

(Whereupon, at 3 p. m., the hearing was recessed.)

(End of transcript of testimony taken on June 22, 1954.)

The CHAIRMAN. The chairman asked this committee for permission to place in the record and make public the testimony of Mr. Sarner in executive session as well as that of Mr. Solow, a former partner of his. The committee voted that the chairman could do so provided we submitted the testimony to the Attorney General and he in turn said it would not interfere with any procedure that he had in mind and notified us in writing that it would be perfectly agreeable to do so.

Mr. Sarner who refused to testify before this committee and who hid behind the fifth amendment is quoted as saying in the Wednesday, July 14, 1954, edition of the Washington Post and Times Herald, after some of the testimony was quoted in the press—

reached for comment in New Jersey, Sarner called the affair "completely erroneous and deceptive. It's Solow's word against mine. The documents speak for themselves."

My answer to that, in the most kindly way, is that if there is anything deceptive, erroneous, or otherwise unfair about what we are placing in the record this morning or about his testimony in executive session, or anything erroneous that Mr. Solow had to say in executive session or will have to say here today, that we suggest that Mr. Sarner come in and testify.

In other words, he is throwing a curve here at Mr. Solow, his partner, but Mr. Solow is in here this morning at his own request to testify in public under oath. Mr. Sarner is still hiding behind the fifth amendment.

I want the record to show that Mr. Solow, who was Mr. Sarner's partner, is here at his own request to testify under oath in public, while Mr. Sarner is still, as far as this committee knows, hiding behind the fifth amendment. I wish to say this to Mr. Sarner and his attorney, Mr. Marcus, that we will be very happy to forgive Mr. Sarner and forgive Mr. Marcus if they would care to come in and testify under oath in public.

We would be very happy to hear them and we have only one thought in mind and that is to find out what the truth is.

I again want to say that Solow is here of his own free will and accord to testify under oath in public and we hope Mr. Sarner will volunteer to do the same thing.

Senator LEHMAN. May I ask you one question?

The CHAIRMAN. Yes, Senator Lehman.

Senator LEHMAN. I am not quite sure I understood everything you said. Do I understand the Attorney General has said it was agreeable to him to place this in the record?

The CHAIRMAN. Yes. Without objection, we will place the original of his letter in the record.

(The letter referred to follows:)

DEPARTMENT OF JUSTICE,
Washington, July 13, 1954.

HON. HOMER CAPEHART,
United States Senate,
Washington, D. C.

DEAR SENATOR CAPEHART: This is in reply to your letter to the Attorney General of July 13, 1954, requesting our opinion as to whether the release of the transcripts of certain interviews given by Messrs. Sarner and Solow might adversely affect any criminal action under consideration by this Department.

We have examined the two volumes of transcript you forwarded to us containing the special interviews of Mr. Sidney Sarner and Mr. Ralph J. Solow, conducted on June 22, 1954, and it is our view that the release of these two transcripts would not be prejudicial to any action which might be indicated by further study of the facts revealed during investigation of the Federal Housing Administration.

Sincerely,

WARREN OLNEY III,
Assistant Attorney General.

**TESTIMONY OF RALPH J. SOLOW, TEANECK GARDENS,
TEANECK, N. J.**

Mr. SIMON. Mr. Solow, would you give the reporter your full name and address, please.

Mr. SOLOW. Ralph J. Solow, 302 Fountain Road, Englewood, N. J.

Mr. SIMON. Without repeating it question by question, is all the testimony that you gave us in executive session on June 22, 1954, true?

Mr. SOLOW. Yes, it is.

Mr. SIMON. Briefly you testified that day that you owned 50 percent of the stock in each of these 13 Linwood Park corporations.

Mr. SOLOW. That is correct.

Mr. Simon, before we proceed any further, I would like to make a statement. Certain accusations have been made about me and I would like to publicly make a statement, if I may do so.

The CHAIRMAN. How long is the statement?

Mr. SOLOW. A matter of 5 minutes, or less than that. A couple of minutes.

The CHAIRMAN. I think under the circumstances, since your partner has refused to testify on fifth amendment grounds, and this morning in the newspaper is saying that it is your word against his, that we will let you proceed.

Mr. SOLOW. I am issuing this statement because I am disturbed about newspaper stories which have appeared linking my name with two others as a partner of an apartment house project in Fort Lee, N. J. I wish to set the record straight.

I was a partner in the project at Fort Lee. My only partner was Sidney Sarner. At that time George Marcus was not a partner but acted as attorney for the project. Before the project was completed and before the structures in the shopping center were even started, I became dissatisfied and sold out my interest in this project and have had nothing to do with it since August 29, 1950. I have cooperated with the Government to the fullest extent possible and will always do so.

I have testified privately and I am ready to testify publicly. I wish it definitely understood that George Marcus is not my attorney.

I have not been a partner of Sidney Sarner since August 29, 1950. I have had nothing to do with any windfall profits, never saw any final

figures in connection with this project. I am eager to cooperate and I request that the newspapers correct the impression that they have given concerning my being improperly involved in any transaction.

The CHAIRMAN. Will you read the last third of that again, please.

Mr. SOLOW. The last third?

The CHAIRMAN. Yes, the last two or three paragraphs.

Mr. SOLOW. I wish it definitely understood that George Marcus is not my attorney. I have not been a partner of Sidney Sarnar since August 29, 1950. I have never had anything to do with windfall profits and never saw any final figures in connection with this project.

I am eager to cooperate and request that the newspapers correct the impression that they have given concerning my being improperly involved in any transaction.

The CHAIRMAN. Your position and the facts are that you were a partner?

Mr. SOLOW. Yes, sir.

The CHAIRMAN. And about midway between the construction of these projects Mr. Sarnar purchased your half interest and you got out and you have had no connection with it since, is that right?

Mr. SOLOW. It was a little more than midway. I would say the job was about two-thirds complete. At that point I sold out and had nothing further to do with the project.

The CHAIRMAN. And you have had nothing to do with it since that time?

Mr. SOLOW. That is correct.

The CHAIRMAN. And you are not a partner today and have not been since that time and Mr. Marcus has not been your attorney since that time?

Mr. SOLOW. That is correct.

The CHAIRMAN. I presume you are going to tell us the reasons why you got out of the partnership.

Mr. SOLOW. I am perfectly willing to testify to that.

The CHAIRMAN. Mr. Simon has some questions.

Mr. SIMON. Mr. Solow, as I understand it you paid \$500 for your 50 percent stock interest in each of these 13 corporations?

Mr. SOLOW. If you say I paid \$500, that was the capitalization. The rest of the money was in informal loans.

Mr. SIMON. The loans were all repaid, weren't they?

Mr. SOLOW. That is correct.

Mr. SIMON. And you received \$1,235,000 for your stock?

Mr. SOLOW. I haven't got the figures before me, but I remember a figure of \$1,333,333.33 for the sum total of Teaneck Gardens and the Linwood project.

Mr. SIMON. Wasn't \$97,000 for Teaneck Gardens?

Mr. SOLOW. I think that is probably correct.

Mr. SIMON. And \$500 for the Sarnar & Solow Construction Co. stock.

Mr. SOLOW. I believe so.

Mr. SIMON. And \$500 for Linwood Park, Inc.

Mr. SOLOW. That is probably true.

Mr. SIMON. And then the balance of \$1,235,000 was for the stock in these 13 corporations?

Mr. SOLOW. The contract that I signed at that time has the figures there, if those are correct.

Mr. SIMON. And the money you received for the stock was the stock that you paid \$6,500 for?

Mr. SOLOW. It was the capitalization, let me put it that way, the capitalization of the stock.

Mr. SIMON. Did you pay either more or less than that?

Mr. SOLOW. I didn't pay more. Any other funds were in the nature of loans.

Mr. SIMON. And the loans were repaid?

Mr. SOLOW. That is correct.

Mr. SIMON. So in addition to getting your loans repaid you got \$1,235,000 for the stock for which you paid \$6,500?

Mr. SOLOW. That is true.

Mr. SIMON. There has been some testimony in the executive sessions by Mr. Sarnier that FHA insisted that he build a shopping center and you testified that FHA did not insist that you build a shopping center but merely said if one was built that it had to conform to certain specifications in design, is that right?

Mr. SOLOW. That is the best information I have to August 29, 1950.

Mr. SIMON. I show you a photostatic copy of the FHA commitment and refer you to paragraph 26 on page 8 and ask you if that is what you referred to in your testimony?

Mr. SOLOW. That is correct.

Mr. SIMON. The document that you have says that if a shopping center is built that it must cover no more than a certain land area and must be no more than three stories high and so on.

Mr. SOLOW. That is correct.

Mr. SIMON. Other than that, did FHA ever say that you or Mr. Sarnier or anybody else had to build a shopping center?

Mr. SARNIER. I have no knowledge of anything of that sort.

Mr. SIMON. I understand from you that your break with Mr. Sarnier occurred on June 12, 1950. Is that right?

Mr. SOLOW. That is correct.

Mr. SIMON. Would you tell the committee what happened on that date?

Mr. SOLOW. I was in the office with Mr. Sarnier and we had a discussion about the shopping center, how it was to be built, where the funds were to come from for building the project, and I made a suggestion that we each contribute \$200,000 for the construction of this shopping center. There was also a discussion as to the division of interest in the shopping center, and Mr. Sarnier insisted that he wanted to have 64 percent of the stock and also his method of financing was one which would involve mortgage funds of the Linwood Park project, to which I objected.

Also, Mr. Sarnier had a discussion with me about the management of the project and he insisted that he form a management company and he was to receive a 5 percent management fee.

I would have no interest in this company. At that time I told him that I couldn't understand his attitude. As far as I am concerned, I do not agree to anything of that sort.

Subsequent to that Mr. Sarnier said that I would be very sorry for the stand that I took and he is going to dump the project, that I was on the bond and would take the consequences.

At that time I told him, "If you wish to step out you can and I will finish the job myself." He blew up and we parted.

However, prior to this discussion Mrs. Monastero, who is the bookkeeper, came to me and told me that she had several bills—more than several. I guess there must have been about 20 or 25—to be paid, and that they weren't ready, that some of them had to be checked, and would I sign some checks for it. So I signed some blank checks. I must have signed probably 20 or 25 and Mrs. Monastero then said, "You had better sign a few more." I signed a few more and then left. As I left to go into my private office and Mr. Sarner, this discussion took place with Mr. Sarner. After this controversy with Mr. Sarner I went into New York realizing that I had signed those checks in advance and the threat that Mr. Sarner made. I went over to the Chase Bank and told my banker just what took place and the fact that there were some signed checks and that I was very much disturbed that Mr. Sarner may do something rash. So he said, "If you want me to I will call the bookkeeper and find out if any checks were presented for payment." There were none. He then told me—

The CHAIRMAN. The Chase National Bank was your bank?

Mr. SOLOW. That is correct.

The CHAIRMAN. The checks were drawn on the Chase National Bank?

Mr. SOLOW. That is correct.

Then, Mr. Fitzgerald said, "When the checks come in they will be in at 11 o'clock and 2 o'clock and if there is anything that doesn't seem right I will call you."

The following morning, I believe it was June 14, Mr. Fitzgerald called my office and said that there were a total of about six hundred and some odd thousand dollars worth of checks presented for payment made out to Sidney Sarner.

The CHAIRMAN. How many?

Mr. SOLOW. About six hundred and some odd thousand dollars worth of checks.

The CHAIRMAN. Made payable to whom?

Mr. SOLOW. Made payable to Sidney Sarner.

The CHAIRMAN. Himself, personally?

Mr. SOLOW. Himself, personally.

Senator LEHMAN. Had you signed these in blank?

Mr. SOLOW. Yes, sir, I did.

The CHAIRMAN. You had signed them in blank before?

Mr. SOLOW. That is correct.

The CHAIRMAN. Those were a part of the checks that you signed for this bookkeeper. What was her name?

Mr. SOLOW. Mrs. Monastero. These checks were intended purely for the payment of obligations of the corporation.

Mr. SIMON. Did the corporation have any obligation to Mr. Sarner?

Mr. SOLOW. None whatever, other than paying him his salary, which we mutually agreed and which had taken place for more than a year and a half.

Mr. SIMON. What was the salary?

Mr. SOLOW. \$300 a week. When Mr. Fitzgerald of the Chase Bank told me of this situation I called my attorney, Mr. J. E. Lindley, who is, incidentally, the certified public accountant for the corporations, and we went down to visit Mr. Fitzgerald and I made a request that he stop payment on these checks. Mr. Fitzgerald said he would call the gen-

eral counsel of the bank to ascertain whether or not it was in order for them to do so. The counsel replied that it was perfectly all right. I would have to sign a statement. So I signed a statement to the effect that I withdrew my signature which is now on my own checks made payable to Sidney Sarner are to be stopped since payment on them was unauthorized by me. I signed that statement for all of the 14 corporations involved. 15, I believe.

The CHAIRMAN. I hand you these checks, some 6 or 7 or 8, one of them for \$492,120, and ask you if this is the check you are talking about and if you will identify them for the record.

Mr. SIMON. Mr. Solow, will you give the date, amount and whom they are made out to?

The CHAIRMAN. And the purpose for which it is stated on the check that they are in payment of.

Mr. SOLOW. The first check is Linwood Park, Inc., section 9, dated June 12, 1950. Pay to the order of Sidney Sarner, \$10,880. On the stub appears:

Partial on account of section 10 for services as per agreement above construction costs.

Mr. SIMON. Was there any agreement?

Mr. SOLOW. No, sir. The next one is drawn on Linwood Park, section 8. It is dated June 12, payable to the order of Sidney Sarner. \$10,000:

partial on account of section 10 for services per agreement above construction costs.

This check on the Sarner & Solow Construction Co., Inc., dated June 12, 1950, \$492,120. On the stub:

section 1, \$94,420, section 2, \$84,720, section 3, \$82,440, section 4, \$81,120, section 5, \$81,600, section 7, \$80,820 on account of services as per agreement above construction costs.

Another one on the Sarner & Solow Construction Co., dated June 12; \$81,360 on account of section 9 for services as per agreement above construction costs.

Another one, Linwood Park, section 7, dated June 12, 1950, drawn to the order of Sidney Sarner; \$16,180, on account of section 6 for services as per agreement above construction costs.

Another one drawn on the Sarner & Solow Construction Co. on the Paterson Savings & Trust Co. of Paterson, N. J., \$65,000 dated June 12 on account of section 6 for services as per agreement above construction costs. This check dated June 12, Linwood Park, Inc., section 13. \$10,000 to the order of Sidney Sarner, partial on account of section 10 for services as per agreement above construction costs.

The CHAIRMAN. Did you have any contract or agreement with Mr. Sarner that he was to get pay for services as indicated on those checks?

Mr. SOLOW. No, sir.

The CHAIRMAN. You did sign the checks?

Mr. SOLOW. Yes, sir, I did.

The CHAIRMAN. But you thought they were being signed for the purpose of paying bills?

Mr. SOLOW. I did, and this was done in the past. In addition to that, some checks which were unused are still in my possession.

The CHAIRMAN. Those checks were never cashed?

Mr. SOLOW. These were only presented for payment but never paid.

The CHAIRMAN. And you stopped payment on them by withdrawing your signature at the bank?

Mr. SOLOW. That is correct.

The CHAIRMAN. Without objection, we will place the checks in the files of the committee.)

(Photocopies of the checks referred to will be found in the files of the committee.)

The CHAIRMAN. Unless you have something further to say, Mr. Solow, we thank you.

Mr. SOLOW. I have nothing further to say.

Senator LEHMAN. May I ask some questions?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Mr. Solow, when was the first application made to the FHA?

Mr. SOLOW. Are you referring to Linwood Park?

Senator LEHMAN. Yes.

Mr. SOLOW. I think it was in early 1949. I wouldn't know when, but it was in early 1949.

Senator LEHMAN. When was authority given by the FHA to proceed?

Mr. SOLOW. Sometime in June of 1949.

Senator LEHMAN. When did you withdraw from this project?

Mr. SOLOW. Right after this took place I told Mr. Sarner that this had better be straightened out. In fact, he called my home. I was about to place the companies in receivership. Between June 12 and June 29 we had come to an agreement whereby I was bought out.

Senator LEHMAN. June 12 and 29 of what year?

Mr. SOLOW. June 12 is the time this incident took place with the checks, but August 29, 1950, is the date of my contract of sale to Mr. Sarner.

Senator LEHMAN. When did your break come with Mr. Sarner, in 1949?

Mr. SOLOW. 1950.

Senator LEHMAN. These figures, or these dates, which you gave, June 12, what year is that?

Mr. SOLOW. That is 1950.

Senator LEHMAN. How far had the work of this project progressed by June 29, 1950?

Mr. SOLOW. By June 29 there were probably 6 or 7 buildings completed and about 6 more in process of construction with some of the utilities yet to be completed, roads and walks and the like of that.

Senator LEHMAN. You were paid a profit? Your share was approximately \$1,235,000 exclusive of the repayment of loans and incidental expenses?

Mr. SOLOW. That was correct.

Senator LEHMAN. How was that figure arrived at?

Mr. SOLOW. Well, it was by negotiation. It was very simple to evaluate the value of Teaneck Gardens because that was already a going project and rented. The most difficult thing to evaluate was the value of Linwood Park on which no taxes had yet been assessed. It wasn't fully rented and there was no statement that I had to go by. It was a pure guess as to what the value would be. We started at one figure and came down to the figure for which I sold it.

Senator LEHMAN. Had the FHA guaranty been issued and the mortgage place at that time?

Mr. SOLOW. There was only a construction loan. The final loan was not placed nor was the final payments nor the mortgages closed on the buildings.

The CHAIRMAN. The FHA commitment had been agreed to. The FHA commitment had been agreed to at that time?

Mr. SOLOW. Oh, yes. The commitment was agreed to before the project started.

Senator LEHMAN. In a fixed amount?

Mr. SOLOW. Yes, sir.

I believe it was something like \$8,900,000 or some figure like that for the total of the 13 projects.

Senator LEHMAN. How could you estimate or arrive at the actual cost of these buildings when the projects had not been completed?

Mr. SOLOW. That was very difficult and Mr. Sarnier had prepared a statement at the time of the negotiations. He prepared several papers in which his attorneys and my attorneys were present and told us that—made the statement to me that the costs were a lot more than what we had anticipated.

I was frankly shocked to find out when Mr. Simon related to me what there was left in the way of excess mortgage proceeds.

The CHAIRMAN. I might say for the record that the windfall or the mortgaging out, or the total cost of the project subtracted from the mortgage proceeds was \$2,426,921.

Of course, this gentleman's partner gave him in August 1950 approximately \$1,125,000, which was approximately half of what the total project mortgaged out for when it was finished.

Mr. SOLOW. The representation that was made to me at the time was that there was possibly \$500,000 left. This was made by Mr. Sarnier. Which included a mortgage premium and, of course, there was a question of the cost of renting and the other expenses which were thrown up at the time.

The figure I arrived at was just a pure guess. I was satisfied to get rid of a situation which I thought was very burdensome.

Senator LEHMAN. I couldn't have been a pure guess because, as the chairman pointed out, it was approximately one-half of the windfall which finally developed.

Mr. SOLOW. Well, Senator, that is true, but on August 29, 1950, before completion and before final costs, I had no idea what that was.

The CHAIRMAN. Thank you very much.

Now our next witness will be Mr. Nathan Sonnenblick, of New York City. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SONNENBLICK. I do, sir.

TESTIMONY OF NATHAN J. SONNENBLICK, SHIRLEY-DUKE APARTMENTS, ALEXANDRIA, VA., ACCOMPANIED BY FRED S. WEITZNER, COUNSEL

The CHAIRMAN. If you will give your full name and address to the reporter, we will appreciate it, and then the name of your attorney.

Mr. SONNENBLICK. Nathan J. Sonnenblick. My business address is 100 East 42d Street, New York, N. Y. My attorney is Fred S. Weitzner, 250 Park Avenue, New York City.

Mr. SIMON. Mr. Sonnenblick, in 1948 applications were filed for the Shirley-Duke Apartment project. Two of them listed you as a sponsor and recited that you were going to furnish approximately \$181,000 in cash and equity for the project. I show you one of those applications and ask you whether you had authorized the use of your name in the application. The figure of money equity appears on the second page, Mr. Sonnenblick.

Mr. SONNENBLICK. I have never seen this application, and as far as allowing my name to act as a sponsor and as far as agreeing to put up this amount of money, I do not recall ever giving anybody authority at this time to put me down as a sponsor.

Mr. SIMON. The application is signed by B. Gordon, Jr.

Do you know Mr. Gordon?

Mr. SONNENBLICK. No, sir, I never met the gentleman.

Mr. SIMON. Did you ever authorize him or anyone else to advise the Federal Housing Administration that you were going to put \$180,000 in to each of those two projects?

Mr. SONNENBLICK. I never recall authorizing anybody that I would put up \$181,000.

Mr. SIMON. Mr. Sonnenblick, in an unrelated project you were 1 of the builders and I believe a stockholder in 2 Cleveland projects known as Cleveland Parkway Gardens.

Mr. SONNENBLICK. Yes, sir. I was not a builder. I was a sponsor in that particular deal.

Mr. SIMON. Did those projects mortgage out?

Mr. SONNENBLICK. Well, from the information that I received from the builder, Mr. Patrick J. Dwyer, he advised me that that project did not mortgage out.

Mr. SIMON. Did you ever receive any dividends on your stock?

Mr. SONNENBLICK. Yes, sir, I did receive dividends.

Mr. SIMON. How much did you pay for your stock?

Mr. SONNENBLICK. If I recall correctly, I may have paid a nominal amount, probably either \$1 or \$100 for the small stock interest which I received in this Cleveland deal.

Mr. SIMON. How much have you received in dividends?

Mr. SONNENBLICK. That is something I cannot tell you at the present time because I did not realize that I was going to be questioned on this Cleveland deal today.

Mr. SIMON. We didn't know until yesterday that you were interested in the Cleveland deal.

Mr. SONNENBLICK. I beg to differ, Mr. Simon. I think, if you will recall, at the closed hearings I did discuss this Cleveland deal because, at that time, you asked me if I had any other dealings with one of the gentlemen who brought this deal up, and I said yes there was a Cleveland deal.

The CHAIRMAN. How much did you pay for the stock?

Mr. SONNENBLICK. I paid either \$1 or \$100.

The CHAIRMAN. For how many shares was that?

Mr. SONNENBLICK. I have a 15-percent interest.

The CHAIRMAN. How much in dollars have you received in dividends for the 15-percent interest up to this time?

Mr. SONNENBLICK. I don't know.

The CHAIRMAN. Approximately?

Mr. SONNENBLICK. I don't know.

The CHAIRMAN. Would you say it would be \$15, \$15,000, or \$150,000?

Mr. SONNENBLICK. I don't want to take a guess. If you want me to I will be very happy to call you and have my accountant tell you.

The CHAIRMAN. We certainly do.

Mr. SONNENBLICK. I just can't remember.

The CHAIRMAN. Thank you very much. We will appreciate your calling us this afternoon.

Mr. SONNENBLICK. Maybe tomorrow morning. I will call you or Mr. Simon or have my accountant call.

The CHAIRMAN. If you will, please. Just call us here at the United States Senate.

Senator LEHMAN. I have a question.

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. In addition to this amount which you paid in for capital stock, did you make any loans to the companies?

Mr. SONNENBLICK. Senator, I would like to explain that situation so that you and the other Senators and Mr. Simon understand why I received this 15-percent interest in this particular deal. I put this deal together as a real-estate broker. The party who was putting this deal together asked me; I requested him that I could bring some builders in this job.

Mr. SIMON. Mr. Sonnenblick, is that Don A. Loftus you are talking about?

Mr. SONNENBLICK. That is right. I told him I thought I could bring some New York builders out to Cleveland to build this job, this FIA job, and in lieu of remuneration which I was to receive for putting this deal together, bringing the builder out there and going over all these facts and agreeing to sponsor the deal and agreeing also if necessary to put up capital, I received this 15-percent interest in the stock, Senator.

The CHAIRMAN. You said you agreed to put up capital. How much capital did you put up?

Mr. SONNENBLICK. I didn't put up any, because there was no capital necessary at the time as far as I understand it.

The CHAIRMAN. In other words, it was all handled by loans?

Mr. SONNENBLICK. That is right.

The CHAIRMAN. And any money that you have loaned them has since been repaid?

Mr. SONNENBLICK. I don't know whether I loaned them any money. I don't think I did.

The CHAIRMAN. If your memory is serving you badly and you did loan them money, you are sure it has since been repaid?

Mr. SONNENBLICK. Yes, sir, it has.

The CHAIRMAN. And you will let us know this afternoon or tomorrow morning how much you received in dividends for your 15-percent interest?

Mr. SONNENBLICK. I will be very happy to, Senator.
(The following was received in response to the above:)

Mr. Sonnenblick received from the Cleveland Park No. 3 Corp., as a corporate distribution, the following checks:

Year:	Amount
1951-----	\$15,525.50
1952-----	9,564.00
1953-----	12,012.00
1954-----	3,500.00
Total -----	40,601.50

The CHAIRMAN. Unless there are further questions, thank you very much.

Our next witness will be Andrew Nicol from the prosecutor's office, Bergen County, N. J.

Mr. Nicol, will you be sworn please?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. NICOL. I do, sir.

TESTIMONY OF ANDREW D. NICOL, PROSECUTOR'S OFFICE, BERGEN COUNTY, N. J.

The CHAIRMAN. Will you be seated and give your full name and address to the reporter and also your official capacity. I believe you are assistant prosecuting attorney.

Mr. NICOL. I am not, sir.

The CHAIRMAN. Tell us exactly what you are.

Mr. NICOL. My name is Andrew D. Nicol. I am financial investigator assigned to the office of the Bergen County prosecutor at Hackensack, N. J.

The CHAIRMAN. Is that a State office?

Mr. NICOL. It is a county office.

The CHAIRMAN. It is the county prosecutor, is that right?

Mr. NICOL. That is right, sir.

The CHAIRMAN. Suppose you proceed, Mr. Simon.

Mr. SIMON. I believe, Mr. Nicol, that you have had some extensive investigation of alleged irregularities in the home repair program under title I of the Housing Act?

Mr. NICOL. I have, sir.

Mr. SIMON. Would you tell us briefly the results of your investigation?

Mr. NICOL. Back in January of 1952, I started getting complaints from homeowners in Bergen County. I made an investigation on my own time to ascertain if there was fraud connected with this home improvement situation. As a result of my investigation, we had two corporations and the individual officers indicted under the New Jersey Statute 2A, 111-5.

Mr. SIMON. What were the names of those corporations.

Mr. NICOL. Protexa-Wall Products, Inc., and the second corporation was——

The CHAIRMAN. What was their address, please? What town were they in?

Mr. NICOL. They were located at 7814 Tonnelley Avenue, North Bergen, N. J.

The second corporation was Interstate Applicators, Inc. They also had their address at 7814 Tonnelley Avenue.

Mr. SIMON. You said they were indicted?

Mr. NICOL. They were.

The CHAIRMAN. Both of the concerns had the same address?

Mr. NICOL. Yes, sir.

Mr. SIMON. Did they have common officers?

Mr. NICOL. Mr. Chairman, there was one other corporation also located at the same address, called Perma-Wall, Inc., 7814 North Tonnelley Avenue.

Mr. SIMON. All of these companies were at the same address?

Mr. NICOL. Yes, sir.

Mr. SIMON. Did they have common officers?

Mr. NICOL. They did, sir.

Mr. SIMON. And you say they were indicted?

Mr. NICOL. Yes, sir.

Mr. SIMON. What happened in the criminal proceedings?

Mr. NICOL. The attorney for the corporations entered a plea of guilty.

The CHAIRMAN. Who was the attorney?

Mr. NICOL. The original attorney, sir, who represented the corporations and the individuals was one George Marcus.

Mr. SIMON. Do you know whether that is George I. Marcus of Hackensack, N. J.?

Mr. NICOL. I happen to know the gentleman, sir, and it is.

Mr. SIMON. I take it you know he is the same man who was here Monday?

Mr. NICOL. I noticed by the papers, sir, that he made an appearance at this hearing.

The CHAIRMAN. He made quite an explosive appearance, I should say.

Mr. SIMON. Would you tell the committee briefly, Mr. Nicol, the practices of these three corporations, the practices they engaged in?

Mr. NICOL. I respectfully invite your attention to a service bulletin of the chamber of commerce, by the National Better Business Bureau, dated January 1952, and it is bulletin No. 199, and it is entitled, "Warning on the Model Home Racket."

Mr. SIMON. Could you briefly tell us what it is?

Mr. NICOL. In substance, as I understand it, it is a typical confidence game. These corporations would send representatives into a given area and approach the homeowner and tell them that their home has been selected for advertising purposes for the corporation and that they have some sort of preparation or siding to put on the home and that the preparation isn't going to cost them any money because of the fact there is a commission arrangement of \$50 that the homeowner will get for any job that is done in the area, regardless of whether the home owner gives that name or the individual to the corporation.

Mr. SIMON. Is what you are saying, Mr. Nicol, that they would sell the job to the homeowner for a certain price and then they would

tell him he would get the money back by a commission on all the other jobs that they sold in the area?

Mr. NICOL. That is right, Mr. Simon.

Mr. SIMON. Did they generally assure him that they would put enough salesmen in the area to sell enough other jobs so that he would be assured of getting his money back?

Mr. NICOL. That is correct, sir.

Mr. SIMON. Please go on.

Mr. NICOL. There is one other thing to remember. When the complainants came in to the prosecutor's office in Bergen County, naturally they would have to indicate that they had entered into a contract. They were now the recipients of notebooks from investment corporations whereby they would have to make payments on the job for a period of 34 or 36 months. The unfortunate situation is when these representatives would come to the complainants and ask them to sign these various forms and documents they would tell the complainants that they were of no value, that they were superfluous material and actually only credit applications.

Mr. SIMON. You mean the employees of these companies would tell the homeowners when they signed the document, which was a note, that it was merely a credit application?

Mr. NICOL. That is right. I have here in this file a credit application indicating a promisory note which is detachable from the credit application. They would tell the complainants that these documents they were signing were of no value and that the real contracts would come through the mail because they knew that no one would dare tamper with Uncle Sam's mail.

In the meantime, what they actually signed was a real bona fide note, in blank, and plus the contract and other miscellaneous papers.

Mr. SIMON. Then, those notes were discounted at the banks and guaranteed under the Federal Housing Act, is that right?

Mr. NICOL. Within 3 days a group of men went up to the home, sprayed the house, and in fact in most cases they would only take one day. They would put a one-eighth inch thickness of plastic paint on the house.

They would take off and in about 2 weeks' time the people would be recipients of these notes and payment books that they would have to make certain payments on the installment plan for 34 or 36 months.

Mr. SIMON. By that time the note was in the hands of the bank and was guaranteed by the Federal Government, is that right?

Mr. NICOL. Apparently so.

I have never explored that because in my opinion this thing is on a national scale.

Mr. SIMON. Do you know whether these salesmen referred to the Federal Housing Administration or the Government when they were selling these projects?

Mr. NICOL. My investigation, talking to some of the complainants, revealed that they did represent themselves that the FHA was processing these things under title I.

Mr. SIMON. Would you go on, please.

Senator LEHMAN. May I ask one question?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. You say these notes which were signed under misrepresentation by the homeowner were discounted at the bank.

Do you know whether they had the FHA guaranty when they were discounted at the bank?

Mr. NICOL. No, Senator, there is a reason for that. I did not get into the financial end of it because this swindle was really on a national scale, in my mind, and I can substantiate the fact that it is on a national scale. Because I am only one little individual, I don't have the personnel under my command to make any investigation of financial institutions.

I had hoped that the day would come when someone with higher authority would delve into it. I kept away from it so I wouldn't upset things.

Senator LEHMAN. There is no question about it having been a swindle. What I am trying to get at is whether the FHA was involved in this transaction.

Mr. NICOL. If you will let me qualify my answer, sir, I will try to be more specific.

Senator LEHMAN. I would like Mr. Simon to listen to this. I said there was no question in my mind that there was a swindle in this matter, a misrepresentation.

I was trying to develop the question as to whether the FIIA was involved in this transaction.

Mr. NICOL. Mr. Senator, I have a brochure here where these operators of these corporations set up a school to train representatives.

I have the sworn testimony and signatures on this 7-page brochure showing that these corporations operated in the South, the Middle West, on the west coast, and they were trying to open up markets in the East here. I also have in this file a letter—

The CHAIRMAN. You said you had a brochure showing that they had a school educating them to do what?

Mr. NICOL. It is a fraudulent scheme, sir. It is 100 percent fool-proof to get a homeowner to go into this thing.

The CHAIRMAN. You mean they educated salesmen to do it?

Mr. NICOL. Yes, sir.

The CHAIRMAN. At a school?

Mr. NICOL. Yes, sir.

The CHAIRMAN. Have you got anything to prove that?

Mr. NICOL. Yes, sir.

The CHAIRMAN. Let's see that. You mean they brought a salesman in and one man got up in front and taught them how to flimflam?

Mr. NICOL. That is correct, sir.

The CHAIRMAN. Are you sure of that?

Mr. NICOL. Positive, sir.

The CHAIRMAN. I have heard everything now.

They would teach these salesmen in these schools how to beat the people?

Mr. NICOL. Yes, sir.

The CHAIRMAN. Did these two companies do business all over the United States?

Mr. NICOL. Yes, sir.

The CHAIRMAN. About how many salesmen did they have?

Mr. NICOL. I am still looking for six of them, sir, and I can't find them. They used alias names. They never used the same name twice. The same man would never approach another homeowner.

In other words, if Mr. Manning went to Mr. Jones' house and sold him a bill of goods I would get a call from another area and I would dash over there because they had made an appointment for some man to come in who represented himself to be Mr. Manning. Yet the Mr. Manning I met there was not the Mr. Manning I met the first time.

The CHAIRMAN. Were there two or three companies?

Mr. NICOL. There were three companies indicted. There were actually three.

The CHAIRMAN. The two companies would hire salesmen and get them into a class and train them in how to perpetrate frauds on the people?

Mr. NICOL. That is the testimony I have, and the evidence I have, sir.

The CHAIRMAN. And you have a brochure there to prove it?

Mr. NICOL. If you will just be patient with me, sir, I have worked a year on this and I have got more records and files than I can easily find.

Mr. SIMON. Mr. Nicol, did you find any salesmen with criminal records?

Mr. NICOL. I checked on the three officers. Louis S. Garthson, Michael Garthson, his brother, and Abe Schiff, and I find that Michael Garthson had been arrested in Florida back in 1940. It was April 22, 1940, under the name of Lawrence M. Strander, S-t-r-a-n-d-e-r. The charge was attempted larceny. Apparently it was dismissed and reduced to a charge of disorderly conduct.

Mr. SIMON. Are you satisfied it is the same man, even though they are different names?

Mr. NICOL. I think our identification system is pretty good, sir. We check that with the Federal Bureau of Investigation.

The CHAIRMAN. How long ago were they teaching these schools?

Mr. NICOL. About 1952 or 1953.

The CHAIRMAN. Last year?

Mr. NICOL. The latter part of 1952, sir. Here is the beginning part of it. Here is something set up as a baseball diamond on how they train the men. You will see the signature of Jackson Dempsey. He was employed by those corporations and testified to the fact that they were trained and schooled.

The CHAIRMAN. It says on here:

Outline of Close. More than anything else your selling personality and confidence. This close is more low pressure than high pressure. Sell your appearance, attitude, and self-confidence. Know the deal. Be sure of yourself. You are a factory executive, not a salesman.

Now, they were salesmen, were they not? They were misrepresenting themselves as executives rather than salesmen?

Mr. NICOL. That is right.

Mr. SIMON. The reason for that is that the homeowner was told that this was a factory executive coming to pick their particular house as a model house and that the salesmen would call on the other homeowners?

Mr. NICOL. That is right.

They would call themselves sales representatives and executive directors and things like that. I found this thing. In the first part it says this is a training schedule.

Useful measures and doublecheck everything that has to be covered. Make yourself very busy muttering and talking to yourself in compiling all your figures.

Then in parenthesis—

You are a mathematical genius, remember—

end of parenthesis—

and you act the part.

The CHAIRMAN. I find a good one on this sheet you give me. It says: measurements and buildup. Jumble figures over entire sheet. Customer is now spending.

Without objection, we will place in the record the document called "Close," this document signed by Mr. E. C. Dempsey on October 27, 1952.

(The document referred to follows:)

[E. C. Dempsey, 10/27/52]

CLOSE

INTRODUCTION

Are you Mr. or Mrs. Prospect? My name is Mr. _____, a director for the advertising department of the Perma-Wall Corp. We have an appointment arranged by a member of our staff Mr. _____, to discuss the possibilities of using your home in connection with our program.

INSTRUCTIONS

Smile—be friendly—relax—don't rush into the interview—arrange your seating to the best advantage—if possible around a table. Let your prospects talk and get warmed up. Leave your brief case with your coat or in the foyer, etc.

EXPLANATION OF CALL

There has been an extensive search made in your neighborhood for the proper type of homes and homeowners who would fit into our picture for our advertising program. (Give example—National Periodical Advertising, etc.)

You folks have been highly recommended on our point system of choice through the survey made by our representatives. (Be complimentary). To be exact there are 4 homes in this area in more or less the same category—you folks are our No. 1 selection and I am here to give my approval. (Make light but short conversation.)

BODY

Before going into the complete details as to what we have in mind for you please bear with me, even though what I may have to say may be repetitious.

I presume you folks have been approached by various firms who have tried to induce you to purchase some type of siding; and its quite obvious they have not been successful because you no doubt are aware of the pitfalls of that type of exterior covering. You must realize it would change the architectural lines and contours of your property and hurt the dollar value of your home. And I feel I can safely express myself when I say you are no doubt tired of paying and paying the terrific costs of painting and repairing, especially for the last 10 years. Labor is so very high—paints are exorbitant in cost and have been inferior in quality. (Start getting enthusiastic.)

The Perma-Wall Corp. are preparing to introduce in this eastern market the most amazing material that has ever been devised for the purpose of revitalizing, beautifying and insulating the exterior of homes through a new highly specialized process. The product is a pressure-sealed side wall resurfer which will insulate, protect, and beautify as nothing else can—it is waterproof and contains the two indestructible minerals, imported asbestos fiber and mica and it is not merely nailed on—but fused to the surface by powerful pressure and thus becomes part of the same. It is actually air-blasted to the house and after absorption it is still one-sixteenth inch thick above the high point. Through this method that we are introducing you will eliminate all future maintenance costs which means a very large and substantial savings because it is unconditionally guaranteed for

labor and materials—moneys that can be used for many other purposes—even to an increase in your bank account.

To introduce this new and amazing product to you homeowners, we have set aside a large sum of money to be expended in our advertising cost such as taking pictures before and after of your home to be used in our direct mail, newspaper and periodicals—letters of endorsement from you property owners—display signs, and compensation for recommendation. Part of this money is also to be used for the purpose of alleviating some of the costs to the homeowner.

The purpose of all this is to help the sales staff present our product to the public in an intelligent manner. It has proven highly successful in other areas that we have opened up, such as the west coast, the South, and the Middle West, and certainly should prove itself more successful with you folks in the East.

You people can readily appreciate that we need this cooperation because of the difficulty of showing a sample home in a person's living room. So by enlisting your cooperation and the cooperation of other people like yourselves we will be able to use all this advertising material as our show window plus the three-dimensional color pictures we will show with our special viewers. (Get more enthusiastic.)

INSTRUCTIONS

At this point get your briefcase and take out your brochure and follow through in the following manner :

1. Show your color chart and read line for line using your pencil for illustrations what it says about the product—become expressive and enthusiastic about the beautiful colors and repeat the guarantee. Get prospect to show preference as to color.

2. Show registration form and elaborate on same.

3. Show your United States Testing Laboratory reports and read with your prospects word for word the purpose of the test and the findings of the test—plus the conclusions and the signature on the bottom of the test.

4. Read with prospect the history of Renuit from the brochure.

5. Read the comments of the Journal of Commerce from their editorial staff.

6. Show the texture prints.

7. (Only if you feel it necessary) show letters of endorsement and pictures. If you can avoid showing same do so and go on with your story as follows :

QUALIFYING

We are not in production at present—we are retooling and preparing for the coming season—but we have set aside a limited quantity of this new revitalizing material to be used for display purposes only.

Unfortunately time is running out and so is our limited supply and we have a deadline to meet to get our advertising program underway.

Mr. and Mrs. Prospect—you have been kind and attentive in listening to my story and I really appreciate your courtesies—and now not to bore you any further, may I ask you a very personal question? If it is satisfactory we will get to the point at once.

If what I have proposed doing to your house meets with your approval and the price is acceptable to your pocket and only if it is acceptable are you folks ready to make a commitment this evening—remember your "yes" is only predicated on the cost meeting with your approval. I am accepting the fact on face value that you like the idea very much. Please correct me if I'm wrong. (If the prospect says "yes," make your excuses to go outside and measure the property. If you can get the homeowner to join you do so. They can be very valuable assisting you with the light also an opportunity to assure prospect of what is to be done and to continue selling them on various points.)

REQUALIFY

If the prospect does not qualify—you follow in the following manner.

No doubt because I'm a stranger you feel a little backward in committing yourself to a yes—remember your yes does not mean we enter into a contract, all it does is assure me that we might enter into one if my price meets with your approval.

My work here is not as a salesman—I do not represent the Perma-Wall Corp. as a member of their sales staff—but as a director from the advertising department.

In addition to doing so much for your home on the basis we have discussed we do so much more that I haven't even mentioned to this point—but to accomplish our mission and because we are selfish in our thinking we must make your property an outstanding sample of our methods. As an example if you have any rotted clapboards we will replace them—if your boards are loose we retighten them—if you have rotted or loose wood shingles we do the same. If you have asbestos shingles we do the same. If the house is stone or brick we do the same. If the house is stucco or plaster we repair cracks and crevices. If paint is scaling or cracking or peeling—we wire brush. We caulk all windows and doors—making the house airtight using a special mastic (elaborate).

Mr. and Mrs. Prospect everything I have said to you is entered word for word into a written contract including a 10-year written guaranty for labor and material with my signature affixed to same on the company's stationery—you certainly don't have to be a Philadelphia lawyer to realize how strong that document is and how well it must stand up in a court of law.

Mr. and Mrs. Prospect with all this in mind is there any reason in the world why you can't give me an answer to my question.

If the price is right, will you say yes this evening? If the yes is still not forthcoming add the following:

REQUALIFY

Please accept this—should you folks not get together with me on my proposal we are still the best of friends. I still have accomplished my missionary duties and sometime in the future when you have been aware of how much we have revolutionized the industry and wish to have your home beautified, we will also be most willing to do the work for you through the regular channels and at the regular retail costs. Tonight you have the opportunity of doing it at the advertising costs which are much lower than the wholesale figure and an actual savings of at least four times your future expenditure on the maintenance of your property over a period of the next 20 years.

If I have made myself clear I believe you can appreciate why I am asking for a commitment from you this evening, that is if the price is right you will go along with me—remember this is FHA approved and endorsed by Regulation W of the Federal Home Improvement Act.

REQUALIFY

If yes is still not forthcoming you either work on their ego or start pressure selling and rehashing your complete program. If they will not qualify and go along with your program do not go any further or enter into a close. (Once they have said yes to your qualification the battle is practically won.)

ACT 1

After you have completed your measurements using your graph or illustrations on a pad (use full measure and double check everything that has to be covered) make yourself very busy muttering and talking to yourself in compiling all your figures (you are the mathematical genius remember) and you act the part.

ACT 2

You have completed your figures. You put the pad down. You relax and smile. Mr. Prospect you really have a nice size home (a little or a lot larger than the average) and I must say to my way of thinking a very nice home and one to be proud of. You folks are people above the average and realize that figures do not lie so let me show you a few facts and figures with my pencil—actual costs you are aware of but have not been able to do much about.

ACT 3

At this point, repeat the part of the sales program in reference to the preparing of the house—which is in the requalifying part 2.

CLOSE 1

Then follow through with—

Mr. Prospect about how much do you spend a year for heat? Approximately \$300 a year in 20 years.....	\$6, 000. 00
For painting a property of this size I presume under today's conditions it should be between \$300 to \$500 every 4 years.....	2, 000. 00
Additional maintenance (such as) should be about \$20 per year.....	400. 00
Termite proofing is worth about \$20 per year.....	400. 00
Total expenses.....	8,800.00
<hr/>	
Mr. and Mrs. Prospect here is what our product will do for you. We will cut your heating bill by 30 percent—savings.....	2, 800. 00
We will eliminate your painting—savings.....	2, 000. 00
We will eliminate your maintenance termite destruction or the opportunity of them damaging your property—savings.....	800. 00
Total.....	4, 600. 00
The retail cost of job:	
Example 20 square.....	1, 400. 00
<hr/>	
20-year expenditure.....	6, 000. 00
Wholesale cost.....	1, 100. 00
<hr/>	
Savings.....	4,900.00

Pause (no conversation forthcoming)—

Now to assure you that everything I have told you is exactly as I have said, I am going to write everything down word for word in this contract and I would appreciate your corrections if I leave anything out.

Start writing and repeating out loud what you are writing. If the prospect is not happy with the price you have quoted put the contract aside for the moment and continue.

CLOSE 2

As I explained earlier in my program we compensate you for various privileges you allow us for advertising which we pay you in cash or you deduct from the cost of the job.

First we pay you a sales commission of \$50.

Second we pay you \$50 for your endorsement.

Third we pay you \$50 for allowing us to display a small sign on your property during the period when we do the actual work to satisfy all the sidewalk superintendents, the passersby and the neighbors. And we pay you \$50 for the use of the pictures we use in our program—a total of \$200 leaving a cost of only \$900—a savings of \$5,100 for a period of 20 years.

At this point go back to your contract, continue writing and repeating what you are writing.

If there are further objections to the cost at the rate of \$900 again put your contract aside and say—

CLOSE 3

But Mr. and Mrs. Prospect you are not paying \$900; you have forgotten to deduct \$200 that our representative Mr. So and So offered you when he spoke to you.

At this point the customer will be surprised and say (he never mentioned anything about \$200). Then you become surprised and do a little acting on your part and follow through.

Didn't Mr. So and So tell you we would guarantee you at least 8 jobs that we would do in your area for which you get \$25 apiece—and didn't he tell you that whether we get 1 or 101 jobs you are assured of that amount which is equivalent to \$200. Moneys that you can use for any purpose whatsoever. Whether you wish to buy a fur coat for the missus—a deposit on a car or apply it to your contract. Money that you can have in advance. And didn't he tell you that for every direct recommendation you make that results into a completed contract you would receive an additional bonus check of \$50 in the mail—whether it be 1, 10, or 1,000 completed jobs.

Then let me apologize to you if he hasn't told you all this and I must remember to call him in on the carpet and refresh his memory.

Continue with your contract and after you have finished reread all you have written showing what you have written to your prospects. Then ask them to write and I said write not sign their full name in the allocated space then continue with all your papers with the prospects signature. If possible do not fill in the price until the prospect has written in their signature.

Be sure to get at least 10 percent down. No more than 30 months to pay beginning no later than 45 days after completion of job.

CLOSE 4

If you have not closed at this late hour it's a question of staying powers and who wears who out first—just keep punching and reselling over and over again and believe me if you have had to use all this ammunition to make the sale you will first start appreciating the easy ones. If you have failed—better go home and sleep it off and talk to me the next day. Wouldn't want to be around that night.

Mr. SIMON. Mr. Nicol, do you have any instances of people being threatened because they tried to protect these homeowners?

Mr. NICOL. At the very outset of this investigation there was a woman named Mrs. Ruth Balts, B-a-l-t-s, who was instrumental in initiating this investigation.

Mr. SIMON. By this investigation, you mean your investigation?

Mr. NICOL. That is correct, sir.

She had gotten wise to these characters and had made an investigation on her own and had developed various names of various other people who had been swindled in this model-home racket. I understand from Mrs. Balts that on several occasions, on at least two occasions, she told me that she had been threatened and she has now gone to Florida or somewhere. Her whereabouts are unknown. She told me she wanted to move away because she was afraid something would happen to her.

Mr. SIMON. Was that because of her investigation?

Mr. NICOL. She was concerned about it.

The CHAIRMAN. Are these three corporations still in existence?

Mr. NICOL. As I understand it, sir, two of them have been dissolved and one, Interstate Applicators, is still in existence.

The CHAIRMAN. We will possibly want to call them down here unless we call them in New York.

Senator LEHMAN. I have no doubt at all that this was a fraud and a flimflam game and I congratulate the district attorney of Bergen County for having prosecuted this case, but this is an investigation of the FHA. What I am trying to develop is what, if any, connection there was between the FHA and these frauds.

The CHAIRMAN. We will get into that in just a moment but I can tell you real quick that FHA financed all the sales these crooks made.

Senator LEHMAN. That is what I am trying to get at and I have had no testimony from the witness. Were these loans which were represented by these promissory notes, when they were discounted at the banks, guaranteed by the FHA?

Mr. NICOL. I am not trying to avoid your question, Mr. Senator. That brochure that was just submitted in evidence indicates that these corporations have been working throughout the Nation and I also have before me a letter dated December 3, 1952, from the Federal Housing Administration, office of the district director, Miami, Fla.

OUTLINE OF CLOSE

More than anything else, you are selling personality and confidence. This close is more low-pressure than high-pressure. Sell yourself by your appearance, attitude and self-confidence. Know the deal. Be sure of yourself. You are a factory executive - not a salesman.

LV. ROMANCE OF MATERIAL

(Re-Cut-off)

2

"Due to the spreading over of our advertising and the opportunity to introduce the product during the next building season..."

"We want to show you how we can illustrate this..."

"The use of display houses is a long-standing custom in the building materials field."

"In return for your cooperation in our advertising program, we are prepared to do a great deal for you and your home."

V. MEASUREMENTS & BUILD UP

- Double Houses over entire front. Customer is now standing.
1. Heat Cost - \$ 20.00
Save 30%
 2. Paint Cost - \$ 20.00
 3. Terrace-Crete
Stairs - \$ 10.00
 4. General repairs - \$ 10.00
 5. Retail Cost
- Total Wholesale Total Savings

III. REHASH

- A. Stress on inside deal
- B. Availability of a program is free. Something for nothing.
- C. Introduce in Street - A finest building in street. Something else is going to do for you.

"Our real profit will come from the 30-40 jobs we'll get as a result of using your home as a display house."

FOLLOW THIS PROVEN BASE-BY-BASE CLOSE

EACH DEVELOPMENT LEADS TO THE NEXT

USE EVERY BASE AS A CHECKPOINT.

STAY ON TOP ALL THE WAY

VI. CONTRACT

"Now everything that I have told you is put in writing to protect you. Nothing is left to the imagination."

3

II. QUALIFICATION

"Now if you like what I have to offer you, and it meets with your approval, and of course, the financial arrangements are right... are you folks in a position to go along with me?"

I. INTRODUCTION

1. "We are making a selection after a survey."
2. "Four houses have been selected and..."
3. "Your house is number one on the list. *If I can't see you are the first I have seen. If late - I have seen 2, 3, 4, and must talk with you before making a decision.*"
4. "Must make a decision because of commitments to..."
 - a. Distributors
 - b. Yous
 - c. Mrs. Dent
5. "Limited supply of material is available for the display house for adv. purposes. Material will not be available for retail merchandising at present."

CONTRACT

Apply over (Type of Exterior) on entire exterior of house. (Color) finish. Inspect walls of house. Re-nail all loose boards. Replace rotted boards where necessary. Caulk and seal around windows and doors.

ASBESTOS SHINGLES - replace cracked and broken and missing shingles where necessary. Tighten loose shingles.

CLAYBOARD OR SHEATHING - replace rotted boards where necessary. Tighten loose boards.

WOOD SHINGLES - replace missing or rotted wood shingles where necessary. Tighten loose shingles.

STUCCO-PLASTER-BHICK-STONE - fill in cracks and crevices where necessary.

VII. SHIN

1. Bonus Houses - Your house is A in seven area.
2. 8 Bonuses bought in advance.
3. Pictures before and after, sign, testimonial letter, etc.

We agree to pay \$50.00 for each contract of work we obtain through recommendation of said home owner, payable on completion of recommended contract.

HOME START

DEFECTIVE ORIGINAL COPY

It is addressed to Mr. Jerome Brett, president, Pioneer Home Improvement Co. of Newark, N. J. If I may read this little paragraph.

The CHAIRMAN. You may.

Mr. NICOL. (reading):

DEAR MR. BRETT: This office is in receipt of written complaints from the above mortgagors regarding exterior paints sold and applied by the Pioneer Home Improvement Co., a Florida corporation, Jerome Brett, president, which paint has discolored, cracked, peeled and mildewed, although 10- or 20-year guaranties were given against such occurrences. This administration has investigated these complaints and believe them to be justified and of a nature that should be checked by you. These improvements were insured under title I of the National Housing Act. We would like to point out that in the event precautionary measures are instituted, the measures will be applicable in the area in which you now operate. We would appreciate an immediate reply as to what arrangements you have made to satisfy these complainants.

To my knowledge, sir, they never did catch up with them.

Senator LEHMAN. That is testimony that I was looking for. Let me ask you this. When was the complaint filed with the district attorney against these people?

Mr. NICOL. The original complaint, sir?

Senator LEHMAN. On which you proceeded.

Mr. NICOL. I started my investigations shortly after I entered the prosecutor's office around January 1, 1952. I worked for over a year on the case because by the nature of the complaints it looked like there was merely a breach of contract, a civil matter, and naturally the prosecutor's office was precluded from stepping into the picture. But I felt that so many complainants couldn't be wrong, there must have been fraud, and it was predicated on that analysis that I investigated on my own until I got sufficient evidence to present the matter to the grand jury.

Senator LEHMAN. When did these defendants plead guilty?

Mr. NICOL. On June 25, 1954, Interstate Applicators—I beg your pardon. May 17, 1954. The Protexa-Wall Co. and Interstate Applicators entered a plea of guilty to the New Jersey statute.

Senator LEHMAN. And you had been investigating from the beginning of 1952?

Mr. NICOL. That is right.

Senator LEHMAN. Until they pled guilty?

Mr. NICOL. Yes, sir.

Senator LEHMAN. The complaint was made in January and the prosecution was undertaken at that time?

Mr. NICOL. That is right, sir.

Senator LEHMAN. What was the disposition of these cases when they plead guilty?

Mr. NICOL. On June 25, 1954, Interstate Applicators were fined \$500 on each indictment. Protexa-Wall was fined \$500 on each count in the indictments 17374 and 17375. The indictments as against Abe Schiff, Louis S. Garthson, and Michael Garthson were nol. prossed.

Mr. SIMON. Mr. Nicol, have you worked with the Better Business Bureau on these matters?

Mr. NICOL. I have been in communication with the Better Business Bureau; yes.

Mr. SIMON. You have worked particularly, haven't you, with John Hoffman in New York, of the New York Better Business Bureau?

Mr. NICOL. I have on occasion, sir.

Mr. SIMON. I would like to say, Senator Lehman, that Mr. Victor Nyborg, president of the Better Business Associations, and John Hoffman are here, and both of them will testify about their efforts to get the FHA to correct some of these abuses.

The CHAIRMAN. Have you anything further, Mr. Nicol?

Mr. NICOL. I think you might be interested to know, sir, that I traced this thing down to find out that after the notes were discounted and these two investment companies—

The CHAIRMAN. Can we get the names of these investment companies?

Mr. NICOL. Yes. They were the General Investment Co.—

The CHAIRMAN. Of what address?

Mr. NICOL. Just a moment, sir. Before I get to that, sir, may I show you something else?

The CHAIRMAN. Yes.

Mr. NICOL. Here is another piece of fraud. When these people get these jobs done they are afforded a guaranty. In the guaranty they are told by the representatives of the corporations that the job is insured by one of the largest insurance companies in the country, naming the Indemnity Insurance Co. of North America. They are given this bona fide certificate citing the Indemnity Insurance Co. of North America to insure the product and saying it protects the life of the wall. I have made an investigation with the Indemnity Co. of North America and I have before me a letter and a copy of their old policy referred to in this guaranty. This blank liability policy has only varied with respect to the product and it has no bearing on whether the job was put in them or not.

I approached the Indemnity Insurance Co. and they said that was fraud and they had never given permission to have their name used on this certificate, but here it is.

The CHAIRMAN. Without objection, the certificate and the other document you have in your hand will be made a part of the record.

(The documents referred to follow:)

Protexa-Wall

Registration No. 7287

Insurance Registration Certificate

This Certifies that **PROTEXA-WALL** a waterproof textured finish, was applied to the property

OWNED BY _____

LOCATED AT _____

It further certifies that **PROTEXA WALL** was produced by a formula incorporating the two indestructible protective and insulating materials **ASBESTOS and MICA**, combined with a special waterproof **ACRYLIC** base, and that insurance policy No. LB 9463, issued by the Indemnity Insurance Company of North America, insures against product deficiencies in **PROTEXA-WALL** for the life of this installation.

This certificate is registered under the serial number _____ above.

DATE OF APPLICATION _____

APPLIED BY _____

ADDRESS _____

KRYLON, INCORPORATED

DISTRIBUTOR _____

Monte Garden, New Jersey

FHA INVESTIGATION

INDEMNITY INSURANCE CO. OF NORTH AMERICA,
Newark, N. J., October 31, 1952.

Re L-338597
Krylon Inc.
Mr. and Mrs. Anthony Calabrese—PD
Account May 12, 1951

Mr. ANDREW D. NICOL,
Bergen County Prosecutors' Office,
Hackensack, N. J.

DEAR SIR: In accordance with your request, we attach hereto copy of letter dated July 9, 1952, addressed by Marshall I. Groff superintendent of the compensation division at our home offices in Philadelphia to Mr. Paul J. Molnar, special assistant deputy, Department of Banking and Insurance at Trenton, N. J. We also attach hereto a typewritten copy of policy No. LB-9463 prepared for Krylon, Inc.

Should the prosecutor's office desire any further assistance in this matter, we shall be only too glad to try to oblige.

Very truly yours,

J. H. BRANDES,
Superintendent.

BLANKET LIABILITY POLICY NO. LB-9463, ESPECIALLY PREPARED FOR KRYLON, INC.,
BY INDEMNITY INSURANCE CO. OF NORTH AMERICA—EXPIRES SEPTEMBER 28, 1953

A stock insurance company herein called the company, does hereby agree with the insured, named in the declarations made a part hereof, in consideration of the payment of the premium and of the statements contained in the declarations and subject to the limits of liability, exclusions, conditions, and other terms of this policy:

INSURING AGREEMENTS

I. Coverage A—Bodily injury liability

To pay on behalf of the insured all sums which the insured shall become obligated to pay by reason of liability for damages, including damages for care and loss of services, because of bodily injury, including death at any time resulting therefrom, sustained by any person or persons, caused by accident and arising out of the operations of the insured as defined herein.

Coverage B—Property damage liability

To pay on behalf of the insured all sums which the insured shall become obligated to pay by reason of liability for damages because of injury to or destruction of property, including the loss of use thereof, caused by accident and arising out of the operations of the insured as defined herein.

II. Assumed liability, products liability

Coverage A and coverage B shall include coverage for liability assumed by the insured under any contract or agreement in force at any time during the policy period, and also for liability arising out of the possession, consumption, handling or use of any merchandise or product manufactured, sold, handled or distributed by the insured.

III. Additional insured

This policy shall insure each subsidiary, allied or affiliated company in the same manner and to the same extent as if a separate policy had been issued to each. This policy shall cover as additional insured the executive officers, directors and stockholders of the insured named in the declarations in respect of liability arising out of the operations of the insured as covered hereunder.

IV. Additional interest (products)

The word "insured" shall include any other person, firm, or corporation which shall become liable to pay damages imposed by law on account of accidents covered by the policy, suffered, or alleged to have been suffered, by any person or persons by reason of the possession, consumption, handling or use of any merchandise or product manufactured, sold, handled or distributed by the insured named in the declarations.

It is the intent of this paragraph to cover only the liability of such other person, firm or corporation arising out of the sale, distribution or handling of

such merchandise or product, and this endorsement is not to be construed as covering any act of negligence on the part of such other person, firm or corporation in selling, handling or distributing such merchandise or product, nor the liability of any one from whom the insured named in the declarations has purchased or acquired any merchandise or product, ingredient, part or container entering into, accompanying or containing the product of the insured named in the declarations. It is further agreed that the extension of coverage herein provided shall not operate to increase the company's limits of liability as stated in the declarations. The limit of liability expressed in the declarations as applicable to "policy period" shall apply jointly and not severally to all insured covered hereunder.

V. Defense, settlement, supplementary payments

It is further agreed that the company shall:

(a) defend in the name and on behalf of the insured any suit against the insured alleging such injury or destruction and seeking damages on account thereof, even if such suit is groundless, false or fraudulent; but the company shall have the right to make such investigation, negotiation and settlement of any claim or suit as may be deemed expedient by the company;

(b) pay all premiums on bonds to release attachments for an amount not in excess of the applicable limit of liability of this policy, all premium on appeal bonds required in any such defended suit, all costs taxed against the insured in any such suit, all expenses incurred by the company, all interest accruing after entry of judgment until the company has paid, tendered or deposited in court such part of such judgment as does not exceed the limit of the company's liability thereon, and any expense incurred by the insured, in the event of bodily injury, for such immediate medical and surgical relief to others as shall be imperative at the time of accident.

The company agrees to pay the expenses incurred under divisions (a) and (b) of this section in addition to the applicable limit of liability of this policy.

VI. Definition of bodily injury

Bodily injury as used in this policy shall be construed to include sickness, disease and mental anguish.

VII. Assault

Bodily injuries or death alleged to have been caused by an assault shall be deemed the result of an accident within the meaning of this policy, provided that the assault was not committed at the specific instance or direction of an executive officer of the named insured.

VIII. Policy period, territory

This policy applies only to such injuries and damages occurring during the policy period and within the United States of America, Canada or Newfoundland.

DEFINITION OF OPERATIONS

This policy shall cover the manufacture, distribution and sale of plastic paints and other goods and all operations of the insured related thereto which shall include, but not be limited to, the ownership, maintenance and use of plants, properties and elevators; ordinary construction work necessary to the maintenance, extension, repair, addition or demolition of existing plants and equipment; extraordinary construction work, demolition and construction of new buildings and equipment, either upon the premises of the insured or elsewhere, whether performed by the insured's employees or by others under contract with the insured and the ownership, operation or use of teams.

EXCLUSIONS

This policy does not apply:

(a) to any liability imposed upon or assumed by the insured under any workmen's compensation statute, law, or plan;

(b) to bodily injury or death of any employee of the insured, if such injury or death arise out of or occur in the course of employment of such employee, but this exclusion shall not apply to bodily injury or death of any employee of the insured in respect of which the insured has assumed liability therefor under contract or agreement;

(c) except with respect to operations performed by independent contractors, to the ownership, maintenance or use, including loading or unloading, of

automobiles while away from the premises of the insured or the public ways immediately adjoining;

(d) to damage to or destruction of property owned by, rented to, leased to, in charge of, or transported by the insured, but this exclusion shall not apply to damage to or destruction of property of others (not property rented or leased to the insured) in charge of or transported by the insured caused by elevators;

(e) to the ownership, maintenance or use of aircraft by or in the interest of the insured.

CONDITIONS

A. Limitation of liability

In respect of coverages A and B, the liability of the company for all damages, including damages for care and loss of services, arising out of bodily injury to or death of one person, shall be limited to the sum of \$100,000 in any one accident and, subject to the same limit for each person, the total limit of the company's liability for all damages, including damages for care and loss of services, arising out of bodily injury to or death of two or more persons, shall be limited to the sum of \$300,000 in any one accident. The liability of the company on account of all claims for damages because of injury to or destruction of property, including the loss of use thereof, shall be limited to the sum of \$50,000 as the result of any one accident. There is no limit to the number of accidents for which claims may be made hereunder, provided such accidents occur during the currency of this policy, except as hereinafter provided. In respect of bodily injury or death or property damage resulting from the possession, consumption, handling or use of any merchandise or product manufactured, sold, handled or distributed by the insured, the liability of the company, subject to the above limits applicable to each person and each accident, shall be limited in the aggregate to \$300,000 for bodily injury or death and to \$50,000 for property damage in respect of all accidents occurring during each 12 months of the currency of this policy. The inclusion herein of more than one insured shall not operate to increase the limits of the company's liability.

B. Premium computation

The premium for this policy is based upon the entire gross sales by the insured and shall be computed by applying to each \$1,000 of such gross sales the rate shown in the declarations. Upon delivery of this policy the insured shall pay the advance premium shown in the declarations and at the end of each 12 months during the policy period, shall render to the company a statement of the entire gross sales by the insured during that period and the earned premium shall be computed thereon and shall be paid to the company, except that the advance premium shown in the declarations shall be credited against the premium found to be due the company for the last 12 months of the policy period. The company shall, in any event, retain the minimum premium stated in the declarations.

C. Records and audit

The company shall be permitted to examine the books and records of the insured at all reasonable times during the policy term and within 1 year after its expiration or cancellation, for the purpose of determining the actual premium earned while this policy was in force, and the insured shall render reasonable assistance and cooperation in furnishing the company with a statement of the entire gross sales.

D. Automatic coverage

This policy shall cover automatically additional premises and elevators acquired during the term of this policy without prior notice to the company, but the insured shall, within 60 days of their acquisition or installation in the insured's service, report additional elevators to the company by written notice for the sole purpose of enabling the company to afford adequate inspection service.

E. Notice of accident

Upon the occurrence of an accident, written notice shall be given by or on behalf of the insured to the company or any of its authorized agents as soon as practicable after notice thereof has been received by its executive officers at the insured's headquarters. Such notice shall contain particulars sufficient to identify the insured and also reasonably obtainable information respecting the time, place, and circumstances of the accident, the name and address of the injured, and of any available witnesses. If claim is made or suit is brought

against the insured, the insured shall immediately forward to the company every demand, notice, summons or other process received by him or his representatives.

F. Assistance and cooperation of the insured

The insured shall cooperate with the company and, upon the company's request, shall attend hearings and trials and shall assist in effecting settlements, securing and giving evidence, obtaining the attendance of witnesses and in the conduct of suits, and the company shall reimburse the insured for any expense, other than loss of earnings, incurred at the company's request. The insured shall not, except at his own cost, voluntarily make any payment, assume any obligation, or incur any expense other than for such immediate medical and surgical relief to others as shall be imperative at the time of the accident. Upon the company's request, the insured shall give to the company a signed statement of facts containing all available information deemed necessary by the company to determine and define its liability and rights under this policy.

G. Action against company

No action shall lie against the company unless, as a condition precedent thereto, the insured shall have fully complied with all the conditions hereof, nor until the amount of the insured's obligation to pay shall have been finally determined either by judgment against the insured, after actual trial or by written agreement of the insured, the claimant, and the company. Any person or his legal representative who has secured such judgment or written agreement shall thereafter be entitled to recover under the terms of this policy in the same manner and to the same extent as the insured. Nothing contained in this policy shall give any person or organization any right to join the company, as a codefendant in any action against the insured to determine the insured's liability. Bankruptcy or insolvency of the insured shall not relieve the company of any of its obligations hereunder.

H. Other insurance

If the insured has other insurance against a loss covered by this policy, the insurance provided by this policy shall be in excess of such other valid and collectible insurance.

I. Conflicting statutes

If any condition in this policy conflicts with any specific statutory provision in the State in which it is claimed that the insured is liable for any such injuries or loss as are covered by this policy, such specific statutory provision shall be substituted for such condition.

J. Subrogation

In the event of any payment under this policy, the company shall be subrogated to all the insured's rights of recovery therefor, and the insured shall execute all papers required and shall do everything that may be necessary to secure such rights, but the company shall have no right of subrogation against any subsidiary or allied company owned or controlled by the insured, nor against any person, firm or corporation in respect of which the insured has assumed liability under any contract or agreement.

K. Changes

No notice to any agent or knowledge possessed by any agent or by any other person shall be held to effect a waiver or change in any part of this policy nor stop the company from asserting any right under the terms of this policy; nor shall the terms of this policy be waived or changed, except by endorsement issued to form a part hereof, signed by the president, vice president, secretary or an assistant secretary of the company; *Provided, however,* That changes may be made in the written portion of the declarations by the agent countersigning this policy by endorsement issued to form a part hereof signed by such agent.

L. Assignment

No assignment of interest under this policy shall bind the company until its consent is endorsed hereon. If the insured shall die or be adjudged bankrupt or insolvent within the policy period, this policy, unless canceled, shall cover the insured's legal representative for the unexpired portion of such period.

M. Cancellation

This policy may be canceled at any time by either party by written notice to the other stating when thereafter cancellation shall be effective. Such notice by

the company to the insured's address stated in the declarations, given not less than 30 days prior to the effective date of cancellation, shall be a sufficient notice. If the company cancels, the earned premium shall be computed pro rata; if the named insured cancels the earned premium shall be computed in accordance with the customary short-rate table, but such premium shall not be less than the short rate of the minimum premium stated in the declarations. The mailing of notice as aforesaid shall be sufficient proof of notice and the insurance under this policy shall end on the effective date and hour of cancellation stated in the notice. Delivery of such written notice, either by the insured or the company, shall be equivalent to mailing. The company's check or the check of its representative similarly mailed or delivered shall be a sufficient tender of any refund of premium due to the insured, but no unearned premium shall be payable until the insured has filed with the company a true statement of the gross sales during the time this policy has been in force.

N. Declarations

By acceptance of this policy, the insured agrees that the statements in the declarations are his agreements and representations, that this policy is issued in reliance upon the truth of such representations, and that this policy embodies all agreements existing between himself and the company or any of its agents relating to this insurance.

In consideration of the premium charged for the policy to which this endorsement is attached, it is understood, and agreed that the word "insured" shall include Gimbel Bros. who shall become liable to pay damages imposed by law on account of accidents covered by the policy, suffered, or alleged to have been suffered, by any person or persons by reason of the possession, consumption, handling or use of any merchandise or product manufactured, sold, handled or distributed by the insured named in the declarations.

It is the intent of this paragraph to cover only the liability of Gimbel Bros. arising out of the sale, distribution or handling of such merchandise or product, and this endorsement is not to be construed as covering any act of negligence on the part of Gimbel Bros. in selling, handling or distributing such merchandise or product, nor the liability of anyone from whom the insured named in the declarations has purchased or acquired any merchandise or product, ingredient, part or container entering into, accompanying or containing the product of the insured named in the declarations.

It is further agreed that the extension of coverage herein provided shall not operate to increase the company's limits of liability as stated in the declarations. The limit of liability expressed in the declarations as applicable to "policy period" shall apply jointly and not severally to all insured covered hereunder.

Nothing contained herein shall vary, alter or extend any provision or condition of the policy other than as above stated. This endorsement becomes effective on the 28th day of September, 1950. Attached to and hereby made a part of blanket liability policy No. LB-9463 of the Indemnity Insurance Co. of North America, issued to Krylon, Inc.

JOHN A. DIAMOND, *President.*

In consideration of the premium charged for the policy to which this endorsement is attached, it is understood and agreed that the word "insured" shall include McKesson & Robbins who shall become liable to pay damages imposed by law on account of accidents covered by the policy, suffered, or alleged to have been suffered, by any person or persons by reason of the possession, consumption, handling or use of any merchandise or product manufactured, sold, handled or distributed by the insured named in the declarations.

It is the intent of this paragraph to cover only the liability of McKesson & Robbins arising out of the sale, distribution or handling of such merchandise or product, and this endorsement is not to be construed as covering any act of negligence on the part of McKesson & Robbins in selling, handling or distributing such merchandise or product, nor the liability of anyone from whom the insured named in the declarations has purchased or acquired any merchandise or product, ingredient, part or container entering into, accompanying or containing the product of the insured named in the declarations.

It is further agreed that the extension of coverage herein provided shall not operate to increase the company's limits of liability as stated in the declarations. The limit of liability expressed in the declarations as applicable to "policy period" shall apply jointly and not severally to all insured covered hereunder.

Nothing herein contained shall vary, alter, or extend any provision or condition of the policy other than as above stated. This endorsement becomes effective

tive on the 28th day of September 1950. Attached to and hereby made a part of blanket liability policy No. LB-9463 of the Indemnity Insurance Co. of North America, issued to Krylon, Inc.

JOHN A. DIAMOND, *President.*

In consideration of the premium charged for the policy to which this endorsement is attached, it is understood and agreed that the word "insured" shall include Stix, Baer & Fuller who shall become liable to pay damages imposed by law on account of accidents covered by the policy, suffered, or alleged to have been suffered, by any person or persons by reason of the possession, consumption, handling or use of any merchandise or product manufactured, sold, handled or distributed by the insured named in the declarations.

It is the intent of this paragraph to cover the liability of Stix, Baer & Fuller arising out of the sale, distribution or handling of such merchandise or product, and this endorsement is not to be construed as covering any act of negligence on the part of Stix, Baer & Fuller in selling, handling or distributing such merchandise or product, nor the liability of anyone from whom the insured named in the declarations has purchased or acquired any merchandise or product, ingredient, part or container entering into, accompanying or containing the product of the insured named in the declarations.

It is further agreed that the extension of coverage herein provided shall not operate to increase the company's limits of liability as stated in the declarations, the limit of liability expressed in the declarations as applicable to "policy period" shall apply jointly and not severally to all insured covered hereunder.

Nothing herein contained shall vary, alter or extend any provision or condition of the policy other than as above stated. Endorsement becomes effective on the 28th day of September 1950. Attached to and hereby made a part of blanket liability policy No. LB-9463 of the Indemnity Insurance Co. of North America, issued to Krylon, Inc.

JOHN A. DIAMOND, *President.*

DEACON, SCHNEBLY & Co.,
Philadelphia, Pa.

DECLARATIONS—BLANKET LIABILITY POLICY No. LB-9463

1. Name of insured : Krylon, Inc.
2. Address : 2601 North Broad Street, Philadelphia, Pa.
3. Policy period : 36 months, beginning on the 28th day of September 1950, 12 : 01 a. m., and ending on the 28th day of September 1953, 12:01 a. m. standard time, at the place where this policy has been countersigned.
4. Location of the insured's operations : 2601 North Broad Street, Philadelphia, Pa., and Eddington, Pa., and elsewhere in the United States of America and Canada.
5. Premium computation :

Estimated annular gross sales-----	\$350, 000. 00
Rate per \$1,000 gross sales-----	. 804
Estimated annual premium-----	281. 40
Minimum premium-----	100. 00
Advance premium-----	281. 40

In witness whereof, the Indemnity Insurance Co. of North America has caused this policy to be signed by its vice president and assistant secretary at Philadelphia, Pa.

(Vice President)

(Assistant Secretary)

Countersigned :

(Agent)

In consideration of the premium charged for the policy to which this endorsement is attached, it is understood and agreed that the word "insured" shall include Stix, Baer & Fuller who shall become liable to pay damages imposed by law on account of accidents covered by the policy suffered, or alleged to have been suffered, by any person or persons by reason of the possession, consumption, handling, or use of any merchandise or product manufactured, sold, handled, or distributed by the insured named in the declarations.

It is the intent of this paragraph to cover the liability of Stix, Baer & Fuller arising out of the sale, distribution, or handling of such merchandise or product, and this endorsement is not to be construed as covering any act of negligence on the part of Stix, Baer & Fuller in selling, handling, or distributing such merchandise or product, nor the liability of anyone from whom the insured named in the declarations has purchased or acquired any merchandise or product, ingredient, part, or container entering into, accompanying, or containing the product of the insured named in the declarations.

It is further agreed that the extension of coverage herein provided shall not operate to increase the company's limits of liability as stated in the declarations. The limit of liability expressed in the declarations as applicable to "policy period" shall apply jointly and not severally to all insured covered hereunder.

Nothing herein contained shall vary, alter, or extend any provision or condition of the policy other than as above stated. This endorsement becomes effective on the 28th day of September 1950. Attached to and hereby made a part of blanket liability policy No. LB 9463 of the Indemnity Insurance Co. of North America issued to Krylon, Inc.

JOHN A. DIAMOND, *President.*

JULY 9, 1952.

It is hereby understood and agreed that the undermentioned policy is extended to cover the insured's operations at the following location: 2038 Washington Avenue, Philadelphia, Pa.

Nothing herein contained shall vary, alter, or extend any provision or condition of the policy other than as above stated. This endorsement becomes effective on the 29th day of May 1952. Attached to and hereby made a part of blanket liability policy No. LB 9463 of the Indemnity Insurance Co. of North America, issued to Krylon, Inc.

September 28, 1943.

JOHN A. DIAMOND, *President.*

JULY 9, 1952.

Re Jersey Home Improvement Co.

Mr. PAUL J. MOLNAR,
Special Assistant Deputy,
Department of Banking and Insurance,
Trenton, N. J.

DEAR MR. MOLNAR: I wish to acknowledge yours of July 8 enclosing copy of letter registering complaint with respect to claim against ProtexaWall Co. and Krylon, Inc.

We insure Krylon, Inc., under a comprehensive liability and property damage policy which protects Krylon against liability resulting from accident and arising out of the manufacture, distribution, and sale of its products.

Because of a misunderstanding created by certain distributors of Krylon products, an impression has been created that our policy affords a guaranty of performance of Krylon products running for an indefinite period. The truth of the matter is, however, that our policy is not a guaranty of the product or of its performance, but merely affords protection to Krylon with respect to liability caused by accidents resulting from their manufacturing operations or from the product itself after it has been sold and is in the possession of others.

Any assertion by a distributor selling or applying Krylon products to the effect that the work is guaranteed by our policy is completely erroneous. For many months we endeavored to stop this improper advertising and believe that now the matter has satisfactorily been taken care of, but, of course, we recognize the fact that many of the advertising circulars and "certificates of insurance" were distributed in the past and, also, we recognize the fact that there may undoubtedly be outstanding advertising circulars.

Should there be any further information which you desire in connection with this matter, we will appreciate your calling upon us.

Very truly yours,

MARSHALL I. GROFF,
Superintendent, Compensation Division.

The CHAIRMAN. What are the names of these two investment companies and their addresses, please?

Mr. NICOL. The geographical location of these investment companies—

The CHAIRMAN. Give us the names of the companies, if you can.

Mr. NICOL. New Jersey Mortgage & Investment Corp.

The CHAIRMAN. And what is the address?

Mr. NICOL. 5 Commerce Street, Newark, N. J. The second one was the General Investment Co., 31 Clinton Street, Newark, N. J.

The CHAIRMAN. Are those two concerns banks? Do they accept deposits and operate a banking institution?

Mr. NICOL. I don't think so, sir. I think they just deal in discounting commercial paper.

The CHAIRMAN. Your best judgment is that they discount commercial paper?

Mr. NICOL. I stayed away from them. I did not go in there.

The CHAIRMAN. Is it your testimony that they financed three companies by insuring their accounts with FHA?

Mr. NICOL. I don't know that. I haven't made the internal investigations, sir. They discounted all the notes to all our complainants.

The CHAIRMAN. You mean these 3 companies discounted their notes or paper with these 2 concerns?

Mr. NICOL. That is right, sir.

The CHAIRMAN. Were these two concerns accredited FHA banks or lenders?

Mr. NICOL. As I understand it, they did business with the Franklin-Washington Trust Co., Commerce Street North. As I understand it, that was the depository for the investment companies.

The CHAIRMAN. These 2 finance companies would create the paper from these 3 concerns and the Franklin-Washington Trust Co., then being an FHA lender, would handle the paper, is that your understanding?

Mr. NICOL. I guess so. That is the way it must be, sir.

The CHAIRMAN. You are not sure of your own accord?

Mr. NICOL. No, I never made that investigation, sir. I didn't go in the bank or the investment companies. I don't know what the tie-in is. All I know is that the geographical locations of the principals involved are all located within a block of each other.

The CHAIRMAN. The 2 investment companies and the 3 other companies were located within a block of each other?

Mr. NICOL. No, the three corporations that solicited business were located in one area in North Bergen, N. J. The New Jersey Mortgage Investment Corp. is located in Newark. The General Investment is located in Newark. The Indemnity Insurance of North America is in Newark, all within one block of each other.

The CHAIRMAN. Will someone on our staff find out if the Franklin-Washington Trust was an accredited lender of FHA and also these other two concerns so we can have it this afternoon.

Mr. SIMON. Senator, we can do that right now.

The CHAIRMAN. All right, we will put one of our investigators on the stand who has that investigation. Thank you very much, unless you have something else.

Mr. NICOL. Mr. Chairman, that guaranty certificate that you have was printed by the Security Bank Note Co., of 15 Wall Street, New York City. I checked there and I find that all those certificates were ordered through Gray & Rogers, 12 South 12th Street, Philadelphia, Pa., which company is the advertising organization believed to represent Krylon, Inc., the directors of this company.

The CHAIRMAN. I can see we are going to have to call some more witnesses in connection with this thing.

Mr. NICOL. Yes, sir.

The CHAIRMAN. Unless you have something more, we appreciate very much your testimony.

Our next witness will be a member of the staff. Will you give your name to the reporter.

Mr. ZABIEGALSKI. My name is Anthony Zabiegalski.

The CHAIRMAN. Will you give your address, please?

Mr. ZABIEGALSKI. 3502 Seventh Street SE.

The CHAIRMAN. You are an investigator for this committee?

Mr. ZABIEGALSKI. I am.

The CHAIRMAN. Do you work regularly for a governmental agency?

Mr. ZABIEGALSKI. Yes, I work for the Federal Trade Commission.

The CHAIRMAN. And you are on loan from the Federal Trade Commission to this committee?

Mr. ZABIEGALSKI. I am on loan.

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF ANTHONY ZABIEGALSKI, INVESTIGATOR, BANKING AND CURRENCY COMMITTEE

Mr. ZABIEGALSKI. I do.

Mr. SIMON. Have you spent the last 2 weeks investigating these title I cases in the New York area for the committee?

Mr. ZABIEGALSKI. Yes, sir, I have.

Mr. SIMON. Do you know whether the General Investment Co. and the New Jersey Mortgage & Investment Co. that Mr. Nicol has just referred to are approved FHA mortgagees?

Mr. ZABIEGALSKI. I have evidence of that fact.

Mr. SIMON. Do you know that they are?

Mr. ZABIEGALSKI. I have evidence of the fact that they are approved for handling all FHA title I transactions.

The CHAIRMAN. Are they approved at the moment?

Mr. ZABIEGALSKI. They are approved at the moment, to the best of my information.

The CHAIRMAN. You mean they are still approved after all this information that has been brought out against them?

Mr. ZABIEGALSKI. That is correct. As a matter of fact, these lending institutions, both the New Jersey Mortgage & Investment Co. and the General Investment Co., have received numerous complaints from FHA title I applicants for loans who have complained to the lending institution about the workmanship, the failure to complete the projects by these particular companies, and that nothing had been reported to FHA with regard to it, and that one particular company had been placed on the precautionary list on March 17, 1953, and that such company had continued its operations under a new corporation name.

The CHAIRMAN. Do you know whether this Franklin-Washington Trust Co. is an accredited FHA lending agency?

Mr. ZABIEGALSKI. Yes, sir. The paper of the New Jersey Mortgage Investment Co. and the General Investment Co. is discounted with Franklin-Washington Trust Co.

The **CHAIRMAN**. Thank you very much.

Unless there are questions, we appreciate your testimony.

Our next witness will be Mr. Don A. Loftus.

Mr. Loftus, will you come forward, please.

Mr. Loftus, will you please be sworn.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God.

TESTIMONY OF DON A. LOFTUS, SHIRLEY-DUKE APARTMENTS, ALEXANDRIA, VA., ACCOMPANIED BY ALBERT R. HAMILTON, ACCOUNTANT, AND EDWARD J. EAGAN, COUNSEL

Mr. **LOFTUS**. I do.

The **CHAIRMAN**. Thank you very much. Will you be seated.

I will place in the record, at the conclusion of your testimony if there is no objection, four statements prepared by Mr. Loftus or his attorneys or both, and any other statements that you may have.

Mr. **EAGAN**. The Clifton Park statement required some revision. I want to substitute that for the other one.

The **CHAIRMAN**. Without objection, we will accept the substitution for the statement on Clifton Park Manor Apartments, and you may take that one back. We will substitute this one.

Now, Mr. Loftus, will you give your name and address to the reporter and also the name of your attorney.

Mr. **EAGAN**. Edward J. Eagan, 250 Park Avenue, New York City.

Mr. Chairman, Mr. Loftus is brought here again contrary to the doctor's wishes. He is still suffering from ulcers and taking belladonna. His vision is not very good, and we have prepared these statements. I would like to read them for him. If it would assist this committee, I think that it would expedite matters considerably if I could read them. We have copies for each member of the committee.

The **CHAIRMAN**. We have made your statements a part of the record, and I think we would prefer to ask Mr. Loftus a few questions. I think if he will answer them very briefly that we can possibly expedite this whole matter. You may help Mr. Loftus in any way you care to, but I do not believe it would serve the best interests of the committee to permit you to read statements for Mr. Loftus. If Mr. Loftus' health is such that he cannot testify, that is a different matter.

Mr. **EAGAN**. His vision isn't too good. Because of this belladonna he cannot refer to these statements.

The **CHAIRMAN**. You help him in any way you care to, and we will try to hurry this matter along the best way we can. I think if Mr. Loftus then will answer the questions yes or no we can get through much quicker.

Mr. **LOFTUS**. My name is Don A. Loftus. My address is 4519 Cathedral Avenue, Westley Heights, Washington, D. C. Presently I am living at a hotel which I am president of just outside of Wilmington which was recently built and just newly operating, and I am living at the hotel temporarily until it is in full operation.

Mr. **SIMON**. Mr. Loftus, referring to the Beverly Manor project in Columbus, Ohio, who are the stockholders of that project?

Mr. **LOFTUS**. Myself, Mr. D. E. Ryan—

Mr. SIMON. He is the former vice president of Investors Diversified Syndicate, is that right?

Mr. LOFTUS. He is the former vice president of the Investors Diversified Services, that is correct.

Mr. C. J. Ryan—

Mr. SIMON. That is the brother of D. E. Ryan?

Mr. LOFTUS. That is the brother of D. E. Ryan.

Mr. Jack F. Chrysler.

Mr. SIMON. Is he a member of the Chrysler family in the automobile business?

Mr. LOFTUS. Yes, sir. Dr. Webster R. Robinson.

The CHAIRMAN. Who is he?

Mr. LOFTUS. He is a doctor of philosophy and a former professor of California University and a research survey analyst. He is a consultant for many corporations, and they use him as an economist.

Mr. Webster R. Robinson, Jr.

Mr. SIMON. He is the son of the professor?

Mr. LOFTUS. Yes, sir. And his other son, Marshall Robinson, who is a former Ohio State University professor. He is now a professor at one of the other colleges in Texas or California.

Mr. SIMON. Any other stockholders?

Mr. LOFTUS. I believe Harry Davis, who happens to be some employee of Jack Chrysler is a small shareholder.

Mr. SIMON. Any other stockholders?

Mr. LOFTUS. Helen Robinson, the wife of Dr. Webster R. Robinson.

Mr. SIMON. Any other stockholders?

Mr. LOFTUS. Not that I know of.

Mr. SIMON. At the time the corporation was set up, were you the owner of 30 percent of the stock as trustee?

Mr. LOFTUS. Yes, I was.

Mr. SIMON. Will you tell us who the beneficiaries of the trust are?

Perhaps I can save some time, Mr. Loftus. I think we spent considerable time on this trust yesterday. It is a fact that there were two groups of people involved in the trust, one of whom had the right to purchase the stock of the trust at \$5 a share, after there had been distributed to a different group of people whatever might be the proceeds over and above the cost of construction out of the mortgage, and that a second group of people had the right to receive the proceeds of the trust stock representing the difference between the cost of construction and the mortgage.

Mr. EAGAN. He didn't get the last part of that.

Mr. SIMON. A second group of people had the right to receive the portion which you, as trustee, were entitled to receive on the difference between the cost of construction and the proceeds of the mortgage.

Mr. LOFTUS. That is correct.

Mr. SIMON. Who were the people in the group who were entitled to receive the trustee's share of the proceeds, making up the difference between the cost of construction and the mortgage?

Mr. EAGAN. Would you repeat that, Mr. Simon, please.

Mr. SIMON. Who were the people who were entitled to receive the money which you, as trustee, received in the distribution of the difference between the cost of construction and the mortgage?

Mr. LOFTUS. There was no such agreement as that.

Mr. SIMON. Who were the people who you had issued certificates to saying that they were beneficial owners of the stock of that trust up until the mortgage proceeds were distributed?

Mr. LOFTUS. The ones that I had issued certificates to?

Mr. SIMON. Who were those people?

Mr. LOFTUS. They were in the Community Builders, who built half of the project.

Mr. SIMON. Who were the people, Mr. Loftus? What were their names.

Mr. EAGAN. Do you want me to read them?

Mr. LOFTUS. Please.

Mr. EAGAN. May I read these, Mr. Simon.

The CHAIRMAN. Yes, you may read them.

Mr. EAGAN. James F. Twohy, Earl J. Preston, Carl Budwesky, E. G. Wallentsik, Marshall A. Robinson, and W. R. Robinson, Jr.

Mr. SIMON. Out of the proceeds of the mortgage, how much remained and was distributed to stockholders after paying the cost of construction? Approximately \$750,000, wasn't it, Mr. Loftus?

Mr. LOFTUS. I think it is \$762,000, if my memory serves me right. That is correct. That is the total amount of savings out of the construction cost.

The CHAIRMAN. How much did he receive?

Mr. EAGAN. \$35,759.27.

The CHAIRMAN. Who is James F. Twohy?

Mr. LOFTUS. James F. Twohy is the former Governor of the Federal Home Loan Bank System.

The CHAIRMAN. The former Governor of the Federal Home Loan Bank System here in Washington?

Mr. LOFTUS. That is correct.

The CHAIRMAN. Where does he live now?

Mr. LOFTUS. Santa Monica, Calif.

The CHAIRMAN. How much did he pay for the stock for which he received this \$45,000 as a beneficiary of the owner of the stock.

Mr. LOFTUS. \$5 per share.

The CHAIRMAN. How many shares?

Mr. LOFTUS. Twelve shares.

The CHAIRMAN. Then for \$60 he received \$45,000 in dividends?

Mr. LOFTUS. He received it because of the fact that he had an incentive and initiative to do all things possible to bring about a saving.

The CHAIRMAN. I see. What percentage was 12 shares to the total of the entire project? In other words, what percentage did Mr. Twohy own?

Mr. LOFTUS. There were 200 shares.

Mr. SIMON. By savings, you mean that was the amount distributed to the stockholders out of the mortgage proceeds after paying the cost of construction?

Mr. LOFTUS. That is correct.

Mr. SIMON. Who was the \$762,000 distributed to by the corporation?

Mr. LOFTUS. Those names read a moment ago by Mr. Eagan, my attorney, and the balance of them are in those sheets.

Mr. SIMON. Do you have a document there showing how that \$762,000 disbursed by the corporation was split up?

Mr. LOFTUS. I do.

Mr. SIMON. Would you read it to use or have Mr. Eagan read it?

Mr. EAGAN. These are the lists of names, Mr. Simon.
 Mr. LOFTUS. The answer you want is on a consolidated sheet that was supposed to have been here yesterday, Mr. Simon.
 (The information referred to follows:)

Beverly Manor Corp., distribution to stockholders

	Number of shares	Section I	Section II	Section III	Section IV	Total
Available for distribution		\$169,216.95	\$332,539.58	\$126,911.56	\$133,986.44	\$762,654.53
Amount per share		846.08	1,662.70	634.56	669.93	3,813.27
STOCKHOLDER						
Don A. Loftus	35.0	29,612.97	58,194.43	22,209.52	23,447.63	133,464.55
Cyril Ryan	17.5	14,806.48	29,097.21	11,104.76	11,723.81	66,732.26
Don Ryan	17.5	14,806.48	29,097.21	11,104.76	11,723.81	66,732.26
Jack F. Chrysler	25.2	21,321.33	41,899.99	15,990.86	16,392.29	95,604.47
Harry C. Davis	2.8	2,339.04	4,655.55	1,776.76	1,875.82	10,647.17
Helen Robinson	21.0	17,567.73	34,916.66	13,325.71	14,066.58	80,076.73
Webster Robinson	14.0	11,845.12	23,277.77	6,883.81	9,379.05	53,385.82
W. R. Robinson, Jr.	7.0	5,922.59	11,638.89	4,441.91	4,689.52	26,892.91
D. A. Loftus, trustee	60.0	50,765.09	99,761.87	38,072.47	40,195.93	228,795.36
Total	200.0	169,216.95	332,539.58	126,911.56	133,986.44	762,654.53

Beverly Manor, Section I, Inc.

Mortgage funds		\$1,742,400.00
Construction costs	\$1,500,415.83	
Land	18,550.00	
Interest (fund draw)	32,961.64	
Taxes	6,118.25	
Hazard insurance	1,549.03	
Mortgage insurance	8,704.30	
Refrigerator interest	1,841.04	
Auditing	1,787.50	
Travel and entertainment	1,255.46	
		1,573,183.05
Unused mortgage funds*		169,216.95
Net profit from rentals		129,052.52
Interest	\$40,472.00	
Taxes	390.39	
Hazard insurance	1,236.86	
Mortgage insurance	2,880.11	
Rental housing survey	1,300.00	
Travel and entertainment	1,200.00	
		47,479.36
Net operating profit for rentals		81,573.16
Prepaid and amortization:		
Taxes	\$2,038.58	
Hazard insurance	7,053.48	
Mortgage insurance	9,355.61	
Replacement fund	5,277.95	
Payments on principal	10,962.84	
		35,288.46
Other income:		
Preferred stock	\$100.00	
Common stock	1,000.00	
O'Toole	8,712.00	
		9,812.00
Cash or equivalent		225,313.65
Available for distribution		225,313.65

Beverly Manor, Section I, Inc., distribution to stockholders, July 26, 1952

Available for distribution----- \$169, 216. 95
 Amount per share, \$846.08.

Stockholder

Don A. Loftus, 35 shares-----	29, 612. 97
Cyril Ryan, 17.5 shares-----	14, 806. 48
Don Ryan, 17.5 shares-----	14, 806. 48
Jack F. Chrysler, 25.2 shares-----	21, 321. 33
Harry C. Davis, 2.8 shares-----	2, 369. 04
Helen Robinson, 21 shares-----	17, 767. 78
Webster R. Robinson, 14 shares-----	11, 845. 19
W. R. Robinson, Jr., 7 shares-----	5, 922. 59
Don A. Loftus, trustee, 60 shares:	
James F. Twohy, 12 shares-----	\$10, 153. 02
Earl J. Preston, 12 shares-----	10, 153. 02
Carl Budwesky, 3 shares-----	2, 538. 25
E. G. Wallentsik, 3 shares-----	2, 538. 35
Marshall A. Robinson, 12 shares-----	10, 153. 02
W. R. Robinson, Jr., 18 shares-----	15, 229. 53
Total-----	50, 765. 09
Grand total (200 shares)-----	169, 216. 95

Beverly Manor, Section II, Inc.

Mortgage funds-----		\$3, 630, 000. 00
Construction costs-----	\$3, 131, 161. 55	
Land-----	32, 710. 00	
Interest (fund draw)-----	101, 404. 40	
Taxes-----	4, 687. 63	
Hazard insurance-----	4, 681. 26	
Mortgage insurance-----	21, 175. 00	
Refrigerator interest-----		
Auditing-----	362. 50	
Travel and entertainment-----	1, 278. 08	
		3, 297, 460. 42
*Unused mortgage funds-----		332, 539. 58
Net profit from rentals-----		143, 095. 02
Interest-----	\$23, 686. 28	
Taxes-----	1, 404. 59	
Hazard insurance-----	744. 01	
Mortgage insurance-----	16, 239. 78	
Rental housing survey-----	2, 600. 00	
Travel and entertainment-----	1, 200. 00	
		45, 874. 66
Net operating profit for rentals-----		97, 220. 36
Prepaid and amortization:		
Taxes-----	\$5, 475. 12	
Hazard insurance-----	6, 231. 14	
Mortgage insurance-----	15, 286. 59	
Replacement fund-----	4, 411. 68	
Payments on principal-----	9, 192. 11	
		40, 596. 64
Other income:		
Preferred stock-----	\$100. 00	
Common stock-----	1, 000. 00	
O'Toole-----	18, 150. 00	
		19, 250. 00
Cash or equivalent-----		408, 413. 30
Available for distribution-----		408, 413. 30

Beverly Manor, Section II, Inc. distribution to stockholders, July 26, 1952

Available for distribution.....		<u><u>\$332,539.58</u></u>
Amount per share, \$1,662.70.		
Stockholder:		
Don A. Loftus, 35 shares.....		58,194.43
Cyril Ryan, 17.5 shares.....		29,097.21
Don Ryan, 17.5 shares.....		29,097.21
Jack F. Chrysler, 25.2 shares.....		41,899.99
Harry C. Davis, 2.8 shares.....		4,655.55
Helen Robinson, 21 shares.....		34,916.66
Webster R. Robinson, 14 shares.....		23,277.77
W. R. Robinson, Jr., 7 shares.....		11,638.89
Don A. Loftus, trustee, 60 shares:		
James F. Twohy, 12 shares.....	\$19,952.37	
Earl J. Preston, 12 shares.....	19,952.37	
Carl Budwesky, 3 shares.....	4,988.10	
E. G. Wallentsik, 3 shares.....	4,988.10	
Marshall A. Robinson, 12 shares.....	19,952.37	
W. R. Robinson, Jr., 18 shares.....	29,928.56	
Total (60 shares).....		<u>99,761.87</u>
Grand total (200 shares).....		<u>332,539.58</u>

Beverly Manor, Section III, Inc.

Mortgage funds.....		\$1,726,500.00
Construction costs.....	\$1,528,820.52	
Land.....	14,550.00	
Interest (fund draw).....	41,484.58	
Taxes.....	866.33	
Hazard insurance.....	2,391.55	
Mortgage insurance.....	10,000.00	
Refrigerator insurance.....		
Auditing.....	362.50	
Travel and entertainment.....	1,112.96	
		<u>1,599,588.44</u>
Unused mortgage funds.....		126,911.56
Net profit from rentals.....		9,949.71
Interest.....		
Taxes.....	\$838.31	
Hazard insurance.....	224.30	
Mortgage insurance.....	7,265.00	
Rental housing survey.....	1,300.00	
Travel and entertainment.....	1,200.00	
		<u>10,827.61</u>
Net operating profit for rentals.....		(877.90)
Prepaid and amortization:		
Taxes.....	\$2,622.96	
Hazard insurance.....	2,915.92	
Mortgage insurance.....	7,625.38	
Replacement fund.....	1,054.09	
Payments on principal.....	2,192.44	
		<u>16,410.79</u>
Other income:		
Preferred stock.....	\$100.00	
Common stock.....	1,000.00	
O'Toole.....	8,632.50	
		<u>9,732.50</u>
Cash or equivalent.....		119,355.37
Shopping center loan.....		86,101.41
Available for distribution.....		<u>33,253.96</u>

Beverly Manor, Section III, Inc., distribution to stockholders, July 26, 1952

Available for distribution----- \$126,911.56

Amount per share \$634.56.

Stockholder:

Don A. Loftus, 35 shares-----		22,209.52
Cyril Ryan, 17.5 shares-----		11,104.76
Don Ryan, 17.5 shares-----		11,104.76
Jack F. Chrysler, 25.2 shares-----		15,990.86
Harry C. Davis, 2.8 shares-----		1,776.76
Helen Robinson, 21 shares-----		13,325.71
Webster R. Robinson, 14 shares-----		8,883.81
W. R. Robinson, Jr., 7 shares-----		4,441.91
Don A Loftus, trustee, 60 shares:		
James F. Twohy, 12 shares-----	\$7,614.70	
Earl J. Preston, 12 shares-----	7,614.70	
Carl Budwesky, 3 shares-----	1,903.67	
E. G. Wallentsik, 3 shares-----	1,903.67	
Marshall A. Robinson, 12 shares-----	7,614.70	
W. R. Robinson, Jr., 18 shares-----	11,422.08	
		<hr/>
Total (60 shares)-----		38,073.47

Grand total (200 shares)----- 126,911.56

Beverly Manor, Section IV, Inc.

Mortgage funds-----		\$1,727,500.00
Construction costs-----	\$1,530,502.22	
Land-----	14,690.00	
Interest (fund draw)-----	38,831.08	
Taxes-----	606.72	
Hazard insurance-----	2,056.06	
Mortgage insurance-----	5,314.98	
Refrigerator interest-----		
Auditing-----	362.50	
Travel and entertainment-----	1,150.00	
		<hr/>
		1,593,513.56
Unused mortgage funds-----		133,986.44
Net profit from rentals-----		66,403.95
Interest-----	\$17,217.09	
Taxes-----	592.57	
Hazard insurance-----	890.61	
Mortgage insurance-----	2,853.41	
Rental housing survey-----	1,300.00	
Travel and entertainment-----	1,200.00	
		<hr/>
		24,053.71
Net operating profit for rentals-----		42,350.24
Prepaid and amortization:		
Taxes-----	\$2,623.54	
Hazard insurance-----	2,894.52	
Mortgage insurance-----	9,305.80	
Replacement fund-----	5,270.45	
Payments on principal-----	10,862.10	
		<hr/>
		30,956.41
Other income:		
Preferred stock-----	\$100.00	
Common stock-----	1,000.00	
O'Toole-----	8,637.50	
		<hr/>
		9,737.50
Cash or equivalent-----		155,117.77
Available for distribution-----		<hr/>
		155,117.77

Beverly Manor, Section IV, Inc., distribution to stockholders, July 26, 1952

Available for distribution-----	\$133,986.44
Amount per share, \$669.03.	
Stockholder :	
Don A. Loftus, 35 shares-----	23,447.63
Cyril Ryan, 17.5 shares-----	11,723.81
Don Ryan, 17.5 shares-----	11,723.81
Jack F. Chrysler, 25.2 shares-----	16,882.29
Harry C. Davis, 2.8 shares-----	1,875.82
Helen Robinson, 21 shares-----	14,068.58
Webster R. Robinson, 14 shares-----	9,379.05
W. R. Robinson, Jr., 7 shares-----	4,689.52
Don A. Loftus, trustee, 60 shares :	
James F. Twohy, 12 shares-----	\$8,039.18
Earl J. Preston, 12 shares-----	8,039.18
Carl Budwesky, 3 shares-----	2,009.80
E. G. Wallentsik, 3 shares-----	2,009.80
Marshall A. Robinson, 12 shares-----	8,039.18
W. R. Robinson, Jr., 18 shares-----	12,058.79
Total (60 shares)-----	40,159.93
Grand total (200 shares)-----	133,986.44

For value received, I, Don A. Loftus, trustee, as holder of 60 shares of the common stock of Beverly Manor, Section I, Inc., do hereby agree to sell, assign and transfer said 60 shares of stock in my name, as trustee, to the following named persons, each to be entitled to receive the number of shares set opposite his name at a price of \$5 per share :

Name	Number of shares
Jack F. Chrysler-----	10 $\frac{1}{2}$
Harry C. Davis-----	1 $\frac{1}{2}$
Don A. Loftus-----	15
Helen G. Robinson-----	9
Webster R. Robinson-----	6
Webster R. Robinson, Jr-----	3
Don E. Ryan-----	7 $\frac{1}{2}$
Cyril J. Ryan-----	7 $\frac{1}{2}$

provided, however, that said above-named parties shall not be entitled to acquire ownership of and transfer to them respectively, of said shares of common stock until after there has been a distribution out of capital or otherwise to the shareholders of said corporation, of any money that may remain unexpended for the complete cost of the rental housing project now being constructed by said Beverly Manor, Section I, Inc., of the proceeds of the mortgage loan heretofore negotiated on said project and insured by the Federal Housing Administrator, if any, but may be acquired by said above named parties on the terms indicated at any time after such distribution, if any, has been made.

Witness the following signature and seal this 5th day of September 1950.

[SEAL]

DON A. LOFTUS, *Trustee*.

Executed in the presence of :

D. E. RYAN.
W. R. ROBINSON.

Mr. SIMON. Yes, there were four sections, and I want to know what each person got. You have just testified that \$762,000 was distributed. Is that right?

Mr. LOFTUS. I thought that was the amount.

Mr. SIMON. I would like you to tell us how much each of them got.

The CHAIRMAN. If you don't have the sheet, we do, so we will ask you if that is the proper sheet. We seem to know more about your business than you do.

Mr. LOFTUS. That is correct.

The CHAIRMAN. Is that the proper distribution there?

Mr. EAGAN. This total is \$762,000 and so forth.

The CHAIRMAN. Is that the right amount of the distribution?

Mr. EAGAN. That is right.

The CHAIRMAN. And Loftus has received as trustee how much?

Mr. EAGAN. \$228,796.36. The others were Don A. Loftus, 35 shares. The Ford Corp. received a grand total of \$133,464.55.

The CHAIRMAN. Just read them all.

Mr. EAGAN. Cyril Lyons, \$66,722.36; Don Lyons, \$66,722.36; Jack Chrysler, \$96,094.40; Harry Davis, \$10,677.17; Helen Robinson, \$80,078.83; Webster Robinson, \$53,385.82; W. R. Robinson, Jr., \$26,892.91; D. A. Loftus, trustee, \$228,796.36.

Mr. SIMON. Mr. Loftus, that \$762,000 was distributed on stock for which the stockholders paid a total of \$4,000, is that right?

Mr. LOFTUS. That was the normal capital; yes, sir.

Mr. SIMON. The 30 percent that you held in trust, was that in a trust under which the second group of people were entitled to receive the shares of stock only after, and I now quote from the trust "However said above-named parties shall not be entitled to acquire ownership of and transfer to them respectively of said shares of common stock until after there has been a distribution out of capital or otherwise to the shareholders of said corporation of any money that may remain unexpended for the complete cost of the rental housing project now being constructed by said Beverly Manor, Section 1, Inc., of the proceeds of the mortgage loan heretofore negotiated on said project and insured by the Federal Housing Administrator, if any, but may be acquired by said above-named parties on the terms indicated any time after such distribution, if any, has been made."

Mr. LOFTUS. That was an option rather than a trust agreement.

Mr. SIMON. Is that the correct provision of the agreement?

Mr. LOFTUS. That is the correct provision, but it was an option rather than a trust agreement.

The CHAIRMAN. Who got the 30 percent you were holding in trust?

Mr. LOFTUS. I just read those names a moment ago.

The CHAIRMAN. Will you read them again, please. Also we would like to know how much each of them received.

Mr. EAGAN. I handed over those sheets to you, Mr. Simon.

Oh, here they are.

James F. Twohy.

The CHAIRMAN. Then 12 shares would be about 6 percent. But he still owns a 6 percent interest in the project, does he not?

Mr. LOFTUS. No; he sold his shares for \$5 a share when he went back to Santa Monica.

The CHAIRMAN. So he sold them for \$45,000. In other words, he sold these shares back to you \$5 each after he got the \$45,000?

Mr. LOFTUS. That is correct. That was an option.

The CHAIRMAN. Why would a man sell shares for \$5 a share that gave him a dividend of \$45,000?

Mr. LOFTUS. At the time that agreement was signed for an option, which Mr. Simon just read, he called it a trust, and I said it was an option. At that time I don't believe it had much more value than \$5 because the proof was could it be built within the amount of money that was committed on the part of FHA.

The CHAIRMAN. Who owns those 12 shares of stock.

Mr. LOFTUS. The 12 shares went into the pool for all of those in the 70 percent ownership to acquire at \$5 per share.

The CHAIRMAN. In other words, the 12 shares that Mr. Twohy owned, who owns them now?

Mr. EAGEN. Mr. Chairman, may I interrupt one minute?

Mr. SIMON. Isn't it a fact, Mr. Loftus, that the group of which Mr. Twohy was a member was only to share in the money between the cost of construction and the mortgage and after that money was distributed, then that stock was to go to the people named in this document that you call an option agreement?

Mr. LOFTUS. That is correct.

The CHAIRMAN. Well, isn't the \$220,000 really some kind of bonus or gift to these people?

Mr. LOFTUS. It was an incentive for them to acquire the stock and, if anything was made out of the savings, they were to have a distribution; and, if not, they could remain with their stock or sell their stock at \$5 per share.

The CHAIRMAN. Who is Mr. Carl Budwesky, and how much did he receive?

Mr. EAGEN. Budwesky had three shares.

Before I go on here, Mr. Chairman, Twohy had 12 shares in each one of 4 corporations. Budwesky has 3 shares in each one of the 4 corporations. He received a grand total from the 4 corporation of \$11,439.

The CHAIRMAN. For his four shares of each?

Mr. EAGEN. Yes. I will read the exact amounts, if you like.

He got \$2,538.25—

The CHAIRMAN. Just the total amount.

Mr. EAGEN. \$11,439.82.

The CHAIRMAN. Who is he?

Mr. EAGEN. Carl Budwesky.

Mr. SIMON. He is the attorney who organized the Shirley-Duke organization, isn't he?

Mr. LOFTUS. He is here and can speak for himself. He was the attorney for the Beverly Manors for handling all of the closing papers insofar as the drawing up the papers, the deed, all of the necessary papers.

The CHAIRMAN. He was attorney for you?

Mr. LOFTUS. For the Beverly Manor Corp.

The CHAIRMAN. He was a witness before this committee last week. He was also attorney for the Shirley-Duke project in Arlington, Va., is that correct?

Mr. LOFTUS. He was attorney for some of the Shirley-Dukes. I don't know whether it was all of them or not.

The CHAIRMAN. Who is Mr. E. J. Preston and how much did he receive?

Mr. EAGEN. E. J. Preston had 12 shares and received a grand total of \$45,759.27.

The CHAIRMAN. And who is he?

Mr. LOFTUS. Mr. E. J. Preston is quite a well-known builder in the Washington area. He has built a considerable amount of housing in the area and was a part owner and, I believe still is a part owner, of the Shirley-Duke project.

The CHAIRMAN. He was a witness before our committee in connection with the Shirley-Duke Apartments. Who is Marshall Robinson? How much did he receive?

Mr. EAGEN. Marshall Robinson had 12 shares and received \$45,759.27.

The CHAIRMAN. Who is Mr. Wallentsik?

Mr. LOFTUS. Mr. Wallentsik is a former superintendent for Mr. E. J. Preston prior to the time that Preston expanded and took him into his company.

The CHAIRMAN. How much did he receive?

Mr. EAGEN. He had three shares and received \$11,439.82.

The CHAIRMAN. Who is Webster R. Robinson, Jr.?

Mr. LOFTUS. He is a former president of the Rock Wool Corp. of America, a mechanical engineer, and a man well acquainted with much of the type of structure such as was built in these apartments.

The CHAIRMAN. Is he related to Webster?

Mr. LOFTUS. He is the son of Dr. Webster Robinson.

The CHAIRMAN. Marshall is also a son?

Mr. LOFTUS. He is also a son of Dr. Webster R. Robinson.

The CHAIRMAN. Exactly what did these two Robinsons do to earn \$68,000 and \$45,000?

Mr. LOFTUS. Webster R. Robinson, Jr., worked perhaps 10 hours a day, 7 days a week, in the building operation of the 60 apartment buildings for which the Community Builders were building for the Beverly Manor Corp.

Mr. SIMON. He was also a stockholder in the Community Builders, wasn't he?

Mr. LOFTUS. Yes, he was. That is what we are talking about, the distribution of the shares that went to those people.

Mr. SIMON. Mr. Loftus, in addition to distributing the \$762,000 which represented the proceeds of the mortgage after paying all the costs of construction, you and your fellow stockholders still owned the building, is that right?

Mr. LOFTUS. We sure do, and appreciate the fact that we do own them, and would have owned them whether we paid a dollar or not.

Mr. SIMON. Who was awarded the contract for building the Beverly Manor buildings?

Mr. LOFTUS. Beverly Manor buildings originally was—it is a long story, and I believe I will have to have Mr. Eagan read my statement as to why it was brought about and how it came about if I am to answer it, because I have no other answer than that.

Mr. SIMON. Did each of the four Beverly Manor Corps. enter into a contract with Don A. Loftus & Associates for the construction of the buildings?

Mr. LOFTUS. I would prefer, if possible, if the Chairman will permit, to clarify it by how Don A. Loftus Associates and the name itself and the corporation was organized for the purpose.

Mr. SIMON. We would be glad to get that, but could you tell me whether they did enter into the contract with Don A. Loftus Associates?

Mr. LOFTUS. They entered into that contract.

Mr. SIMON. Then did Don A. Loftus Associates enter into a contract for two of these buildings with the Shirley-Duke Corp., that corporation not being in any way connected the Shirley-Duke Corp. here in the Virginia area. It was a separate, distinct corporation that lay idle. It was a corporation formed for the sole purpose of build-

ing a school building, as I understand, that was given to me recently. And the Shirley-Duke Corp. got the subcontract for the buildings, is that right?

Mr. LOFTUS. No, they got the subcontract to build 62 of the buildings.

The CHAIRMAN. To build the buildings of two of the Beverly Manor Corps.

Mr. LOFTUS. No, it was involved, I believe, overlapping between three of the corporations.

Mr. SIMON. And did Community Builders get the contract to build the remaining buildings?

Mr. LOFTUS. The Community Builders got the contract to build the 60 of the balance.

Mr. SIMON. Was Earl Preston the principal stockholder and officer of the Shirley-Duke Corp.?

Mr. LOFTUS. He was not the principal officer, because he and Jim Twohy had equal, 40 percent each.

Mr. SIMON. And Jim Twohy is the man in California?

Mr. LOFTUS. Right.

Mr. SIMON. Mr. Preston is the man who is interested in the Shirley-Duke Corps. here in Virginia, is that right?

Mr. LOFTUS. He is interested in the Shirley-Duke Corps. here in Virginia.

Mr. SIMON. Did the contract with the Shirley-Duke Corp. provide for the payment of the full cost of building the buildings to them? What I am driving at, did it include a builder's fee?

Mr. LOFTUS. We had an upset figure for the building of each of those buildings which was \$60,000 per building or cost, whichever might be the most.

Mr. SIMON. Do you know whether the Shirley-Duke Corp. made a profit on building those buildings or not?

Mr. LOFTUS. I do not believe so. I haven't seen their books, but it so happens that the accountant is here, and he had to do with the actual bookkeeping or the accounting of that corporation.

Mr. SIMON. Mr. Hamilton, can you tell us whether the Shirley-Duke Corp. made a profit on building the buildings?

Would you be sworn first?

The CHAIRMAN. Do you solemnly swear that the testimony you are about to give will be truth, the whole truth, and nothing but the truth, so help you God?

Mr. HAMILTON. I do.

Shirley-Duke made a profit of \$2,512.36.

Mr. SIMON. Did Community Builders make a profit on building those buildings?

Shirley-Duke made a profit of \$2,512.36.

Mr. SIMON. Thank you.

Now, Mr. Loftus, going to Clifton Park in Delaware, are you a stockholder in that company?

Mr. LOFTUS. May I clarify the loss and whatnot on those two corporations?

He showed a profit of \$2,500 on one and the loss of \$5,000 on the other. I would say that they had equipment and other things which of course they had bought and they had to write down and they took their loss on writing it. Each and every one of them drew a salary

during that period, and the salaries might be read, if you wished, to know how much money they got in salaries during the construction.

The CHAIRMAN. I suspect we will want to subpoena their records and go into the books ourselves.

Mr. SIMON. What you are saying is that Mr. Hamilton's figures of a minor profit on one and a small loss on the other are after the principals took salaries, is that right?

Mr. LOFTUS. After they took salaries and depreciated their equipment which they had bought during construction.

Mr. SIMON. And that is not intended, I gather, to be the purely cash income against the cash outgo but includes depreciation before you reach that loss.

Mr. HAMILTON. That is correct.

The CHAIRMAN. How much was the depreciation, since you bring it up.

Mr. HAMILTON. The depreciation on Shirley-Duke was \$4,636.21. On Community Builders it was \$5,692.82.

Mr. SIMON. What were the salaries that the principals took out of each of the companies? Do you know that?

Mr. HAMILTON. That I couldn't tell you. There is also something else on Community Builders. They had some equipment that went bad on them, and they had to sell it and they had a loss on that of about \$1,000.

Mr. SIMON. That is computed in the figures?

Mr. HAMILTON. Yes.

Mr. SIMON. Are you a stockholder of Clifton Park in Delaware, Mr. Loftus?

Mr. LOFTUS. I am.

Mr. SIMON. How much of the stock do you own?

Mr. LOFTUS. Seventeen and a half percent.

Mr. SIMON. Who are the other stockholders?

Mr. LOFTUS. George T. Weymouth, Mr. Porter Schutt, Mr. C. Roy Martin, Mr. Charles Benzel, I believe Charlotte O'Toole, the widow of T. B. O'Toole, Lamont, Bookaw, and Copeland, Tom Brittingham, Petie DuPont and Nicky DuPont and myself, of course.

Mr. SIMON. In that corporation did the stockholders you just mentioned originally own 51 percent of the stock and did you own 49 percent of it in trust?

Mr. LOFTUS. That is correct.

Mr. SIMON. And again was the trustee agreement similar to that which you had in Columbus?

Mr. LOFTUS. The trustee agreement was an option to buy back in the same manner and form, as I understand it.

Mr. SIMON. And again it provided that one group of people were to share in the distribution of the difference between the mortgage and the cost of construction?

Mr. LOFTUS. In other words, the amounts set up for the building cost was the amount approximating what the builder was to get. The balance of the risk and chances on all of the improvements, landscaping, and so on were to be done by the owners, and any savings that there was, there was an incentive for them to own the stock in the corporation, and if there was no money made they still had the right to sell the stock at the end to those who held the option.

Mr. SIMON. The point I was trying to get at is that again you had an agreement before the building was built that one group of people would receive, as to 49 percent of the stock, the difference between the total cost of construction and the mortgage; is that right?

Mr. LOFTUS. The group were involved by cash or by indemnity bonds to the total of more than \$1 million.

Mr. SIMON. Is it true that that one group was to receive that?

Mr. LOFTUS. It is true that they were to receive 51 percent of the stock.

Mr. SIMON. Is it true that another group was to receive 49 percent of the difference between the mortgage and the cost of construction?

Mr. LOFTUS. That is true. They were the builders.

Mr. SIMON. And that agreement was made before the building was built; is that right?

Mr. LOFTUS. That was made before the building was built and before they actually knew what their costs would be.

Mr. SIMON. After the building was completed and you made the distribution of the difference between the construction cost and the mortgage, how much was distributed to the stockholders?

Mr. LOFTUS. I do not have the figures. I would have to venture a guess.

Mr. SIMON. The 49 percent that went to you as trustee was \$289,000; wasn't it?

Mr. LOFTUS. Yes. I would have to divide that by 49 and multiply it by a hundred.

Mr. SIMON. And you received for your 17 percent about \$110,000; isn't that right?

Mr. LOFTUS. I believe it was \$102,000.

Mr. SIMON. \$102,000?

Mr. LOFTUS. I believe so.

Mr. SIMON. So that by a process of mathematics the total would in either event be somewhere between \$550,000 and \$600,000?

Mr. LOFTUS. I thought it was around \$549,000 or \$564,000.

Mr. SIMON. Between \$549,000 and \$564,000?

Mr. LOFTUS. Somewhere in that neighborhood.

Mr. SIMON. And that was distributed to the stockholders and the group involved in the 49 percent trust arrangement out of the proceeds of the mortgage and over and above the construction costs?

Mr. LOFTUS. It was distributed to those who had the nonproductive risk capital and the builders who had the incentive to produce within a figure.

The CHAIRMAN. How much was the risk capital?

Mr. LOFTUS. I haven't a schedule here. The schedule is on its way, as I understand it.

We have for weeks tried to get it out of the auditors of the Clifton Park Manor and they have told Mr. Weymouth, when I called him yesterday—I asked if he had it and he told me they were still waiting for it, but that they would have it within a few days. The books had been subpoenaed and he would have them here.

The CHAIRMAN. We subpoenaed you to bring it and so far you claim you can't bring it. Who do you want us to subpoena to get it, because we are going to get it.

Mr. LOFTUS. I understand that those books have been promised and that they would be here, and I understand that Mr. Walker had reached Mr. Weymouth and also Mr. Porterschutt after he returned—

The CHAIRMAN. Do you know of any good reason why there have been these days of delay?

Mr. LOFTUS. No reason whatsoever. Those books were in the hands, as I testified—

The CHAIRMAN. There must be some reason because they haven't delivered them.

Mr. LOFTUS. I testified in executive committee here that the auditors or accountants, McConnell and Brittin, I believed had those books.

The CHAIRMAN. Are you president of the corporation?

Mr. LOFTUS. I am not. I am no longer an officer of the corporation. I am simply a stockholder.

The CHAIRMAN. You were the originator; weren't you?

Mr. LOFTUS. I was an honorary chairman but not the originator.

The CHAIRMAN. How much was the risk stock that was put up originally?

Mr. SIMON. It was \$7,300 for the common stock, isn't that right, Mr. Loftus?

Mr. LOFTUS. That was the normal common stock.

The CHAIRMAN. I asked you about three times for that information, Mr. Loftus, and you said you didn't remember and you didn't have the books.

Mr. LOFTUS. That is correct.

The CHAIRMAN. Why did we have to say to you that it was \$7,300 before we could get an honest answer out of you.

Mr. LOFTUS. He was asking for the total risk capital.

The CHAIRMAN. I asked you a pointed question. I said, "Mr. Loftus, what was the risk capital in the project," and you went all around the barn 4 or 5 times.

Mr. LOFTUS. Senator, he just said the normal capital. You were asking for the risk capital.

Mr. SIMON. Was there any other kind of stock issued?

Mr. LOFTUS. There was authorized 100,000 of second preferred.

Mr. SIMON. Was it ever issued?

Mr. LOFTUS. I don't believe it was issued.

Mr. SIMON. Isn't the common stock in the amount of \$7,300 and the \$100 of preferred to the Federal Housing Commissioner the only stock that was ever issued?

Mr. LOFTUS. \$300 to the Federal Housing Commission, \$100 in each corporation.

Mr. SIMON. Isn't that the only stock that was ever issued?

Mr. LOFTUS. The other was authorized and the stock was there, but it hadn't been issued.

Mr. SIMON. The \$7,300 of common and the \$300 of preferred to the Commissioner is the only stock that was issued, is that right?

Mr. LOFTUS. That is right, but there was somewhere in the neighborhood of at least \$500,000 or more that was nonproductive risk capital.

The CHAIRMAN. But it was put in in the form of a loan, was it not?

Mr. LOFTUS. It was put in in the form of a loan.

The CHAIRMAN. And repaid out of the proceeds of the mortgage, is that correct?

Mr. LOFTUS. It finally was paid from the proceeds of the mortgage, yes, sir.

The CHAIRMAN. \$500,000 worth of loans which were later repaid out of the proceeds of the mortgage after the Federal Government had guaranteed it and some mortgage company bought it. I am getting a little bit tired of you gentlemen trying to make me believe, and others, that that kind of loans are capital. They are not capital. Capital in this corporation was \$7,300, is that correct?

Mr. LOFTUS. That is correct, but——

The CHAIRMAN. And that is the amount on which you will pay dividends, is that right?

Mr. LOFTUS. That is correct.

The CHAIRMAN. Just like the capital in this Columbus project was how much?

Mr. LOFTUS. The normal capital was \$4,000.

The CHAIRMAN. \$4,000 out of which you paid dividends of some \$700,000. I am not saying there is anything wrong with it at all. It is just like pulling teeth to get out of you gentlemen what your capital stock is. We know you can't take \$4,000 and build a project like that. We know that you were capitalized for \$4,000, and you got a commitment from the FHA. You then proceeded to borrow money to do certain things and when the project was all finished the FHA guaranteed it and the mortgage company gave you a check and you repaid all the loans. All you had left invested was \$4,000 or \$7,300.

Mr. LOFTUS. But in this particular instance, sir, we were without a commitment of FHA for pretty nearly 4 months and could have had all our risk capital wiped out.

The CHAIRMAN. I don't question that. I have no way of knowing whether that is true or not, and I will take your word for it. I think it is true. But the fact still remains that you did get an FHA commitment.

Mr. LOFTUS. We did get a commitment, and we also had a commitment for a larger sum from the FHA after——

The CHAIRMAN. You keep insisting you had \$500,000 invested. Why didn't you put the \$500,000 in the corporation in the form of capital stock so it would be sitting there to help guarantee the Federal Government on their guaranteed mortgage? Why didn't you put it in the form of capital stock?

Mr. LOFTUS. It wasn't required, Senator, because it was set up by the FHA. We did not set up the amount required. The FHA set that up.

The CHAIRMAN. Would the FHA have been opposed to you putting \$500,000 cash in it?

Mr. LOFTUS. They would not have been opposed to it, but they were the ones who had the yardstick we were following.

The CHAIRMAN. You mean the FHA said to you, "All you need to put up to build this several-million-dollar project is \$7,300"?

Mr. LOFTUS. I believe if I went into the application I could show you didn't have to put any capital up and we put capital up in the bank, working capital, and the amount of off-site and other amounts, which of course was capital that we had to put up.

The CHAIRMAN. I am just as aware of that as you are, that you can't take \$7,300 and do this, but my point is, why didn't the FHA insist that the \$500,000 be made capital and remain there as capital until the mortgage was paid off and they no longer had an obligation to guarantee that mortgage?

Mr. LOFTUS. Senator, I had very little to do with the FHA other than these two projects. All other business I did over a period of 44 years was without FHA.

The CHAIRMAN. Would you have done business without the Government's guaranty with a corporation with \$4,000 money.

Mr. LOFTUS. I surely would. I have done it before and proved that it was very successful and the lending institutions, large and small, love to do business with the people who know how and if they find out that after completion there was any money made or there was a so-called mortgaging out, they want to pat them on the back for doing so, because they knew that the man knew how and proved that it was better than replacement cost, and they still had good value.

The CHAIRMAN. You are trying to make us believe that in private industry you can take \$4,000 and go out and get a mortgage for a several-million-dollar project?

Mr. LOFTUS. It all depends upon the men who have the ability within the \$4,000 capital structure that would be able and willing and anxious to put in all the necessary funds to see it to its successful conclusion.

Mr. SIMON. When did Mr. Twohy leave the home loan bank board?

Mr. LOFTUS. In 1947 or 1948.

Mr. SIMON. We have had testimony that in the 6 Shirley-Duke projects the owner-sponsors received distribution upon the completion of the building of about \$2,225,000 and that the Investors Diversified received in fees and other compensation about \$1,300,000 and in the 3 Cleveland Parkway Gardens and the Broadway Gardens in Cleveland Investors received a total of \$720,000, and we have not yet been able to check the amount of money that the owner-sponsors got.

Would you tell us exactly what your participation was in the 4 Cleveland projects and the 6 Shirley-Duke projects I have just referred to?

Mr. LOFTUS. Again, if you will permit me to have my written statement read as to how that came about, I will have Mr. Eagan read it to you and that will give you the exact picture as it took place.

Mr. SIMON. Couldn't you tell us briefly what participation you had in those 6 projects in Virginia and 4 in Cleveland?

Mr. LOFTUS. I had no participation whatsoever in the 6 projects in Virginia, not 1 dime.

Mr. SIMON. We have been told that you were the man who arranged the financing and that you brought the sponsors and the financiers together. Is that in any respect accurate?

Mr. LOFTUS. Ignorance usually seeks out experience. My long period of experience was sought out by many, not only the Investors Diversified Services but some of the largest insurance companies in America. They asked my opinion like most any other man on the street would ask. These men came to me. I did not seek them out. I was in a cottage down at Key West, Fla. I was then suffering from ulcers, as I am now, and I hope I don't suffer much from this meeting.

I say to you that these men came to me. They sought me out. They pleaded with me to get some low-cost housing in Washington which was badly in need. They met me at the cottage on 3 or 4 different occasions, Mr. Bryan Gordon and Mr. Black. I told them that I would be in Washington during the holidays. I came up during the holiday. I met with them in the Investors Diversified Services offices.

They had Mr. Albert Lueders, an architect. This architect had a large plan of buildings and a plan of the buildings for which he and Mr. Gordon and Mr. Black had planned.

Mr. SIMON. Was it your help to these people that enabled them to distribute \$3,500,000 out of the Shirley-Duke project?

Mr. LOFTUS. It was my introduction only to the Investors Diversified Services insofar as I was concerned, I was a consultant for the Investors Diversified Services, and I recommended this location and the deal as it was originally proposed by Mr. Black and Mr. Gordon, but advised Mr. Black and Mr. Gordon that they were not financially able and it required others in order to undertake a job the size of that 2,106 units.

Mr. SIMON. Do you think it was your help and advice that enabled them to distribute that \$3,500,000?

Mr. LOFTUS. I think that Mr. Preston, who was building a large project at that time in Maryland, who happened to be one of them, was well known to the Investors Diversified Services and had to know how. He was formerly with Stuart, Thompson, Starrett and other companies. I think Mr. Bryan Gordon was well known to them also, because he was building in Virginia.

Mr. Hutman was recommended by Mr. Bornstein.

Mr. SIMON. I still don't have an answer to my question, whether you think it was your help and advice that enabled them to make the \$3,500,000 distribution.

Mr. LOFTUS. After they entered into the deal with Investors Services, I never had a conversation with them.

Mr. SIMON. Did you help them prepare the FHA applications?

Mr. LOFTUS. I might have helped on the first occasion in the office when they first met as a group.

Mr. SIMON. Did you at any time ever suggest to them that they might put Mr. Sonnenblick's name in the application?

Mr. LOFTUS. I didn't at that time, not in the first application.

Mr. SIMON. Did you ever suggest to them that they might put Mr. Sonnenblick's name in the application?

Mr. LOFTUS. I suggested to Mr. Bros, after Mr. Sonnenblick had solicited the opportunity of getting in on a project.

Mr. SIMON. Is Mr. Bros the Washington office manager of Investors?

Mr. LOFTUS. That is correct.

Mr. SIMON. And he is the man who invested a couple of hundred and got a \$12,000 profit out of the Shirley-Duke?

Mr. LOFTUS. I don't know what his investment was. I heard that here one day when I was present.

The CHAIRMAN. Did you advise him how to do that?

Mr. LOFTUS. I did not advise him how to do it. I was surprised, as I testified, to learn that he had.

Mr. SIMON. Did you hear Mr. Sonnenblick's testimony this morning to the effect that he had never authorized the use of his name?

Mr. LOFTUS. I did, and he must have an awful absentminded memory.

Mr. SIMON. To whom did he give that authorization?

Mr. LOFTUS. He gave it to me on the phone——

The CHAIRMAN. You just testified you had absolutely nothing to do with the Shirley-Duke Corp.

Mr. LOFTUS. I said I had nothing to do with the helping of the construction. He asked if I helped and was it possible through my help that they were able to make that money.

Mr. SIMON. What conversation did you have with Mr. Sonnenblick in which you say he authorized the use of his name?

Mr. LOFTUS. Mr. Bros had called me in Florida and said that the FHA had turned down Bryan Gordon and Preston and some of the others for not having sufficient financial stability. I believe that Mr. Bornstein joined up with some of them. I later learned so. As far as Mr. Nat Sonnenblick is concerned, I called him on the telephone after Bros informed me that the application was stymied.

I said, "Well, the only thing you might do, and the only one that I know of that is up in that area, and you should know him well because he is the main mortgage broker for the New York office of the Investors Syndicate, which is the Investors Syndicate Title & Guaranty in New York. He sells them mortgages. He is well known to them."

He said, "If I am a part of the project and I will get my just share in a project, you can count me in at any time."

Mr. SIMON. He told that to you?

Mr. LOFTUS. He told that to me and I said, "Would it be for \$200,000?"

He said, "That or more."

Mr. SIMON. Now when you told Mr. Bros that he could put Sonnenblick's name in the application, you knew that FHA was unwilling to issue the commitment to the sponsors unless somebody like Mr. Sonnenblick went into the deal; is that correct?

Mr. LOFTUS. Unless they had additional equity money beyond that which their statement showed.

Mr. SIMON. And his name was added to the application to supply that additional equity which the FHA was insisting upon; is that right?

Mr. LOFTUS. Under the basis of a commitment for insuring during construction or insurance of advances so far.

Mr. SIMON. But you authorized them to put Sonnenblick's name in the application, knowing that FHA insisted on him or somebody like him being included for additional financial responsibility; is that right?

Mr. LOFTUS. I had conveyed that to Mr. Bros, that that was what Mr. Sonnenblick had said to me, and I believed that he could use his name.

Mr. SIMON. And Mr. Bros had told you that the reason he needed a name such as Sonnenblick's was because FHA didn't think the others had sufficient financial responsibility?

Mr. LOFTUS. That is correct.

The CHAIRMAN. And this Mr. Bros was the manager for the Investors Diversified in Minneapolis; is that correct?

Mr. LOFTUS. That is correct.

The CHAIRMAN. A rather shoddy way to do business, don't you think?

Mr. LOFTUS. I understand on the second application that even Mr. Sonnenblick's name was not sufficient so they asked for further financial stability and a letter of some kind went into the FHA wherein

they said that they would take back a second mortgage if necessary if the job was not completed within the commitment.

Mr. SIMON. Have you ever seen that letter?

Mr. LOFTUS. I have not seen it. I just saw the application.

Mr. SIMON. I can say to you that we have searched all the FHA files and we can find no such letter.

Mr. LOFTUS. That letter was definitely issued according to what Mr. Bros said, and I verified that at one time as to why they gave out a letter such as that.

Mr. SIMON. All I can say to you, Mr. Loftus, is that the applications all refer to a letter from Investors Syndicate dated March 8, 1949, but the testimony we have had here is that all that letter said was that Investors would make sure that the mortgage was a first lien on the property.

Have you seen any other letter from Investors bearing that date?

Mr. LOFTUS. Nothing other than I was told that it stated, at the time they told me what the deal was—they told me that they had written a letter to FHA to give sufficient financial stability to those projects to the extent that if the funds were not sufficient to complete the job they would supply any money and take back a second mortgage if necessary.

Mr. SIMON. Who told you that?

Mr. LOFTUS. I was told that by Mr. Ryan and the attorney Mr. Dan Farr.

Mr. SIMON. You never saw the letter?

Mr. LOFTUS. I did not, but I took their word for it.

Mr. SIMON. Is there any connection between the fact that Mr. Ryan had apparently worked on this Shirley-Duke project with you and the fact that he and his brother made \$162,000 out of the Beverly Manor project in Cleveland?

Mr. LOFTUS. You mean in—

Mr. SIMON. In Columbus.

Mr. LOFTUS. As a matter of fact, he had nothing to do with it, and as a matter of fact they did not work with me. As a matter of fact, the amount of fees and everything else that was worked out was mostly worked out with Mr. Jim Ridgeway.

Mr. SIMON. But Ryan was the one who told you that Investors would assure FHA that they would put up additional funds; is that right?

Mr. LOFTUS. Either Mr. Ryan or Mr. Farr.

Mr. SIMON. Out of the two projects, Shirley-Duke and Cleveland Parkway, Investors Syndicate got roughly \$2 million.

Did they ever pay you anything?

Mr. LOFTUS. Not a 5-cent piece of any kind, that I recall. They may have paid some railroad fares or plane fares or something of that kind.

Mr. SIMON. The Shirley-Duke sponsors got roughly \$2,225,000. Did they ever pay you anything?

Mr. LOFTUS. Nothing whatsoever.

Mr. SIMON. Other than the fact that the land of Cleveland Parkway was purchased from you and Investors supplied that money.

Did the sponsors of the four Cleveland projects ever pay you anything?

Mr. LOFTUS. I don't smoke cigarettes or cigars, and they never offered them to me and I don't drink any liquor so they never offered any of that, so they never offered me anything.

The CHAIRMAN. I believe you want to correct the testimony you made in executive session some time ago in which you testified to some \$700,000, and now you want to say that your memory was bad?

Mr. LOFTUS. My memory was bad, Senator. I was in very bad shape and, at that time, I definitely didn't know that I was sitting in the chair.

The CHAIRMAN. Where did you think you were sitting?

Mr. LOFTUS. Occasionally I would come out of it and if you had as much belladonna as I had, it would affect you the same way, Senator. I was all full of it, trying to come in to be helpful.

The CHAIRMAN. We want to correct the record, then. Just how do you wish to correct the record?

Mr. LOFTUS. I wish to correct that record by having Mr. Eagan read exactly what took place, if you will permit it.

The CHAIRMAN. You may proceed. Are you going to bring that all out, Mr. Eagan?

Mr. EAGAN. Yes, I will bring it out. It is already made a part of the record in this statement.

The CHAIRMAN. But you want to correct the record. In other words, what you are doing now is correcting the testimony that Mr. Loftus gave under oath?

Mr. EAGAN. That is right, because at that time he was ill. I will not read the entire statement but just the part that obtains.

The CHAIRMAN. Just clear up the the part you want. In other words, he is now changing the testimony he gave under oath in executive session.

Mr. EAGAN. That is the first executive session, not the one yesterday.

I did not have the correct figures in front of me and I became confused because I withdrew 2 papers from my brief case, and 1 paper had on it the figure of \$191,000 and the other the figure of \$228,000. One of these figures, \$228,000 is a correct amount and does refer to Beverly Manor but was not connected with the sale or purchase of the land but instead was the amount paid to me as a distribution of capital to be disbursed as trustee to the beneficial owners. I have since supplied you with a photostatic copy of the agreement naming me as trustee and also with photostatic copies showing the disbursements of this amount of \$228,000. The \$191,000 has no reference to Beverly Manor at all. The other figure of \$508,000 was in my mind because that is the amount which a broker had bid recently for the commercial part of the land which is zoned for light manufacturing.

The reason for the confusion in the figures above was due principally to the fact that when I received your subpoena I endeavored to get in touch with the Robinsons only to learn that they could not be reached. Finally, on Monday I succeeded in locating Jerry Murphy, the bookkeeper in Columbus, and he gave me a number of figures over the telephone.

To return to the purchase of the land, Don A. Loftus Associates, Inc., took up the option for the balance of the \$90,000 which sum was invested by me, D. E. Ryan and Helen Robinson. Each of us gave our personal check for \$30,000.

The deed transferring the property from the Ralston Steel Car Co. to Don A. Loftus Associates, Inc., is dated July 17, 1950.

On August 9, 1950, Don A. Loftus Associates, Inc., sold to Beverly Manor Corps. 1, 2, 3, and 4 the 60 acres mentioned above for the sum of \$80,500. Between the time of the FHA commitment to insure was issued, the risk capital invested by me and my associates amounted to \$354,199.20.

The CHAIRMAN. That was the risk capital? That was later paid back; is that correct?

Mr. EAGAN. That is right.

The CHAIRMAN. That was a loan and later paid back out of the proceeds of the mortgage; is that correct?

Mr. EAGAN. That is correct.

The CHAIRMAN. So it was not in any sense capital.

Mr. EAGAN. I might say off the record that it is like the fellow who called a meadow a pasture but actually it was a meadow.

The CHAIRMAN. You never in your life saw loans put down as capital on a loan.

Mr. EAGAN. Mr. Loftus considers it as capital. He risked the money. As a matter of fact, the FHA in their standard form, Senator, make allowances for giving people credit for builders and architects' fees and the moneys that they advanced, so they certainly must have taken it into consideration as being worth something. Do you want me to finish this statement?

The CHAIRMAN. When you get all through the Federal Government guarantees the mortgages. As a result of that guaranty, you are able to go and get \$10 million or \$11 million or \$12 million or whatever the amount is.

Then you take the proceeds and you pay off all the loans. You pay off everything except the capital. In the instance out there, it was \$4,000. So you had \$4,000 invested in this project. I am not saying that it is wrong. I am just trying to be factual. I don't like people to try to make me believe that loans are the same as capital.

Mr. EAGAN. I don't think that was Mr. Loftus' intention. I think he was trying to say that the FHA permitted those things to be done.

The CHAIRMAN. The fact that they did those things and the FHA knew about it proves they permitted it.

Mr. EAGAN. They made allowances for it, as a matter of fact, in their commitments.

The CHAIRMAN. We are not taking that position at all. We will have the FHA up here as witnesses one of these days, all of them. Don't you worry about that.

Mr. EAGAN. I have one more paragraph.

The CHAIRMAN. Go ahead.

Mr. EAGAN (reading):

The FHA requirements which were put up by Jack Chrysler and myself with the mortgage at the time of closing amounted to \$261,668. We also furnished an indemnity completion bond in the amount of \$851,704. This bond was written for 4 years including 2 years after completion of construction.

In other words, we were still liable on the bond for a full 2 years after completion of the project. The nominal amount of money invested in the common stock was \$4,000.

The CHAIRMAN. In executive session, Mr. Loftus, you testified that you were to receive \$508,000 for the land. Now, you are saying that that was an untrue statement?

Mr. LOFTUS. I am saying that that was untrue. The \$508,000, Senator, was something that came into my mind. I said in executive session that I was very much confused and that my ulcers did disturb me considerably so that I didn't know where I was at and on top of it, with all of the buzzing for you to come to the floor I was further confused.

The CHAIRMAN. I will have to get rid of the buzzers. Maybe you can appreciate why we Senators get ulcers.

Mr. LOFTUS. I can appreciate it very much.

The CHAIRMAN. Has the record been corrected?

Mr. LOFTUS. I hope so because that is exactly what happened.

The CHAIRMAN. You have changed your testimony. Are you satisfied now with the way we have handled it?

Mr. LOFTUS. I am satisfied, Senator, 100 percent.

The CHAIRMAN. Are there any other questions?

Mr. SIMON. I just have one more question, Mr. Loftus. In connection with the Cleveland project which you say you had no interest in, did you ever go into Mr. Powell's office on that project?

Mr. LOFTUS. Did I ever go into Mr. Powell's project?

Mr. SIMON. Mr. Powell's office in connection with the Cleveland project?

Mr. LOFTUS. I never went into Mr. Powell's office on the Cleveland project; no.

Mr. SIMON. I don't have it with me, unfortunately, but there is a letter in the FHA Cleveland files from the Investors Diversified Cleveland office, confirming a conversation that you are supposed to have had with one of Mr. Powell's assistants. Does that refresh your recollection?

Mr. LOFTUS. The only conversation I had was some question about the title of the property. That property was originally zoned for cemetery use and it was a matter as to whether or not they could prove that there was a body buried there still, and Mr. Bovard is the gentleman whom I saw at the FHA in reference to that.

Mr. SIMON. Did you ever see a man who was an assistant to Mr. Powell about this project?

Mr. LOFTUS. If I did I talked to him about this particular matter. I think there were three or four called in to find out what could be done to prove that there were no bodies in that cemetery.

Mr. SIMON. That is the only connection in which you went into Mr. Powell's office?

Mr. LOFTUS. I believe so. I never discussed any project with Mr. Powell.

The CHAIRMAN. Was it generally understood by you and others in this business of building rental properties that you could mortgage out or get more money from the proceeds of the mortgage than all the total costs?

Mr. LOFTUS. I never had that conveyed to me, Senator, as a matter of fact. We didn't expect to mortgage out here and that was our honest, good judgment. We did not expect to. We did not have the type of loan that would afford mortgaging out. It was a very low loan and had to be for a very low rental and we were based on that, Senator, and we were not sure. Generally if a general contractor has a bid on a highway and he can find a subcontractor that he can subcontract to and sit back and be sure that he has enough money held back so that if he gets stuck he can finish it, that is regular business.

The CHAIRMAN. My question is—and I don't believe you have answered it—to your knowledge did the FHA officials or employees leave the impression with you that it was perfectly all right to receive more money from the proceeds of the mortgage than the total cost of the project.

Mr. LOFTUS. I had heard something about that as we went along, Senator, but no one ever approached me or talked to me about it. Indirectly, it was hearsay.

The CHAIRMAN. Was it your understanding that it was perfectly legitimate on the part of builders and project sponsors to claim 5 percent on architects' fees and only spend 1?

Mr. LOFTUS. When the applications were made, Senator, on Clifton Park, we went into that quite thoroughly to find out where the engineering, the landscaping and the surveying and the sewer and water plans and the various other items which were necessary on the job—where they calculated that in their figures and they told us all of that went under architecture, and all of that would amount to anywhere from 4 to 5 percent.

The CHAIRMAN. I don't believe you have answered my question. Of your own knowledge, was it your understanding that the FHA officials had no objections to including 5 percent architects' fees in the amount of the mortgage they had insured, even though you as a builder or any other builder only spent one-half of 1 percent or 1 percent or 2 percent?

Mr. LOFTUS. We spent more than that, Senator, and I believe if you will examine the records of most all of the building operations you will find that it is more than that. The architect's fee as an architect only, yes, that was common practice.

The CHAIRMAN. You are still not answering my question. We have had much testimony that FHA encouraged these gentlemen and insisted that they put 5 percent down for architects' fees, even though they knew they were only going to spend 1 percent. Was that your understanding?

Mr. LOFTUS. FHA put 5 percent down and that was regular on all of their estimating and today under a congressional evaluation of any conventional loan, they will use 6 percent as an architects' fee rather than 5 for replacement value.

The CHAIRMAN. You are evading my question.

Mr. LOFTUS. I am not trying to evade it, Senator.

The CHAIRMAN. Was the FHA permitting you to include 5 percent in the total amount of the mortgage, even though they knew you were only going to spend 1 percent and actually spent less than 1 percent?

Mr. LOFTUS. As a matter of fact, Senator, the applications were printed. I don't know whether these particular applications had them or not. They were printed with 5 percent in there.

The CHAIRMAN. We haven't found any of them yet that were printed that way.

Mr. SIMON. Have you ever seen them printed that way?

Mr. LOFTUS. I have seen many of them and had one or two at the time these applications were about.

Mr. SIMON. Could you produce an application with 5 percent printed in it?

Mr. LOFTUS. I don't know whether I could produce it. Perhaps the printer could do it if you wanted it. I know the 5 percent was printed in there.

The CHAIRMAN. It was printed?

Mr. LOFTUS. Yes, sir.

The CHAIRMAN. In forms furnished by the FHA?

Mr. LOFTUS. Yes, sir.

The CHAIRMAN. And you have you seen them?

Mr. LOFTUS. Yes, sir.

The CHAIRMAN. Can you supply us with some of them?

Mr. LOFTUS. I don't know whether I could now. It was 5 or 6 years back.

The CHAIRMAN. Just supply one.

Mr. LOFTUS. I can try to find out who the printer was.

The CHAIRMAN. You are certain the 5 percent was not always written in by typewriter?

Mr. LOFTUS. I think Mr. Bovard or some of the others in FHA will tell you that definitely they had printed forms with 5 percent in it.

The CHAIRMAN. You think he will?

Mr. LOFTUS. I think so.

The CHAIRMAN. Mr. Powell ought to know, but he won't testify.

Mr. SIMON. I have looked at hundreds of them in all of these cases that had big windfalls and I have never yet found an application with the 5 percent printed in.

(The statements and other material submitted by Mr. Loftus follow:)

STATEMENT OF DON A. LOFTUS RE BEVERLY MANOR PROJECT, COLUMBUS, OHIO

Some time in 1949, Webster R. Robinson, Ph. D., a former professor at the University of California and a well-known economist who at that time was doing market surveys and analyses, and his son, Marshall Robinson, an Ohio State University professor, had made an extensive survey of housing conditions in the city of Columbus, Ohio. They became so much interested in the results of their surveys that Dr. Robinson asked me if I would try to do something to help the low-cost rental housing conditions in that area. He stated that in particular the employees of the North American Aviation Corp. and the employees of the quartermaster depot were in dire need of the proper low-cost rental housing. He also stated that Columbus, with its many, many new and expanded industries, suffered appreciably from the lack of adequate low-cost rental housing facilities. It was his opinion, based upon the many contacts with personnel management of these industries, that Columbus needed thousands of small homes and rental units.

I was not the least bit interested in doing anything further in business because of my physical condition and the possible further disturbance to my health, but I was keenly interested in doing what I could do to alleviate this onerous condition. He told me at that time that it would not be necessary for me to expand much physical effort because his son, Webster R. Robinson, Jr., was a young man with building experience and ability, who was capable and willing to carry the burden of long hours and intensive management effort. In reply to this plea, I suggested that the initial step would be for the Robinsons to find locations which they thought suitable for low-cost rental housing and, if they wised, I would visit these locations and give them my ideas as to suitability.

With this in mind, I made a trip to Columbus, looked over the sites which they had selected and one or two which they had under option. None of these, in my opinion, were worthy of the type of project that would survive and be continuously occupied.

On this visit to Columbus, I met with the FHA Director, the city officials, and some of the larger employers and learned firsthand from these people how necessary it was to have low-cost rental housing. After these interviews, I left Columbus, but, before going, I recommended to Dr. Robinson that he should keep on looking because I could perform a major public service if he found better locations and if he found them, I would return and assist him as best I could.

About a week later, at Dr. Robinson's suggestion, I revisited Columbus and viewed a Sullivant Road tract and a small site near the university, neither of which was properly zoned for low-rental housing. I then suggested that we drive out Broad Street and take a look at an area closer to the North American Aviation Corp. We were fortunate in that I spotted a location which, in my opinion, seemed to be the most suitable of any I had ever seen. It was a piece of ground on which was erected a weatherbeaten sign indicating that the property had been offered for sale for a very long period of time.

This property was surrounded by apartments, houses, and railroads. One side was across from the United States Government Quartermaster Depot which

employed some 5,000 people and the expectation was that the depot would expand to require 9,000 employees.

After walking over the entire property, I said: "Doc, let's go back to see the other two pieces of property which border on this tract." We looked over this land and returned to the hotel. In the meantime, we learned that the Ralston Steel Car Co. was the owner of the first tract, which consisted of 86 acres. I called Ralston Steel and was referred to, I believe, either a vice president or treasurer, and I talked to this gentleman and was told that the property was for sale for \$200,000. When I called this officer's attention to the fact that the property which we had seen had two long, wide, meandering ditches across the land, he said that they would pipe and cover these ditches to which I replied: "That will cost you \$100,000 or more." I finally offered \$90,000 and said we would assume the risk and expense of covering the ditches. He said that he would refer to the matter to the board of directors.

I told Dr. Robinson that I wanted that land myself if it was not going to be used for a project and I authorized him to offer Ralston as high as \$100,000 for the land and to do it by option for a period of 90 days. I believed, and I so stated, that it was a real sleeper; it was zoned for light manufacturing and the only reasons that the buyers kept away were the fact that the sign was old and weatherbeaten and the presence of two big ditches. I further told Doc. if the ditches were closed, the land would easily be worth 50 cents to \$1 per square foot because it was zoned for light industry. Doc. asked me what it was worth for apartment houses and I told him 30 cents a square foot for the part which was not usable for light manufacturing. Robinson got an option on the 86 acres, as is, for \$92,000. He did this by advancing \$1,000 for the option and subsequently another \$1,000 for the option which was taken in the name of Don A. Loftus Associates, Inc. At the time I obtained the option, he told me that the two adjacent pieces of property which he had looked at had been sold for apartments and a school site, both of which added further value to the property.

At the time of my testimony before the committee in executive session I did not have the correct figures in front of me and I became confused because I withdrew 2 papers from my briefcase, and 1 paper had on it the figure of \$191,000 and the other the figure of \$228,000. One of these figures—\$228,000—is a correct amount and it does refer to Beverly Manor but it was not connected with the sale or purchase of the land but instead was the amount paid to me as a distribution of capital to be disbursed as trustee to the beneficial owners. I have since supplied you with a photostatic copy of the agreement naming me as trustee and also with photostatic copies showing the disbursement of this amount of \$228,000.

The \$191,000 has no reference to Beverly Manor at all. The other figure of \$508,000 was in my mind because that is the amount which a broker had bid recently for the commercial part of the land which is zoned for light manufacturing.

The reasons for the confusion in the figures above was due principally to the fact that when I received your subpoena I endeavored to get in touch with the Robinsons only to learn that they could not be reached. Finally, on Monday, I succeeded in locating Jerry Murphy, the bookkeeper in Columbus, and he gave me a number of figures over the telephone.

To return to the purchase of the land, Don A. Loftus Associates, Inc., took up the option for the balance of the \$90,000 which sum was invested by me, D. E. Ryan, and Helen Robinson. Each of us gave our personal check for \$30,000.

The deed transferring the property from the Ralston Steel Car Co. to Don A. Loftus Associates, Inc., is dated July 17, 1950.

On August 9, 1950, Don A. Loftus Associates, Inc., sold to Beverly Manor Corporations 1, 2, 3, and 4, the 60 acres mentioned above for the sum of \$80,500. Between the time of the FHA commitment to insure was issued, the risk capital invested by me and my associates amounted to \$354,199.20. The FHA requirements which were put up by Jack Chrysler and myself with the mortgage at the time of closing amounted to \$261,668. We also furnished an indemnity completion bond in the amount of \$851,704. This bond was written for 4 years, including 2 years after completion of construction. In other words, we were still liable on the bond for a full year 2 years after completion of the project. The nominal amount of money invested in the common stock was \$4,000.

The savings we effected were as follows: We prevailed upon the city of Columbus to close the ditches referred to above because they were taking care of a very large area as well as water runoffs for the railroads. This saving amounted to \$155,000.

Because of the size of the project, the labor market locally could not take care of our needs. We had to import mechanics; most of whom came from small towns within a radius of 50 miles whose wages were far below the prevailing wage scale established by the United States Department of Labor, for this project. Naturally, our paying them at this greatly increased rate gave them an incentive to greater production which brought about a large savings aggregating about \$300,000.

Some of the savings which were brought about during construction resulted from the following:

1. The savings out of architect's fees, which should be classified not as architect's fees alone but should also include, architect's, engineering, landscape and land planning. I make this statement because the amount paid to an architect in most cases is much less than the amounts paid for engineering, land planning, etc.

2. Builders' fees were saved because there was no actual fee paid to the builders as such.

3. Contracts were for lump-sum price.

4. Savings were effected on materials by job-site storage of materials and equipment.

As proof of the value of the project, 8 or 9 months after completion we were offered \$950,000 more than the FHA secured loan on a conventional loan basis from another large insurance company. We endeavored to have our mortgagee forego his 3 percent penalty for paying off the mortgage but after three attempts we were refused, the reason given was that our mortgagee liked the loan even though it could reinvest the proceeds resulting from the payoff of its mortgage at one-half to three-fourths percent higher rate.

Likewise, we could not get FHA to waive their 1 percent prepayment penalty.

Since this time, we have had numerous offers from substantial investors who would like to buy this project at 20 percent or more above the amount of the insured mortgage.

We have attempted to pay the savings off on the mortgage provided it would reduce the monthly payment which we felt would reduce our rentals about 5 percent. This was not agreed to because the prepayment would have to apply to the latter years of the mortgage and would not help other than to reduce the lengths of years of the mortgages.

We distributed some of our surplus capital after having our assets appraised by an experienced real-estate appraiser who is a member of the Institute of Appraisers Division of the National Association of Real Estate Boards, and his appraisal is far in excess of the FHA replacement value. We distributed some of our surplus capital as a long-term capital gain in accordance with an opinion obtained from the Deputy Internal Revenue Commissioner. It is our understanding that this letter is one of a few hundred which have been issued to others in similar cases.

This project has been nearly always 100 percent occupied except during periods required for cleaning or decorating. Our reserves and surplus are very substantial and no dividends have been paid out of income to date. Homes have been provided for 1,350 families. Aside from the ravages of drought which have injured some of the landscaping, this project is a credit to Columbus, to the FHA, and to the sponsors who made it possible. I am proud to have been a part of this edifying civic project.

STATEMENT OF DON A. LOFTUS RE CLIFTON PARK MANOR APARTMENTS,
WILMINGTON, DEL.

SECTIONS I, II, III

Some time during, I believe early April of 1949 Mr. C. Roy Martin, an economist, telephoned me at my farm where I was in retirement, and asked whether or not I would discuss, in New York, with one of the Du Pont family a suggested low-rent housing development in the Wilmington area. I told him I was retired and wished to remain so, but that I would do him a favor if possible.

A few days thereafter at the Barclay Hotel in New York City, I met Roy Martin, George T. Weymouth (of the Du Pont family) and an architect whose name was Keyst or Cyst. They told me of their plans for their property and showed me some of the architect's sketches for low-cost housing.

I inquired as to the estimated cost of the unit which the architect had anticipated to be low rent. I advised them that it was not a low-rental project and that there was not a sufficient number of low-rent units to warrant a project of that kind. After approximately 1 hour of discussion I was asked by Mr. Weymouth if I would act as consultant, come to Wilmington and look over the property, obtain the housing facts to prove the need for low-cost housing, and advise the possible type or size of apartment units that would best fit into the picture.

I advised Mr. Weymouth and Mr. Martin that I was not at all interested in being hired by anyone and that I was retired and would not wish to be paid for any services. I would accept if it were possible for me to stay away from having anything to do with the building operations. This was agreed.

I visited with George Weymouth, Tom O'Toole, Charles Benzel, and a group of their associates at the office of Charlie Benzel in Wilmington (Mr. Benzel is an investment trust manager), all of whom were interested in getting a low-rent housing project in Wilmington to help the critical housing need for the many large diversified industries, which were suffering for housing for their employees.

I spent 3 hours with them that evening, and told them that it looked to me as though they would have to have housing in the \$55 or \$60 bracket for a living room, combination kitchen and dinette, bedroom, and bath, including all utilities except electricity and gas, and top rental of \$70, preferably less, for a 2-bedroom unit. This of course was a challenge, because no such housing was available in any area close by Wilmington.

They asked if I would sit in and advise or help to solve the problem with them from time to time; whether or not I had anyone who might possibly have a plan of an apartment building which might be feasible to fit into a project on the land owned by the Byard Co. which was controlled by George T. Weymouth, Mrs. George T. Weymouth and T. B. O'Toole. I told them that most recently such a plan had been developed and submitted to FHA in Washington, D. C. I suggested that they might even hire the architect or that I might ask the architect to view the land and that I might take time out to study it from a standpoint of layout and development plan. At all times it was made clear that I was doing a favor for Mr. Martin and for an old friend, Mr. T. B. O'Toole, whom I did not know at that time to have any interest in the proposed project.

I also recommended a Fred Britton, a cost analyst and cost breakdown engineer to prepare the figures. This was done and an application to insure against advances was submitted to FHA by T. B. O'Toole, Inc., mortgage correspondent. Mr. Weymouth, Mr. Benzel, Mr. Martin, and myself discussed the plan with the officials of FHA in Philadelphia. These officials insisted that a qualified project builder must act as a part sponsor upon submission. I said, "Well, you could use my name or Don A. Loftus Associates," which meant that I would have to be a part sponsor but that some of my associates could possibly do the building of the project.

The application was then revamped including my name, and I woke up to the fact that I was in a project which I had not intended to be a part of, but was enticed into. I had not intended to subscribe for stock or be a part of the project prior to the time of submission of application to the FHA. The project planning was completely revamped by the FHA land planners and the buildings were somewhat revamped, and the FHA finally issued a commitment to insure against advances with certain requirements to be met by July 1, because after that date there would be no further FHA insurance available. This commitment to insure was obviously tenuous. Truly, we did not know what kind of a commitment we had or on what basis, until FHA made all of its demands for changes of plans, specifications, and allocation of replacement costs. Allowances were very much different than the proposed estimated requirements, so that it was more or less a "pig in the poke" type of a commitment until all of their departmental heads had made their decisions as to their department demands. However, the commitment was finally closed to insure advances during construction. The demands for funds such as I will state later, were on outright request and requirement which was necessary and essential at the time of closing advances.

After the revamping by FHA I acquired 17 or 17½ percent of common stock in Clifton Park Manor Apartments, Inc., I, II, III.

The total stock authorized excluding FHA was \$300 first preferred, \$100,000 second preferred and the right to borrow up to \$300,000 plus the signing of an indemnity bond for \$554,804 and \$7,325 of normal no par common.

Prior to obtaining commitments for the construction of the projects, the sponsors devoted hundreds of hours collaborating with engineers and architects to

evolve the many plans required for development. These plans included engineering surveys of the actual site, engineering and survey work required by the regional planning commission for New Castle County, FHA requirements, landscaping plans, and design of the respective structures themselves. In addition, the sponsors were required to negotiate with utility companies for water and lights, with the Levy Court of New Castle County for sanitary and storm sewers, and the highway department in respect to the construction and future maintenance of the roadways. All of this meant time in engineers and draftsmen to complete plans for the utility companies as well as the county and State highway department. Legal counsel was also required. Moreover, painstaking and industrious "know-how" was applied without thought of time or effort to obtain and negotiate with contractors and subcontractors capable of completing the construction in a manner satisfactory to the FHA. If their approval was not obtained there would be no closing for FHA insured advances from the mortgagee.

An error in judgment at this point could possibly mean loss of the risk capital of the unpaid efforts of the sponsors and, more important, the failure of a vital construction need in line with the aims and desires of the Federal Government. Such planning and expenditures of time and money were necessary to satisfy the FHA requirements prior to the issuance of any commitments and much of it was spent even before the application was made. These expenditures totaling roughly \$198,000 would have to be borne by the sponsors in the event the project were not approved for insurance by the FHA.

In addition, the sponsors were required to pay, prior to the issuance of commitments, application fees totaling \$17,800. Again these were not recoverable in the event a commitment was not issued by the FHA.

Indeed, the FHA almost canceled any intention of insuring the loan on Clifton Park. A dispute arose between the United States Labor Department and the subcontractors as to the prevailing wage scale paid the employees and as to trade classifications. The FHA notified the mortgagee who in turn notified Clifton Park owner-mortgagor-sponsors that FHA insurance was canceled until the subcontractors paid and classified their employees as ordered by the Department of Labor. In some instances as much as \$1,400 was paid an employee to satisfy the order. Much time and money was spent hunting out people no longer employed to be paid a properly called, "windfall."

The Philadelphia prevailing union wage and classification was used by the Labor Department. This greatly increased the prevailing rate in Wilmington. A laborer handling lumber from a truck to another laborer who handed it to a carpenter was classified as a carpenter and paid the Philadelphia carpenter wage scale. Laborers handling pipe were similarly classified as steamfitters and paid the Philadelphia wage rate. The subcontractors were chiseling but the sponsors were held responsible. The sponsors had to police the subcontractors under threat of Labor Department penalties.

During this period of 3 or 4 months no advances were received nor FHA insurance obtainable. The stockholders were called upon to advance more than \$100,000 or stop the project. Their faith and additional risk capital was vital in time saving and alleviating a housing shortage as soon as possible.

At the closing of the mortgage insured by the FHA the sponsors were required to enter into indemnity agreements personally guaranteeing completion of the projects and against structural defects for a period of 2 years during construction and 2 years thereafter. The guaranties amounted in the aggregate to \$554,804.00. Please remember that these projects were being constructed in late 1949, 1950, and 1951, during which period economic conditions in this country were anything but stable. No human being had assurances at the time of the commencement of the projects that they could be completed for the contract sums.

The sponsors personally assumed a very substantial risk in guaranteeing completion to the extent of \$554,804. Also after the commitments were issued and the construction commenced, the stockholders at one time advanced toward construction upward of \$191,000. All of the financial risks assumed by the sponsors certainly must be considered in viewing in proper perspective the development and construction of Clifton Park Manor Apartments. This project was not a windfall when the sponsors were putting in additional money amid labor troubles and a canceled commitment. This was a time calling for the courage and daring of the American businessman.

During construction and after completion, none of the sponsors or stockholders or officers received any remuneration for their efforts, guaranties, or otherwise. As a result of this saving and because of the selection of competent con-

tractors with the know-how to construct efficiently and expeditiously, a savings resulted on the projects which could not be conceived by the sponsors at the outset. The type of efficient labor and highly skilled mechanics, given an incentive with windfall pay, made it possible. The profit motive. A good American tradition. Classification of a laborer as a carpenter because he merely handles lumber, and many similar examples, perhaps helped the savings as much as anything. When the Labor Department forced this on the sponsors it was not viewed in this light, I assure you. In retrospect it undoubtedly helped.

Since the completion, the management has spent thousands of dollars for additional landscaping, trees, and shrubbery which were not required under the commitments. The sponsors' vision resulted in one of the best constructed and lowest rental projects in this area. The sponsors and the stockholders feel that they have made a great contribution to the housing requirements in the Wilmington area. This was their plan and purpose in undertaking the development and construction of Clifton Park Manor Apartments.

STATEMENT OF DON A. LOFTUS RE CLEVELAND PARKWAY GARDENS AND
BROADVIEW GARDENS

Cleveland Parkway Gardens, in a suburb of Cleveland, and Broadview Gardens, within Cleveland, interested me from the outset for this was my hometown and domicile. There has been much need for housing. Today, Cleveland is tens of thousands of housing units short of the need.

Sometime in August 1948, Mr. Nathan Sonnenblick met me at the office of Investors Syndicate Title & Guaranty Co., where I usually dropped in when in New York City. He immediately asked what I had done, if anything, with all or any part of my large landholdings in the Cleveland area. I said that I had done nothing up to date. He immediately called me a fool for not selling or developing the land now as the need for housing was so great. He then asked whether I would consider a building project on it and sell the land outright. I told him that the only kind of rental housing project that would be a real success and one in which I would be mostly interested in seeing go through would have to be for the low- or middle-income bracket family and that the monthly rental for a 3-room apartment could not exceed \$60 and for a 4-room apartment, approximately \$70. I then informed him that the Cleveland area was a high labor cost area and the only way to find out whether or not low-cost housing could be produced for this income bracket would be to have risk money spent to make a survey for proper cost estimate analysis.

I further told him that it would require a builder with the know-how to join with him as a financial sponsor and that since he had been doing business with the Investors Syndicate supplying or originating mortgages for the Investors Syndicate Title & Guaranty Co., a subsidiary of the parent company, that it might be well to ask whether or not they would agree to become the mortgagee for the project since I owned the land and, at that time, was a large stockholder of the Investors Syndicate.

Shortly after this meeting, Mr. Sonnenblick asked whether or not I would be willing to meet him and Mr. Patrick J. Dwyer of the same named construction company of New York City, either in New York or in Cleveland and arrange for a visit to the site in Cleveland. We arranged to visit the site. Somehow or other in a short space of time, the Investors Syndicate had agreed to become the mortgagee on an anticipated basis of participation wherein they would become a part owner of the project after completion and to take care of the necessary construction mortgage as well as to advance the nonproductive risk money. Mr. Dwyer worked up the building plans, the land plan and cost estimates. After much survey and analysis of the Cleveland building situation, including labor and material, cost by and through subcontractors, it looked as though there could be no such thing as low-rental housing for the Cleveland area. However, I was informed by Mr. Dwyer that he would not give up until this project could go forward and prove to be a low-rental housing garden apartment development.

During this period of time the Cleveland Electric Illuminating Co. made a new survey as to the vast need for housing in the Cleveland area, reportedly some 35,000 housing units. They were knocking at the door along with the NACA because of the great need for housing their employees and technicians. The fact that General Motors was about to start to build an \$80 million Chevro-

Jet plant and employ some 7,500 people within a mile from the proposed project site, plus the fact that Ford Motor Co. had taken an option on a parcel of ground some 3½ miles distant from the site with an announcement that the plant was to cost \$95 million and employ some 15,000 employees further proved the added need for additional housing beyond that which was revealed in the Cleveland Electric Illuminating Co. survey.

The FHA wanted something done and was being pushed from Washington to see what might be done for low-cost housing in that Cleveland area. Sometime in the early part of November 1948, I happened to be in Cleveland and Mr. George Goudreau dropped in to see me to talk about the need for low-cost housing in Cleveland. He, being a Cleveland builder, reiterated much of what had been either presented in print or passed on to me.

Since this job required some haste and the housing situation being so critical, I suggested to Mr. Dwyer that they split up the project, giving Mr. Goudreau 1 of the 3 sections as originally planned for Cleveland Parkway Gardens and that they then try to work to a point of proving that the low-rental housing might be possible. And so they went forward with the challenge to do everything possible.

During my visit in Cleveland at that time, I was told that the FHA wanted something done within the city of Cleveland in the area between, Pearl, Broadview, and Brook Park Road to help furnish homes for the Brook Park industrial area which was expanding very rapidly. I told George Goudreau the same thing I had told Mr. Dwyer. Both men agreed to help one another to the end of solving a rental problem in the \$60 to \$70 monthly bracket.

If my memory serves me right, Mr. Goudreau mentioned the fact that there was a parcel of ground which was about to be sold at a sheriff's sale in the area fronting on Broadview Road and that it might be bought at a price that would afford low-cost housing. I told Mr. Goudreau that I personally was not interested in acquiring it but it might be possible that my nephew, Mr. J. Charles Lewis, might be willing to invest if he could see a profit or a capital gain provided he could turn the money over. My nephew acquired this parcel with some small investments on the part of others.

This parcel as I found later was subject to a right by the city to claim part for park purposes and part for a proposed throughway along one side of the property. Those details I did not follow through but they evidently were worked out so that a project could be sponsored by Mr. George Goudreau and in this instance, his brother, Joe Goudreau, Investors Syndicate agreed to be the mortgagee. Applications on this site, so far as I know, were made on the same basis of the regular FHA insurance advances during construction. I am rather vague as to whether or not they finally had a change of application to insure upon completion.

Both of these projects were built to successful completion. The only interest that I had was that of seeing a successful low-rental housing project produced for the much needed housing shortage in the Cleveland area. While I eventually sold the land to the Cleveland Parkway Gardens corporations for their project, the price was 50 percent less than an offer I received less than a month before this proposal for a housing project. This much higher offer came through an attorney whom I knew quite well and who represented the Barth Co. They wanted the site for light manufacturing. This ground had been properly zoned for that use. I was not willing to accept the \$5,000 per acre which was offered because it would have a general depreciating effect on other lands which I owned in the immediate area. The price of the land sold to the Cleveland Parkway Gardens, I believe was \$98,315.98. I was paid for this land at the time that the construction mortgage and the loan agreements were signed by and between the Cleveland Parkway Gardens corporations and the Investors Syndicate.

At the time of the closing and the sale of this property, I was not a substantial stockholder of the Investors Syndicate, as I had been more or less forced to dispose of my stock at the time of the purchase of the voting controlled stock by the Alleghany Corp. which corporation, I believe, presently is the majority voting stock control owner of the Investors Diversified Services.

STATEMENT OF DON A. LOFTUS RE SHIRLEY-DUKE APARTMENTS, ALEXANDRIA, VA.

Sometime during the latter part of 1948, Mr. Cal Black came to see me at a small cottage on the keys in Florida where I was convalescing with ulcers. He pleaded with me to assist him or advise him what to do with 118 acres of land

that he was interested in, which was about to be zoned for apartments; he told me of his plan of developing it by selling off 10 to 20 acre tracts to builders for low cost rental housing and cited an instance of Bryan Gordon depositing \$5,000 on 1 parcel and 2 or 3 others who were willing to do the same and asked me to help him, advising or financing or to introduce him to the Investors Syndicate's mortgage loan heads, as he was sure that the location and need for low-rent housing would interest them.

Since I had retired and did not care to get involved in any business nor invest in any project personally but was much interested in low-rental and low-cost housing, I told him that I would be North for the holidays but suggested that he line up a group of know-how builders who might be financially able and responsible to meet the requirements of FHA. That, in the meantime, he should also find out from FHA as to his typical plan, layout and their ideas as to the need in the rental bracket which they felt was most needed and if the FHA were receptive, that I would be glad to have him and his group meet with the Investors Syndicate loan department heads after I got back North. About a week later Mr. Bryan Gordon called me from Fort Lauderdale, Fla. and came to see me that evening, asking me to be sure to visit with him and his group including Cal Black, which meeting took place in the Investors Syndicate office in the Tower Building. Mr. Gordon introduced me to Mr. Albert D. Leuders, an architect who had drawn the proposed plans, and had a land plan which had been prepared and included land topography, street, parking and group building layout.

There were present Mr. Bryan Gordon, Mr. Cal Black, Mr. Leuders, Mr. E. M. Bros, Washington area manager of Investors Syndicate.

After a half hour discussion I again asked who the group of builders were and what the financial setup was, insofar as the 10-percent requirement of FHA was concerned.

I again told them that the project of 2,100-plus units would have to be split up in 3 or 4 sections or more and that at least 3 builders and sponsors would be needed. In the course of this discussion Mr. William Bornstein dropped into the office as he had heard rumors that something was being developed. He asked if I was in the office or in town and asked to see me for just a minute. I told the girl to let him come in as most of those present knew him or knew of him.

His first question was, "I heard that Cal Black and Bryan Gordon have a project planned and I would like to get a chance to bid on the plumbing and heating, and you can well recommend my work."

I told him before the group what was lacking—that they had the rough plan and part of personnel and could undoubtedly fit the purpose, provided they could have at least two more builders of know-how on low-cost rental housing with financial requirements to meet FHA requests.

He asked, "What's wrong with my son, Al, and myself?" I said your experience in the plumbing and heating field is excellent, but you and your son, Al, are not practical, experienced project or large building constructors. He immediately suggested Herman Hutman whom I knew and he agreed to help in the financial requirement with Hutman.

Mr. Bros then spoke up and suggested Mr. E. J. Preston, who at that time was building a large single-house project known as Glenmont Forest in nearby Maryland. I told them that low rental of \$60 for 3 rooms and \$70 for 4 rooms meant the cost had to be low to meet the requirements.

These groups were invited to meet the following day or so and Mr. Bros suggested that they all get down to figures, that he had the proposed setup and estimate forms of FHA and that he had 1 or 2 adding machines, so all of them went to work. Present were Hutman, Gordon, Preston, Bros and myself.

I was sitting at Mr. Bros' desk and I am not certain whether I helped to figure, add or subtract but may have put figures down if Mr. Bros was too busy at the adding machine.

This proposed setup, I believe, was the first one submitted to FHA and understand was sent back for more sources of equity requirements.

I do not recall what sections but believed that they were the ones that Bryan Gordon was to build.

They needed someone who had cash or quick assets. When Mr. Bros phoned me about this I said that Mr. Nat Sonnenblick had many times asked me to let him know of any rental units he might buy or partake in as a rental project wherein he would supply capital and/or mortgage financing.

So, I phoned Nat and asked him if he had about \$200,000 to go into a proposed low-rental project in the Washington area, that he had always asked if I knew

of any and his answer was, "If I can have a financial interest and a just share of the stock, I will be glad to be a sponsor with Gordon" (I believe it was Gordon) at the time it was supposed to be an application for insurance on advances on commitment by FHA.

There were 2 or 3 meetings held and a proposed site plan, architects' drawings with application sent to the district office requesting approval for commitment to insure advances on a proposed mortgagee.

Much time elapsed thereafter, until I returned from Florida again, at which time I was called on for advice on the FHA turndown unless more financial responsibility on the part of the sponsors and builders could be obtained. The Investors Syndicate loan heads had agreed that they might guarantee any requirement financially to satisfy FHA, provided they have the controlling 51 percent of stock which I believed to be sound.

I may have been in the FHA offices on 2 or 3 occasions with Mr. Bros and Mr. Black on the structural details.

During months ensuing, I learned that it was more agreeable to the loan department to have a commitment on completion, whereby since the Investors were assuming all risk that they would better protect their invested funds under a construction loan agreement, that they could be assured against any failure or loss if they had their own inspection and overall supervision along with FHA inspectors. By doing so they could avoid any disagreement or reasons for final inspection and commitment to insure upon completion.

Sonnenblick's name in the equity financing and as a sponsor was supposed to have been disregarded under the later arrangements which were made for a commitment upon completion.

The mortgage loan heads advised me of their proposal wherein they would, under past experiences charge a larger interest rate and a larger fee than first thought of in lieu of the participation. The request for such a commitment was issued. I had questioned the possibility of Investors' position in case of unexpected reasons for no FHA insurance, final possible increased cost and whether any insurance department or secretary of State could have any objection as to the ownership as to the size of or percentage of the valuation of completed property, if it was a mortgage on their trust, the failure of sufficient occupancy, etc. But upon final discussion I was convinced that with proper management and supervision, that the transaction was sound.

I cannot refresh my memory as to any of the grief and hardships which undoubtedly took place during the construction period as I was not called into any discussions, was not in on any closings of the loans, did not accept or receive any participation by any stock, received no compensation, fees, salary or otherwise, not to the extent of one dime.

I was a so-called dollar-a-year consultant for Investors Syndicate. I was glad to keep my mind occupied in helping to advance the betterment of housing for the low-rental bracket mass middle class which, of course, is now the majority, but at that time was the minority.

(Checks and bank statements submitted will be found in the files of the committee.)

The CHAIRMAN. If there are no further questions, we will dismiss you gentlemen. We certainly owe an apology to Mr. Bros and Mr. Nyborg and Mr. Hoffman. I am wondering if you gentlemen can come back at 10 o'clock tomorrow morning. It would be very much appreciated by us.

Is that going to throw too much of an inconvenience on you? Can you come back at 10 o'clock tomorrow morning, Mr. Bros?

Mr. Bros. I would like to ask counsel if they can make it.

The CHAIRMAN. We certainly apologize to you gentlemen, and particularly Mr. Nyborg and Mr. Hoffman. Thank you very much and we will now recess until 10 o'clock tomorrow.

(Whereupon, at 12:30 p. m. the committee recessed to reconvene at 10 a. m., Thursday, July 15, 1954.)

FHA INVESTIGATION

THURSDAY, JULY 15, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Ives, Maybank, Sparkman, Lehman.

Also present: William J. Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

I would like to make a statement before we call our first witness.

Without objection, I would like to place in the record a petition for redress of grievances filed with the Senate yesterday by Mr. Clyde Powell. I think it is well that this document be made a part of the record, because in this document Mr. Powell is asking that members of this committee, which I am certain includes the chairman, be expelled from the United States Senate. I want to put that in the record. That is a petition for redress on the part of the attorney for Mr. Powell.

I think the record ought to show at this point that Mr. Powell, in his petition for redress, says—and I quote it:

Wherefore, the premises considered, your petitioners respectfully pray:

1. That under the power granted to each House of Congress under article I, section 5, each House expel such Members who have violated their oaths to "preserve, protect, and defend the Constitution of the United States" by committing the acts heretofore set forth.

2. That it expunge from the records of all committees all testimony which does not meet the test of judicial proof, and which has injured the reputation of any American citizen.

3. That it chain its investigating committees to the Constitution by enacting rules for their conduct, which safeguard the basic rights of the people.

(The petition for redress of grievances filed by Clyde L. Powell follows:)

To the Congress of the United States:

PETITION FOR REDRESS OF GRIEVANCES

Your petitioner respectfully represents as follows:

1. That he is a resident of the State of Maryland; and files this petition in his own right as a native-born citizen of the United States.

2. That he is a member of the bar of the United States District Court for the District of Columbia, and also files this petition on behalf of Clyde L. Powell, who is a resident of the State of Missouri, and a native-born citizen of the United States.

3. That because of the matters hereinafter set forth which delineate unconstitutional usurpation of power by the Congress; and the desecration of the Bill

of Rights by Members of the Congress, he files this petition on behalf of all American citizens for the reason that the Constitution shall remain the shield and armor of all Americans only so long as its provisions prevail and they are sustained in their original strength and significance.

4. That he files this petition under the right given all Americans under the first amendment to petition for a redress of grievances.

5. That the original and supreme will—the people of the United States—formed this Government and jealously parceled out such power as they deemed wise to entrust to the Government. Each Department was given certain powers, and these limits were not to be transcended. That the power of the Legislature was exactly defined. So that its limitations would not be mistaken or forgotten, they were indelibly engraved in article I which enumerates the 20 subjects upon which Congress may properly legislate.

6. That the function of the judicial and executive departments were carefully spelled out.

7. That all other powers not specifically conferred by the Constitution were by the terms of article X of the Bill of Rights reserved to the people of the United States.

8. That to avoid encroachment upon the powers of one department by another; and the invasion of the powers reserved by the people in article X of the Bill of Rights, the people ordained in article VI that each Member of Congress, before he was entitled to sit in either House, should take an oath to "preserve, protect, and defend the Constitution of the United States."

9. That to protect the basic rights of man—achieved after centuries of struggle—the people shielded themselves from governmental tyranny by enactment of the Bill of Rights.

10. That Members of Congress are now permitted to retain their seats while openly violating their solemn oath to protect the Constitution; and by treating as of no force the most imperative obligation an American citizen can assume.

11. That Members of Congress are destroying the Bill of Rights in that certain investigating committees and members thereof are:

(a) Charging people with criminal action without grand-jury presentment in violation of the fifth amendment;

(b) Depriving citizens of their most cherished property right—their good names and reputations—in violation of the fifth amendment;

(c) Judging citizens and inflicting punishment upon them in violation of the sixth amendment;

(d) Denying citizens the right to be tried by an impartial jury, in violation of the sixth amendment;

(e) Denying citizens the right to be informed of the nature of the charges against them in violation of the sixth amendment;

(f) Denying citizens the right to require the attendance of witnesses in violation of the sixth amendment;

(g) Denying citizens the right of counsel in violation of the sixth amendment;

(h) Denying citizens the right to confront their accusers in violation of the sixth amendment.

12. That investigating committees and certain members thereof are not only arrogating to themselves powers which they do not constitutionally possess; but they are performing acts which the Constitution specifically forbids in that they are:

(a) Violating article VIII by inflicting cruel and unusual punishments on citizens by holding them up to public obloquy.

(b) Violating the spirit and letter of article I, section 8 by attainting with crime and infamy citizens who incur legislative displeasure. Law-abiding citizens who could not be charged with offenses under existing law are publicly destroyed by this evil.

13. That on the 29th day of June 1954 your petitioner, Clyde Powell, was punished by the Committee on Banking and Currency of the United States Senate because he invoked his protection under the Bill of Rights.

That committee was purporting to investigate the operation of the Federal Housing Act. When petitioner Powell asserted his constitutional right, a letter purporting to show a criminal history was read into the record. This letter was hearsay and would not have been received in any court of the land. There was no opportunity afforded him to cross-examine the writer. The letter referred to other hearsay matters, including newspaper clippings to support the effect desired to be conveyed.

Had the petitioner been accorded the basic opportunity to cross-examine and produce witnesses he would have been able to show :

(a) That in the past 32 years he was arrested twice : once for having improper license tags on his automobile ; and that he forfeited \$5 on a disorderly conduct charge arising from passing a red traffic light.

(b) That the committee then went back 37 years to the days of the petitioner's youth to disgrace the witness.

(c) That such charges involving alleged illegal checks were drafts on his father's bank account for which full restitution was made.

(d) That an alleged conviction 37 years ago in Philadelphia never occurred.

(e) That an alleged arrest in Little Rock, Ark., 34 years ago never occurred.

(f) That he was found not guilty of a charge of embezzlement in 1917.

(g) That his confinement at "hard labor" in the Army in 1918 consisted of KP arising out of delayed return to his company after a weekend in Paris ; that he received an honorable discharge from the Army, which legally obliterates any Army disciplinary record ; which the committee chose to ignore.

(h) That he would have to admit that he received company punishment for missing reveille one morning.

14. That because of the foregoing forms of legislative tyranny American citizens are losing their most cherished heritage—the willingness to stand before any tribunal, unawed and unafraid.

15. That they are in fear of the Legislature because they are subjected to inquisition without notice ; if they answer truly they may give evidence against themselves for violating some obscure law of which they know nothing ; if they answer falsely they are perjurers ; if they inadvertently mistake a long-forgotten fact, they face a possible perjury charge ; if they refuse to answer they will be punished for criminal contempt ; if they invoke a constitutional right they are disgraced by the committee.

16. That because of the investigative tyranny, dangerous arrogance in procedural matters, and abuse of the legitimate investigative process, law-abiding citizens are being driven behind the bulwark of the Bill of Rights, even though the Legislature then draws extreme inferences of guilt—thus vitiating the very basis of the amendment.

17. That it is sheer hypocrisy for Congress to inveigh against the denial of rights in totalitarian countries—when our own Bill of Rights is being flouted in the Halls of Congress—for it is less evil to deny a human right in the first instance than to profess to give the right but deny its invocation.

18. That nearly all of the democratic countries of the world are our constitutional cousins, in that they have patterned their governmental framework from our Constitution. That we cannot lead the democracies unless we respect our own constitutional processes.

19. That nothing is more dangerous to our leadership of the free world than our elected Representatives should treat our Constitution with contempt—nothing, unless it be the failure of the citizenry to insist upon the vindication of the Constitution, for surrender of a constitutional right is the death of the charter—and without the charter there is total disregard of the dignity and destiny of man.

20. That congressional investigations, kept within their proper orbit, should be made a powerful shield to our free institutions and that it is the duty of the Congress to restore them to their proper role, under the leadership of responsible Members of Congress.

21. That the peaceful solution of these problems lies solely within the Congress itself under its plenary rulemaking power, granted under article I, section 6.

Wherefore, the premises considered, your petitioners respectfully pray :

1. That under the power granted to each House of Congress under article I, section 5, each House expel such Members who have violated their oaths to "preserve, protect, and defend the Constitution of the United States" by committing the acts heretofore set forth.

2. That it expunge from the records of all committees all testimony which does not meet the test of judicial proof, and which has injured the reputation of any American citizen.

3. That it chain its investigating committees to the Constitution by enacting rules for their conduct which safeguard the basic rights of the people.

(Signed) DANIEL B. MAHER.

Daniel B. Maher, being first duly sworn on oath according to law, says he has read the above petition by him subscribed and verily believe the statements therein to be true.

(Signed) DANIEL B. MAHER.

Subscribed and sworn to before me this 14th day of July 1954.

(Signed) ROBERT A. BRENKWORTH,
Notary Public, District of Columbia.

My commission expires November 30, 1957.

The CHAIRMAN. Mr. Powell was among the first, if not the first witness we called, last April 12. This committee was amazed and shocked when Mr. Powell, who had been with the FHA for some 20 years and who had been the head of the so-called Multifamily Housing Division since its inception in about 1940, was called before this committee and hid behind the fifth amendment and refused to answer any questions.

I am sure the members of this committee who were present remember the excellent treatment that the chairman gave Mr. Powell. I quote from the hearings:

Mr. POWELL—

after he was sworn—

I do.

The CHAIRMAN. Mr. Powell, do you care to make a statement?

Those were the first words I addressed to Mr. Powell when he appeared.

Mr. POWELL. No, sir.

Mr. Maher, his attorney, went on to talk a little bit, and then we were amazed that Mr. Powell hid behind the fifth amendment. All we wanted to ask Mr. Powell on that day was to give us the benefit of his experience of 14 years as the direct head of the department of Government which had been handling the so-called rental properties, or section 608's and 603's.

To show you how kind we were to Mr. Powell on that day, the chairman said:

The witness does not have to answer unless he cares to. We certainly are not going to force you to do so. I would say this, that we were hopeful that you would be able to assist us in arriving at some definite conclusions as to what should or should not be done with the present act that is before us. If I understand correctly, you have been with the FHA for many years. You were the Chief Administrative Officer of section 608. We felt that you were the one man who ought to know the strengths and weaknesses of the law itself, and the one man who ought to know and have facts as to whether it has or has not been administratively a good bill and one that you could live with. I understand your answer is that you will not answer any questions.

Mr. Maher, the attorney for Mr. Powell, said:

May I state, Mr. Chairman, that the answer previously given by the witness will be the answer given to any question propounded by the committee.

Then I said:

Regardless of how innocent or simple?

Mr. MAHER. Regardless of whatever nature.

Then we called Mr. Powell before this committee again on June 29 and you who were present remember that he objected to the photographers and the television and the microphones and, as chairman of the committee, I immediately ordered them removed at his request.

We asked Mr. Powell some very simple questions and he, as you well remember, refused to answer any of them. The best he would do was give his name and address.

He said:

I respectfully refuse to answer. My refusal is based upon my constitutional protection against being compelled to be a witness against myself.

We asked him on that day about his application blank that he filled out for the job with the FHA back in 1934. Of course he refused to answer. We asked him, I think, on eight different counts, if he had been arrested, and he refused to answer. That record was not that of this committee or the chairman. It was from the FBI. The FBI had furnished us with a record.

The man swore when he got his job in 1934 that he had never been arrested.

Senator MAYBANK. Let me ask you something. Did the FBI give you that report, or where did it come from?

The CHAIRMAN. It came from the Attorney General of the United States.

Senator MAYBANK. I just wondered who did it.

Mr. SIMON. The chairman wrote the Attorney General.

Senator MAYBANK. I understood that, but I wondered who signed it.

The CHAIRMAN. The Attorney General gave us the report.

Senator MAYBANK. I understand that, but he would get the information from somebody.

The CHAIRMAN. Mr. Olney, the Head of the Criminal Division, signed the record.

We then excused Mr. Powell, as you who were present well know.

Now Mr. Powell signs this petition for redress after hiding behind the fifth amendment twice. I have two suggestions to make to Mr. Powell. First, I am going to suggest—and this petition has been referred to the Rules Committee—that the Rules Committee hold public hearings and call Mr. Powell before it and let him thereby testify wherein what has been brought out by this committee is not true. Secondly, I am going to suggest to Mr. Powell and his attorney that any time he desires to appear before this committee and be sworn, of course, as every other witness is sworn, that we will be very happy to hear him and we will be happy to have him deny anything that has been said about him if he cares to do so.

If he was never arrested, all he has to do is say so. The record then will speak for itself. We on this committee do not know the answers. Only Mr. Powell knows whether he was or whether he wasn't. It seems to me that an individual is going pretty far when he accepts the employment of the people for some 20 years and then when the people, through their duly elected representatives, ask him to come before them and give an accounting of his stewardship, particularly when it was not the committee that brought about the investigation originally. It was the President of the United States who said that in his opinion there were irregularities in the operation of FHA, and then it became the duty and the responsibility of this committee to check into it.

We have been trying to do a conscientious job. We have tried to protect the witnesses and have permitted them to have attorneys. You

will remember when one gentleman who came from New Mexico and hid behind the fifth amendment, we voluntarily reminded him that if he was going to hide behind the fifth amendment he dare not answer one single question, otherwise he would hurt himself. We voluntarily advised him of that.

I can only come to one conclusion, and that is that Mr. Powell is 100 percent looking for publicity. If he is not, then as I said before, we will be very happy to hear him at his convenience in public hearing so he can publicly deny or affirm any accusation that has been made against him by anyone.

He need not take the position that he has not had his opportunity, because he has had. When he was before us a few days ago and we asked him about his arrests, all he had to do was to answer each question and say that it was not true, that he was not arrested. Instead of that, he hid behind the Fifth Amendment. I don't quite understand what he is trying to do. It seems to me it is just an attack upon the legislative branch of the Government to try to keep the Congress of the United States from checking into the activities of employees of the Government.

A man who worked for the Government for 20 years, the man who was the head of that department and who refuses to give an accounting of his stewardship, his trusteeship, to the American people cannot have much to say for himself. He did it at the very beginning on April 12. We had no intention of ever asking him any questions about anything other than the operations of his department. We were amazed that he would refuse to testify. I want to again repeat on the record to Mr. Powell that he can come before this committee any time he cares to. We urge him to do so. He can be sworn and deny or affirm anything that he cares to. I have repeatedly stated, as you know, that any man or woman's name which is uttered before this committee, either innocently or because it is necessary to do so to be honest, if they feel that they have been aggrieved, they can come before this committee themselves or can file a statement before this committee. That goes for each and every person who feels that they have in any way been misrepresented before this committee.

That is our policy and we intend to adhere to it. We have leaned over backward to be fair and honest with witnesses. It looks to me as though if this matter continues as it has the last few days of witnesses badgering we Senators who are trying to do a good job, we are going to have to get some kind of law through the Congress to keep witnesses from badgering Senators.

In this case it is the witnesses who are the ones who are very unkind and unjust to the members of this committee who are trying to do a good job.

Senator MAYBANK. I was only going to say that certainly Mr. Powell should not have hidden behind any fifth amendment after being on the public payroll for some 30 years and having run the Rental Section of the Federal Housing Administration. But I also think if Mr. Olney and Mr. Brownell have all this information on Powell, that they should have done something about it. They have been here a year and a half. I also could not understand yesterday the witness who said that the racket was being kept up in title I. I don't know Mr. Olney. I may have met him. But if he has all of this informa-

tion, it seems to me instead of petitioning the Congress that the Justice Department ought to get busy like the Justice Department did under the Democratic Administration when we exposed the scandals in the RFC and the Democrats did something about it, rather than having something in the paper every day about somebody. I don't know whether it is true or not.

The CHAIRMAN. I think the Senator is being very unjust. I think he ought to know that he is, because he well knows that the Attorney General of the United States must get evidence, take these people to court, and get indictments against them.

Senator MAYBANK. That is all I ask him to do.

The CHAIRMAN. He is doing it, don't you worry about that.

Senator MAYBANK. The FBI report has been around here how long?

The CHAIRMAN. I can't answer that.

Senator MAYBANK. Don't misunderstand me. I am not here to defend Powell, but I also want to see the Justice Department get busy.

The CHAIRMAN. I don't think the able Senator needs to worry about prosecutions, because I think there will be plenty. I think he may be amazed at the prosecutions that will come as a result of this operation.

Senator MAYBANK. The point I was trying to make was that if Powell petitioned the Congress, it was probably for advertisement.

You did not do anything nor did this committee do anything except the statement you put in there came from the Attorney General. I am thinking that the Attorney General ought to get busy.

The CHAIRMAN. Well, the Attorney General is busy. I don't run the Attorney General's office.

Senator MAYBANK. I didn't suggest that.

The CHAIRMAN. I am sure that he is busy, and I am sure that there are many indictments that they are working on at the moment.

Senator MAYBANK. I just can't understand how the FBI can send a report down here that you have read and that I read with my own eyes, that this man was arrested numerous times, and he comes back with a sworn statement—because I noticed the statement was sworn before a notary public—that that was not true.

The CHAIRMAN. Why didn't he tell this committee that?

Senator MAYBANK. Oh, I have no respect for him since he didn't answer the committee.

The CHAIRMAN. Why did he hide behind the fifth amendment?

Senator MAYBANK. My point is that I hate to see a report come down to this committee from the FBI and have it refuted on a sworn statement.

The CHAIRMAN. I am not going to protect anybody who hides behind the fifth amendment.

Senator MAYBANK. And I am not either.

The CHAIRMAN. The first witness will be Mr. Levitt.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. LEVITT. I do.

The CHAIRMAN. You may be seated.

**TESTIMONY OF WILLIAM J. LEVITT, BETH-PAGE REALTY CO.,
NEW YORK, N. Y., ACCOMPANIED BY RICHARD L. LEVY**

Mr. SIMON. Mr. Levitt, would you give the reporter your full name and address, please.

Mr. LEVITT. William J. Levitt, Levittown, Pa.

Mr. SIMON. Are you associated with the firm William Levitt & Sons?

Mr. LEVITT. No, the name is Levitt & Sons, Inc.

Mr. SIMON. Are they the builders of Levittown, N. Y.?

Mr. LEVITT. Substantially that is right, sir.

Mr. SIMON. How many houses are there in Levittown, N. Y.?

Mr. LEVITT. A little under 18,000.

Mr. SIMON. How many of those were rental houses built under section 603?

Mr. LEVITT. Something less than 6,000, a little less than 6,000.

Mr. SIMON. Are you a stockholder or officer, or were you a stockholder or officer of the Beth-Page Realty Co.?

Mr. LEVITT. Yes. There were two stockholders, my brother and myself. His name is Alfred S. Levitt.

Mr. SIMON. What was the capital stock?

Mr. LEVITT. \$50,000.

Mr. SIMON. Then as I understand it, the company borrowed \$1 million from one of the New York banks and you and your brother guaranteed the loan?

Mr. LEVITT. That is correct, personally guaranteed it.

Mr. SIMON. How many houses did Beth-Page Realty Co. build in New York?

Mr. LEVITT. Four thousand and twenty-eight.

Mr. SIMON. What was the total amount of the FHA-insured mortgage on the 4,028 houses?

Mr. LEVITT. May I correct you, Mr. Simon? Insured mortgages. There were 4,028 individual mortgages of \$7,500 each, slightly more on the corners. The total was approximately \$29 million.

Mr. SIMON. Was the total amount \$29,946,500?

Mr. LEVITT. Approximately \$29 million. You are probably right.

Mr. SIMON. I believe your accountant yesterday showed \$29,946,500.

Mr. LEVITT. Right, sir.

Mr. SIMON. What was the cost of the land on which the buildings were built?

Mr. LEVITT. Approximately \$900,000.

Mr. SIMON. Was it \$910,447.10?

Mr. LEVITT. That is correct.

Mr. SIMON. And what was the total cost to you of the buildings, including everything that you paid anybody for in connection with the project?

Mr. LEVITT. Approximately \$5 million less than the \$29 million. The difference between the two was about \$5 million.

Mr. SIMON. And I believe the cost of the buildings was \$24,169,000?

Mr. LEVITT. No cents?

Mr. SIMON. Not on my record.

Mr. LEVITT. I will agree to that.

Senator MAYBANK. Mr. Chairman, may I ask one question?

I hear a lot about rental property in New York, and we are writing up the housing bill now. Is any of that property rented for a hundred years? I don't know the New York laws.

Mr. LEVITT. No, Senator.

Senator MAYBANK. Where is that sort of property in New York City?

Mr. LEVITT. No, this is outside of New York City. These are individual one-family houses. This is not a section 608 and this is not a multifamily proposition.

Senator MAYBANK. I have heard so much about the real-estate laws of New York recently, because of certain amendments we have to have in the present housing law, and I have heard it for many years that I just thought I would have a chance to ask you while you were here.

Senator IVES. That is in New York City itself.

Mr. SIMON. Mr. Levitt, after the four-thousand-and-some-odd houses were built and the bank loan had been repaid and all debts had been paid, the company still had a little over \$5 million cash in the bank?

Mr. LEVITT. That is correct, sir.

Mr. SIMON. When was the project completed?

Mr. LEVITT. 1948. You have the dates there. I believe. I think the end of 1948.

Mr. SIMON. Wasn't it in 1949? It was in 1949 you sold the stock, wasn't it?

Mr. LEVITT. You asked me when the project was completed. It was either the latter part of 1948 or early 1949.

Mr. SIMON. Will you tell us the story, Mr. Levitt, of the sale of the stock in December 1949?

Mr. LEVITT. Yes. May I read the balance of this little memorandum which I gave you yesterday, Mr. Simon?

The CHAIRMAN. You may proceed.

Mr. LEVITT. It is a very short memo. The original mortgage insured by FHA on each one of these houses was \$7,500, a little bit more on the corner houses which represented a very small percentage. This is the direct answer to Mr. Simon's question.

In 1949 when the sale of the Beth-Page stock was contemplated, three independent appraisals were made. An average of three showed a house valuation of about \$350 above the original face amount of the mortgage. Then the stock was sold in December 1949 to Junto, Inc., which is a charitable corporation organized under the laws of the State of Pennsylvania.

Then in March 1952 the stock was resold to two realty companies for a substantial profit. This is a profit we did not show. These two companies today are selling the houses to individual purchasers for \$8,490 and upward, plus about \$200 for closing expenses.

Then this, gentlemen, I think is most interesting. FHA is now re-evaluating these houses and insuring through mortgages today of \$7,700 each, or \$200 more per mortgage, than they gave in 1948, and this is after 6 years of depreciation.

Senator MAYBANK. And they don't take in any depreciation?

Mr. LEVITT. Yes, taking into consideration that these houses are 6 years old, FHA still values them to warrant a mortgage of \$200 more than they gave to us 6 years ago.

I would like also to clear up one little thing that we had in yesterday's discussion.

Mr. SIMON. That is a different record. We are happy to have you say anything you want, but that record is not a part of this one.

Mr. LEVITT. May I say, without reference to yesterday, that there is a question as to whether or not in section 603 the mortgage was based on cost or on value. We took the trouble to look up the law, and we find that in section 603 the mortgage was based on value.

In other words, the commissioner's estimate of value and not of cost.

Mr. SIMON. That was true in the original act, Mr. Levitt, but I think you will find that Public Law 388, approved by the Congress May 22, 1946, changed that.

Mr. LEVITT. To say what?

Mr. SIMON. To provide that the mortgages should be based on estimated costs. Then the act of December 1947 further changed the law to provide that the estimated cost should be as close as feasibly possible to the actual costs.

Mr. LEVITT. One of us has the wrong book, because I have got it here.

Mr. SIMON. This is the National Housing Act, as amended, as prepared by the Superintendent of Documents in the Government Printing Office.

While you are looking at that, may I ask you a couple of questions?

Mr. LEVITT. Surely.

Mr. SIMON. In December 1949 you sold the stock to Junto, Inc. At the time of the sale, were the assets of Beth-Page Realty Co. about \$5 million in cash and some houses that had cost you about \$25 million?

Mr. LEVITT. Right, sir.

Mr. SIMON. What were the assets of Junto, Inc., immediately preceding the sale?

Mr. LEVITT. Nominal.

Mr. SIMON. By nominal you mean it had a couple of thousand dollars of assets?

Mr. LEVITT. If it had that much.

It received its income solely from the fees it charged under the adult education program.

Mr. SIMON. That is Junto?

Mr. LEVITT. That is correct.

The CHAIRMAN. They are in Philadelphia?

Mr. LEVITT. That is correct.

Mr. SIMON. And you sold them this stock for \$1,550,000?

Mr. LEVITT. That is right.

Mr. SIMON. The afternoon of the sale did they declare a dividend of the money in the corporation's bank account?

Mr. LEVITT. At your request, I have people here who know the details of it. They handled it. They would have to tell you that. I wouldn't know. I have some heresay on it, but I think they will tell you directly.

Mr. SIMON. Could Mr. Levy come up?

Mr. LEVITT. Surely.

The CHAIRMAN. Will you be sworn, please?

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LEVY. I do.

Mr. SIMON. Would you give the reporter your full name and address.

Mr. LEVY. Richard L. Levy, L-e-v-y.

Mr. SIMON. I believe you handled the legal details of this transaction, Mr. Levy.

Mr. LEVY. That is right, sir.

Mr. SIMON. On the afternoon of December 27, 1949, after the contract for the sale of the stock had taken place, did Junto, Inc., declare a dividend of the cash in the bank account of Beth-Page Realty?

Mr. LEVY. Yes, sir. On December 27, after Junto, Inc., became the owner of the stock by paying \$1,150,000, they declared a dividend of some \$1,920,000.

Mr. SIMON. And used the proceeds of the dividend to pay for the stock it purchased from Mr. Levitt and his brother?

Mr. LEVY. On the same date, \$1,500,000 was paid back to the bank which, on December 23, had loaned \$1,500,000 to Junto. The balance of the purchase price was paid as follows: On January 4, by check dated January 1, the Levitts were paid \$1,300,000. In December 1950 the Levitts were paid \$250,000, which was the balance of the purchase price.

Mr. SIMON. Then without going into it step by step, just what happened, Mr. Levy, that a charitable corporation with assets of about \$2,000 bought this stock from the Levitts for \$5,150,000 and used the cash in the bank account of Beth-Page to pay the purchase price.

Mr. LEVY. They borrowed \$1,500,000 the 23d of December before they acquired the stock, and that was the money paid to the Levitts on December 27.

Mr. SIMON. With the interim bank loan they paid the \$5 million purchase price out of the cash that was in the corporation's bank account with an interim bank loan for a few days?

Mr. LEVY. That is right.

Mr. SIMON. Mr. Levitt, you were fearful that that money in your bank account would be subject to normal income tax, is that right?

Mr. LEVITT. Frankly, there are some tax cases going on I don't know, but I guess you are right.

Mr. SIMON. Wasn't that the consideration that prompted you to sell the stock?

Mr. LEVITT. Very definitely, Mr. Simon, yes.

Mr. SIMON. And by selling it to a charity and getting the proceeds from the sale of stock you had what was clearly under the tax laws a long-term capital gain?

Mr. LEVITT. That is correct, sir.

The CHAIRMAN. Mr. Levitt, let me see if I understand what happened here.

You received for these 4,000 rental houses approximately \$29,500,000 from the mortgage proceeds?

Mr. LEVITT. Right, sir.

The CHAIRMAN. And they cost you, total cost, about \$24 million and something?

Mr. LEVITT. That is correct, sir.

The CHAIRMAN. Thereby making a difference between the actual cost and the amount of proceeds of the mortgage of about \$5 million?

Mr. LEVITT. That is correct, sir.

The CHAIRMAN. You then proceeded to sell the common stock. How much did you pay originally for the common stock?

Mr. LEVITT. \$50,000.

The CHAIRMAN. You then proceeded to sell the common stock to this Junto Corp. in Philadelphia for \$5,150,000?

Mr. LEVITT. Right, sir.

The CHAIRMAN. They, in turn, owned the common stock of this original corporation as well as the equity in the houses on which the FHA had insured mortgages for \$29 million.

Mr. LEVITT. Right, sir.

The CHAIRMAN. I understood since that time Junto Corp. has sold this common stock that you sold to them for \$5,150,000 for some \$2 million to two other fellows.

Mr. LEVITT. That is correct, sir.

The CHAIRMAN. And that now these two gentlemen are selling these individual houses. They are no longer rental houses.

Mr. LEVITT. That is right.

The CHAIRMAN. They are now being sold to individuals.

Mr. LEVITT. Right, sir.

The CHAIRMAN. Therefore taking them out of the rental classification?

Mr. LEVITT. That is right, sir.

The CHAIRMAN. And in selling these houses they are likewise selling them at, you testified a moment ago, above the original mortgaged amount?

Mr. LEVITT. Oh, substantially higher, yes, sir.

The CHAIRMAN. And the FHA is now taking back mortgages on these houses from the individual purchasers?

Mr. LEVITT. That is right.

The CHAIRMAN. Is that correct?

Mr. LEVITT. That is right.

The CHAIRMAN. And in many instances at a little higher amount than they originally had when you were connected with them.

Mr. LEVITT. In all instances, Senator.

The CHAIRMAN. So this matter of the FHA insuring mortgages is sort of like a dog chasing its tail.

Mr. LEVITT. That is right.

May I mention one thing?

The CHAIRMAN. Yes.

Mr. LEVITT. In effect we sold four-thousand-some-odd houses for a profit of a little over \$1,000 a house.

Today, based on our original costs, the houses are being sold for a profit of about \$2,000 a house.

The CHAIRMAN. And FHA is again guaranteeing the mortgages?

Mr. LEVITT. Correct, sir. So that if we had not entered into this transaction in 1949 but had held the houses until today, we would have sold, instead of for \$5 million, for \$10 million.

Senator MAYBANK. But you would have had to get the permission of FHA.

Mr. LEVITT. No, sir. There is a distinction between this and section 608. I believe I have followed these—

Senator MAYBANK. I understand, but on an appraisal basis—you have testified that the FHA is reappraising these houses now on a value basis.

Mr. LEVITT. That is correct, but I don't need the permission of the FHA to sell houses.

Senator MAYBANK. Senator Sparkman wasn't here. The new mortgages run materially above the old mortgages.

Mr. LEVITT. The ones granted to us, that is correct.

Senator MAYBANK. And in addition, you have all the depreciation of these houses for 6 years.

Mr. LEVITT. Correct, sir. The point I am making, Senator, is that we did not need the permission of FHA. If we had held these houses 6 years or 5 years and we wanted to sell them we could do so.

The CHAIRMAN. You told us about 4,000 of the 6,000 houses. What about the other 2,000 houses? What name were they built under?

Mr. LEVITT. Land-Trees Corp., which subsequently merged into the Levitt name.

The CHAIRMAN. How much was the difference between the actual cost of those 1,800 houses and the amount of the proceeds?

Mr. LEVITT. Frankly, Senator, I don't know the answer. I will be glad to get it for you. That was part of Levitt & Sons complete operation. We had a lot of other work.

The CHAIRMAN. Is it your best judgment that you did make a profit?

Mr. LEVITT. Some, yes. Not too much.

The CHAIRMAN. You had two operations in Norfolk, Va.

Mr. LEVITT. Yes, sir.

The CHAIRMAN. I believe on one of them you testified you made something like \$750,000.

Mr. LEVITT. Not from FHA. That was on the sale of the property.

The CHAIRMAN. That sale of the property where the mortgages were guaranteed by the FHA?

Mr. LEVITT. Yes, we sold the houses for \$1,000 apiece over and above the mortgages.

The CHAIRMAN. But the mortgages were guaranteed by FHA?

Mr. LEVITT. That is correct, it was an FHA job.

The CHAIRMAN. And it was about \$750,000.

Mr. LEVITT. A thousand a house.

The CHAIRMAN. And you also had another project that I believe you testified went sour and you lost money but you gave that back to the FHA?

Mr. LEVITT. That is correct.

The CHAIRMAN. In other words, they repossessed it?

Mr. LEVITT. We gave it back to the RFC.

The CHAIRMAN. In other words, FHA through the RFC had guaranteed the mortgages?

Mr. LEVITT. FHA guaranteed to RFC.

The CHAIRMAN. And it went sour, as you said, meaning that it couldn't—

Mr. LEVITT. There were no people there to put into the houses.

The CHAIRMAN. And you couldn't make any money out of it.

Mr. LEVITT. We couldn't get any tenants for it.

The CHAIRMAN. So that went back to the FHA?

Mr. LEVITT. That is right.

The CHAIRMAN. Thank you very much.

Senator SPARKMAN. Is that defense housing?

Mr. LEVY. That was defense housing at the Norfolk Navy Yard where the St. Helena Ship Annex was supposed to open but never did open.

The CHAIRMAN. You were able to turn that back because you have separate corporations handling each of these projects?

Mr. LEVITT. That is right.

The CHAIRMAN. In other words, had it been one corporation, you couldn't have done that?

Mr. LEVITT. Senator, I understand your implication on that and I do like to answer it. Particularly in a war housing job, particularly in an area where we didn't even want to build but were asked to build, we would be the poorest businessmen in the world to jeopardize a substantial corporation on a piece of paper where we didn't know what was going to happen to it.

The CHAIRMAN. I thoroughly understand it.

Mr. LEVITT. The corporation was formed for the purpose.

The CHAIRMAN. I fully understand and we are just trying to get the facts of what happened. Here is a case where under a section 603 project in New York on 4,000 houses you are able to make something like \$5,100,000 out of the mortgage and pay capital gains. You still owned the equity in the houses?

Mr. LEVITT. No, sir. Once we made the capital gain profit, we divested ourselves of the houses. We didn't have them.

The CHAIRMAN. And the people who bought the stock in Philadelphia owned them, then.

Mr. LEVITT. They did but we were through.

The CHAIRMAN. Since that time they have resold the stock for about \$2 million to two other gentlemen who now in turn expect, I am sure, since they are businessmen, to make some money.

Mr. LEVITT. No question about it.

The CHAIRMAN. And we find that the FHA now is insuring the houses a second time for possibly a little more money than they did the first time.

Mr. LEVITT. That is correct, sir.

The CHAIRMAN. And you are able to sell these houses and build them through the virtue of the FHA guaranteeing the mortgage.

Mr. LEVITT. That is correct. May I make one little statement. You mentioned something and I would like to leave the right impression. Once we took the profit on these houses, we were through. We did not have our pie and eat it. We did not make a profit on houses and still own the houses.

The CHAIRMAN. In your case that is true.

Mr. LEVITT. I am talking only about our case.

The CHAIRMAN. And we also have discovered—and I don't mean this to criticize you but just being factual—that you had 4 projects, 2 in Norfolk and 2 in Levittown, N. Y. One of them you made a \$5 million profit on and the other one you don't recall how much you made but you are sure it is a substantial amount. You made \$750,000 on one in Norfolk. The fourth one went sour so the Federal Government got it back. Is that correct?

Mr. LEVITT. That is right, except let's bring the record up to date. The Federal Government got it back and has made a lot of money on it

since. I just want to comment on the FHA program. It has made a lot of money on that job since.

The CHAIRMAN. Under the arrangements that the FHA had with you and with others, where they have these separate corporations, a multiplicity of separate corporations, it simply means that the good ones the builders keep and the bad ones they give back to the FHA. Is that a true statement?

Mr. LEVITT. That is right, sir. You know that I have been in the building industry for a quarter of a century and I am supposed to be the leader of the housing industry in this country.

I would like to make one brief statement. The title VI program, both sections 608 and 603, was a program of desperation. You had no building for 5 solid years and you had a tremendous amount of people who needed to be housed. In all commonsense you would never have gotten any builder over the age of 16 to go in and venture either time, trouble, money, or anything else and get the volume of housing that had to be gotten.

Certain evils had to be experienced. As you know, the section 608 program expired in 1950.

All of us are operating under difficult conditions on selling houses. FHA's commitments don't mean anything unless you get a purchaser for the houses, a bona fide purchaser approved by the FHA as to credit.

I think it should be borne out that while sections 603 and 608 were moneymakers, the housing was produced and if the housing had not been produced you gentlemen might have greater troubles on your hands now.

The CHAIRMAN. You may be right in your conclusion, but I am sorry that it had to be like that because I think it is quite an indictment of the private-enterprise system in America with respect to housing that you just can't get housing unless the Federal Government guarantees it 100 percent.

Mr. LEVITT. As long as we indict the private-industry system may I comment on just one other little thing? I said this in a speech that I made to the Herald Tribune Forum. If we ever have a situation like this again, in Heaven's name let the Government permit during a war or anything else a small amount of housing so as to build up an inventory and to avoid a repetition of this.

The CHAIRMAN. The purpose of these hearings is to make certain that we don't make the same mistakes the second time. Thank you very much.

Senator MAYBANK. Mr. Levitt, have you any notes on this present housing law as to how we could perhaps amend it where we wouldn't have all these corporations?

Mr. LEVITT. Not about the corporations, but I think the need for the type of housing that we did need 10 years ago is now over.

Senator MAYBANK. We cut out section 603 in 1947, wasn't it?

Mr. LEVITT. That is right.

Senator MAYBANK. Then this committee tried to cut out section 608 quite a while before it was cut out on the Senate floor and it was extended after it came on the Senate floor. Is there really all the need for houses now that they scream about?

Mr. LEVITT. Definitely and irrevocably no and if you continue and don't give us legislation by the time 1960 comes along you will be back where you were in 1945 and there will be trouble unless we get legislation that permits an increased volume of housing for sale from now on until 1960. You are going to need it or you are going to have the same situation then you had in 1946.

Senator MAYBANK. Then you, as a builder, believe that the main thing—and I ask this question sincerely—in this housing bill that we can do would be to give all attention to houses for sale?

Mr. LEVITT. That is right, but remember that the lifeblood of this country is on credit and let the little fellow have credit with a modest down payment in order to buy a house, for the GI's and the non-veterans.

The CHAIRMAN. Mr. Levitt, if there is that big a demand for houses why can't private industry handle it themselves?

Mr. LEVITT. You will have to talk to the banking industry as to whether they want to make a 95 percent uninsured mortgage.

We, the builders, didn't want to do it and the banks don't want to do it today unless it is a very conservative mortgage.

The CHAIRMAN. Thank you very much. We appreciate your appearance.

Our next witness will be Mr. Alfred Gross of New York City, the owner of Glen Oaks Village of Jamaica, N. Y.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF ALFRED GROSS, GLEN OAKS VILLAGE, JAMAICA, N. Y., ACCOMPANIED BY HAROLD GOLDMAN AND LONNIE GARVIN, COUNSEL

Mr. GROSS. I do.

The CHAIRMAN. Will you be seated, Mr. Gross.

Mr. GROSS. May I present my counsel.

The CHAIRMAN. And give the name.

Mr. GOLDMAN. Harold Goldman, 233 Broadway, New York.

Mr. GARVIN. Lonnie Garvin, Aiken, S. C.

Mr. SIMON. Mr. Gross, would you give the reporter your full name and address, please.

Mr. GROSS. My name is Alfred Gross, 812 Park Avenue, New York City.

Mr. SIMON. Mr. Gross, are you connected with the final project in New York?

Mr. GROSS. Yes, sir.

Mr. SIMON. Who are the stockholders in that project, or are they all you and members of your family, your brother and his family?

Mr. GROSS. That is right.

Mr. SIMON. I believe there are 11 corporations in the project, are there not? For this purpose, if you have the figures, could we treat them all as one and give us the combined figures for all 11 instead of breaking them down into the 11 different corporations.

Mr. GROSS. I believe that would be preferable.

Mr. SIMON. What was the cost to your family of the land on which these 11 corporation built their buildings?

Mr. GROSS. The cost was \$981,367.

Mr. SIMONS. Is that the amount of money you paid or does that include the costs you had before the 99-year lease was made.

Mr. GROSS. That includes the money we paid for the land and the money we paid for the portion of the improvements that we put in the place.

Mr. SIMON. So \$981,000 was your cost as of the time the 99-year leases were made, is that right?

Mr. GROSS. No, that isn't exactly correct.

Mr. SIMON. What was your actual cost as of the time the 99-year leases were made?

Mr. GROSS. At the time the 99-year leases were made, the improvements had not been put in the place. The leases—one of the requirements of the leases was that we put the improvements in the place.

Mr. SIMON. What you are saying is while this was the total cost some of this hadn't been expended at the time of the leases, is that right?

Mr. GROSS. That is right.

Mr. SIMON. What was the FHA valuation put on the land in connection with the 99-year leases?

Mr. GROSS. \$965 a lot.

Mr. SIMON. What did that amount to for the entire tract?

Mr. GROSS. I can compute it.

The CHAIRMAN. How many tracts were there?

Mr. GROSS. About 2,800 lots.

The CHAIRMAN. And how much was it per lot?

Mr. GROSS. \$965. I have the totals.

Mr. SIMON. Was the total \$2,645,000, Mr. Gross?

Mr. GROSS. Yes, sir.

Mr. SIMON. Is the land mortgaged?

Mr. GROSS. The land is mortgaged.

Mr. SIMON. What is the amount of the mortgage?

Mr. GROSS. The amount of the mortgage is 90 percent of that money?

Mr. SIMON. 90 percent of the \$2,645,000, which would be about \$2,400,000?

Mr. GROSS. That is about right.

Mr. SIMON. And the mortgage is on the fee, which is subject on the 99-year lease, is that right?

Mr. GROSS. That is right.

Mr. SIMON. And on that fee is a \$25 million building insured by the FHA and the ground rent comes ahead of the FHA mortgage, is that right?

Mr. GROSS. That is not exactly correct. The buildings are built, legally speaking, on a leasehold.

Mr. SIMON. Which makes the mortgage on the fee a prior lien over the mortgage on the leasehold, doesn't it?

Mr. GROSS. May I ask counsel exactly what you mean by that?

The CHAIRMAN. Let's put it the other way around. The FHA, being the guarantors of the mortgage, cannot repossess those buildings without the consent of the person holding the mortgage leasehold, is that correct?

Mr. GROSS. No, sir, they can repossess at any time.

Mr. SIMON. Mr. Gross, if there should ever be a default in the ground rent on the leasehold, then the owner of the fee becomes the owner of the buildings, isn't that true?

Mr. GROSS. That is true.

If the ground rent is not paid there would be a default on the lease.

Mr. SIMON. And if the FHA in that event wanted to protect its interest in the mortgage on the buildings, it would have to purchase the land?

Mr. GROSS. No, sir, it would simply have to continue to pay the ground rent.

Mr. SIMON. Either pay the ground rent or purchase the land?

Mr. GROSS. That is right.

Mr. SIMON. It is for that reason, is it not, that you were able to get a mortgage in such a high amount?

Mr. GROSS. Which mortgage are you referring to?

Mr. SIMON. On the land, on the fee.

Mr. GROSS. That is not exactly correct, Mr. Simon. The reason we got the mortgage on the land was because the land was worth a lot of money and the lending institution gave us a loan.

Mr. SIMON. Isn't it because there was an FHA mortgage on the buildings and that the leasehold was ahead of the mortgage?

Mr. GROSS. No, sir, there was no mortgage on those buildings.

The CHAIRMAN. On vacant land?

Mr. GROSS. No, sir.

Mr. SIMON. At any rate, you paid \$981,000 for the land and improvements. The FHA valued it at \$2,645,000 and you got a mortgage for \$2,400,000, is that right?

Mr. GROSS. That is substantially correct.

Mr. SIMON. What was the total amount of the mortgage commitment that FHA issued for the 11 buildings?

Mr. GROSS. The mortgage totaled \$24,359,900.

Mr. SIMON. When was the building completed, or when were the buildings completed?

Mr. GROSS. The buildings were completed about November of 1950.

Mr. SIMON. How did the mortgage proceeds—

Mr. GROSS. I beg your pardon. November of 1949.

Mr. SIMON. Out of the mortgage proceeds I take it that you repaid any loans or advances that you and your family had made to get the project going?

Mr. GROSS. That is correct.

Mr. SIMON. And after repaying all the loans and advances, how much were you able to distribute to yourselves?

Mr. GROSS. We distributed \$4,600,000 to the common stockholders.

Mr. SIMON. And in addition to that, you had approximately \$1,400,000 of the mortgage proceeds in excess of the cost of the land, is that right?

Mr. GROSS. I don't follow that figure.

Mr. SIMON. The mortgage was \$2,400,000 and the total cost of the land was \$981,000, is that right?

Mr. GROSS. Yes, sir.

Mr. SIMON. So the difference was \$1,400,000.

Mr. GROSS. Yes, sir.

The CHAIRMAN. Does that mean they made approximately \$6 million?

Mr. SIMON. Well, as I understand the facts, after repaying yourselves for all the moneys advanced for getting the construction going and after reimbursing yourselves for the cost of the land, you had \$6 million that was distributed to your family either as a stock distribution or as excess of the mortgage over the cost of the lands, is that right?

Mr. GROSS. No, sir, that is not quite right.

The CHAIRMAN. Well, you tell us what it is.

Mr. GROSS. We distributed approximately \$6 million but it was not the excess proceeds of the mortgage over the land.

Mr. SIMON. When was the distribution made, Mr. Gross?

Mr. GROSS. \$800,000 of the distribution was made at the end of 1949. Let me look at my figures.

I think I recall—\$800,000 was distributed in November or December of 1948 and \$3,800,000 was distributed in December of 1949.

I don't recall the date of distribution of the proceeds of the mortgage. It was in 1949 because all of those amounts were on income tax returns for that year.

Mr. SIMON. Mr. Gross, the buildings were completed in November 1949, is that right?

Mr. GROSS. Yes, sir.

Mr. SIMON. And by December of 1949 you had repaid all of the loans and advances that were made, including the money advanced to purchase the land, and still distributed \$6 million in cash, is that right?

Mr. GROSS. Yes, sir.

Mr. SIMON. And you and your family still owned the buildings and land, is that right?

Mr. GROSS. Yes, sir.

The CHAIRMAN. Did you enter into a contract with FHA that if they had to repossess the land they would pay you a certain amount for the land?

Mr. GROSS. No, sir.

Mr. SIMON. Isn't there a recapture provision in your 99-year ground lease?

Mr. GROSS. That is not a contract. That is an option to purchase the land if they wish.

The CHAIRMAN. What is the amount of the option that you gave FHA?

Mr. GROSS. The FHA has an option on most of the land for \$2 million—something less than \$2,500,000.

The CHAIRMAN. In other words, the FHA will have to pay \$2,500,000 to get the land back that you paid \$900,000 for if the FHA ever wants to repossess the buildings on which it is now guaranteeing the mortgage?

Mr. GROSS. I would like to phrase it differently, Senator.

The CHAIRMAN. Did I phrase it wrong?

Mr. GROSS. I don't say you phrased it wrong. I just want to phrase it differently.

If the FHA exercised its option, it would be taking from me a piece of land that is worth over \$4 million today.

The CHAIRMAN. What is the amount of the capital in your 11 corporations?

Mr. GROSS. \$90,000 in common stock and \$100 of preferred stock.

The CHAIRMAN. In other words, you made \$6 million on a \$90,000 investment?

Mr. GROSS. No, that is not a complete statement, Senator.

The CHAIRMAN. Well, what is the amount of the capital stock?

Mr. GROSS. The capital stock consists of two classes. One is common stock and one is preferred stock.

The CHAIRMAN. Who owns the preferred? How much is the preferred stock?

Mr. GROSS. The preferred stock amounts to \$100. I will have to quote from memory.

The CHAIRMAN. The preferred stock is not equity. That is owned by the FHA under the FHA's rules.

Mr. GROSS. The common-stock holders had to pay \$90,000 plus an obligation to guarantee completion of the project.

The CHAIRMAN. But that was loaned and that was later repaid out of the proceeds of the mortgage.

Mr. GROSS. That is true and they fulfilled their obligation. The FHA paid \$100 for its preferred stock plus an obligation to guarantee the mortgage.

The CHAIRMAN. See if I am correct in this statement. The total capital stock, meaning the total amount of capital that you and your family have in these projects, is \$90,000?

Mr. GROSS. But that is not the total capital stock of the corporations.

The CHAIRMAN. What is the total?

Mr. GROSS. \$90,100.

The CHAIRMAN. I just missed it by \$100.

Mr. GROSS. No, sir, you missed a complete class of stock, the preferred stock.

The CHAIRMAN. That is the \$100 worth of stock that the FHA has in each of these projects?

Mr. GROSS. That is the same type of token investment that we have in these corporations.

The CHAIRMAN. It is \$1,100, \$100 a corporation?

Mr. GROSS. Presently.

The CHAIRMAN. That is \$1,100 preferred stock and \$90,000 in common stock. That is the total amount of capital put in these projects.

Mr. GROSS. Yes, sir.

The CHAIRMAN. Out of which you have taken \$6 million in dividends and you still own the property?

Mr. GROSS. Yes, sir. We have taken \$6 million and the preferred-stock owners have taken \$680,600 for their \$100.

The CHAIRMAN. How is that?

Mr. GROSS. The preferred-stock holders have taken \$680,000.

Mr. SIMON. In dividends or in fees?

Mr. GROSS. Mr. Simon, in your last discussion you told me to disregard everything except the token amount of the stock—

Mr. SIMON. Mr. Gross, aren't you talking about the FHA fees?

Mr. GROSS. Fees for what, sir?

Mr. SIMON. For guaranteeing the mortgage and for filing the applications and for inspections?

Mr. GROSS. No, sir, I am talking about payment for guaranteeing the mortgage and when I speak of the \$4,600,000, I regard it as payment for guaranteeing the construction of the building.

The CHAIRMAN. Are you telling us that the Federal Government has had \$681,000 worth of dividends from this \$1,100 worth of preferred stock?

Mr. GROSS. I said that the preferred stockholders received \$680,000. I said that the common-stock holders received \$4,600,000.

The CHAIRMAN. What was the \$680,000 for?

Mr. GROSS. The \$680,000 was for \$100 preferred stock plus an obligation to guarantee the mortgage.

Mr. SIMON. It had no relation to the preferred stock did it, Mr. Gross?

Wasn't that the Government's fee for guaranteeing the mortgage?

Mr. GROSS. Under no circumstances, Mr. Simon, does the preferred stock or the common stock have any relation to the guaranty.

The CHAIRMAN. We are learning something here now that hasn't ever before been injected into these hearings.

I am very much interested in it.

The Federal Government got \$681,000 in dividends?

Mr. GROSS. No, sir, the Federal Government got \$680,600 in money.

The CHAIRMAN. Let's have the breakdown on it.

Mr. GROSS. The breakdown is the amount of money we have paid the Government for mortgage insurance premium.

The CHAIRMAN. Isn't that the regular amount that everybody pays which goes into a fund for guaranteeing these mortgages?

Mr. GROSS. Nevertheless, the only token stock that the FHA had in this corporation was \$100. That is the token stock. The common-stock owners have a token stock of \$90,000. Another requirement of the common-stock holders beyond the \$90,000 was that they guarantee completion of the project. That they have done. The other requirement for the preferred-stock holder was that it guarantee repayment of the mortgage. That it is presently doing. It has also received \$680,000 and, all things being equal, the FHA will receive in excess of \$2 million for an actual cash investment in this corporation of \$100 worth of token stock.

Mr. SIMON. Mr. Gross, the \$6 million—

The CHAIRMAN. Mr. Gross, what you are trying to do now is to fool this committee.

Mr. GROSS. No, sir.

The CHAIRMAN. And you are trying to fool the people listening. You know that the fees you are talking about are fees that everybody pays in connection with FHA guaranteed mortgages?

Mr. GROSS. And I know, sir, that the sponsors make a profit, not because of the investment in token common stock, but because they guarantee completion of the project. One guaranty is just the same as the other.

Mr. SIMON. Isn't there this difference, Mr. Gross, that you and your family got the \$4,600,000 to do with as you please?

Mr. GROSS. Yes, sir.

Mr. SIMON. And the money paid into the FHA goes into an insurance fund to redeem defaulted mortgages and no part of it goes to the Government.

Mr. GROSS. It certainly has and it is gone to redeem all mortgages.

Mr. SIMON. Doesn't it go to a fund to redeem mortgages?

Mr. GROSS. Yes, sir, but we are speaking of the investment and the guaranties in that development. I have my portion and the Government has its.

Mr. SIMON. But the fees you are talking about go to an insurance fund.

Mr. GROSS. That is something the FHA should answer. I pay the money out.

Mr. SIMON. Don't you know that is the fact?

Mr. GROSS. I believe it to be true.

The CHAIRMAN. Did you know before you started in on this project that you would be able to mortgage out or make \$6 million?

Mr. GROSS. I sincerely hoped I would be able to mortgage out. The information I received from one or another agency of the Government was that in all probability an efficient builder could receive more than the cash expenditures out of the mortgage proceeds.

The CHAIRMAN. Why didn't you put the land in your application?

Mr. GROSS. Senator, I did put the land in my first application.

The CHAIRMAN. How did it happen to get taken out later?

Mr. GROSS. May I explain it, sir?

The CHAIRMAN. Yes. If you were agreeable to putting the land in, we want to know why the FHA didn't insist on your doing it.

Mr. GROSS. I can only tell you what the FHA told me and the reasons they gave me the best I can remember after 7 years.

The CHAIRMAN. We are certainly interested in knowing that. Here is land valued at \$2.6 million.

Mr. GROSS. I think it is worth more.

The CHAIRMAN. Are you going to now testify that you offered to put it in the corporation and the FHA didn't want it?

Mr. GROSS. Senator, I am not in the habit of testifying. I am not a lawyer. I am simply going to read you from a document. I can't testify as to something that happened 7 years ago.

The CHAIRMAN. I say you are going to read and show us that you wanted to place the land in the corporation and the FHA didn't want you to do it?

Mr. GROSS. I didn't say I wanted to. I said it was in the first application.

The CHAIRMAN. I see.

Mr. GROSS. On February 17, 1947, we made an application to the Federal Housing Administration for a mortgage on section 1. This application was for a mortgage in the sum of \$4,432,500. The check in payment of the fee which accompanied this application to the FHA obviously provided a fund to pay for the examination of the sketches and to make the cost analysis which they make.

In this application, we thought that our total construction costs exclusive of the land, would be \$4,411,963. We distributed these amounts so as to arrive at this total in accordance with a brochure which we were working from, published by the National Housing Agency, the Office of the Expediter.

The CHAIRMAN. May I see that document?

Mr. GROSS. Yes, sir. This brochure has a letter in the beginning signed by Mr. Wyatt and another by Mr. Raymond Foley, and it ex-

plains to a builder how to go about getting a section 608 mortgage and how to fill out an application. It is interesting to know that it says:

The concluding four pages contain a reproduction of the FHA form application for mortgage insurance. The typical case shown is taken from actual records and illustrates how a project is set up for mortgage insurance.

We followed this form and distributed the money in accordance with this typical case.

It is interesting to note that in the estimated requirements for the builders' and architects' fees, 5 percent is used in each instance. May I have that application, sir?

It is the only one I have.

The CHAIRMAN. You placed in this application 5 percent architects' fees. Did you actually spend 5 percent in architects' fees in the construction of these projects?

Mr. GROSS. No, sir.

The CHAIRMAN. About what did you spend?

Mr. GROSS. 1 percent, perhaps a little more.

The CHAIRMAN. You put in this application 5 percent builders' fees; did you spend 5 percent for builders' fees?

Mr. GROSS. At that time I hadn't spent anything.

The CHAIRMAN. In the construction of these buildings, did you pay 5 percent?

Mr. GROSS. No, sir; I didn't pay 5 percent.

The CHAIRMAN. What did you pay?

Mr. GROSS. About 1 percent.

The CHAIRMAN. About 1 percent builders' fees, too?

Mr. GROSS. I beg your pardon. We paid no builders' fees.

The CHAIRMAN. But in the application you were allowed 5 percent for builders' fees?

Mr. GROSS. Yes, sir. We submitted this application and about a month later we were called in to a conference by the Federal Housing Administration, New York office.

There were several people in the conference. I don't remember just who was there, but each department was represented. They told me at that time that according to their cost analysis the physical—shall we say the cost of the estimated requirements for these buildings was more than my estimate.

Mr. SIMON. Mr. Gross, talk into the microphone, please.

Mr. GROSS. They told me the cost would be more than my estimate.

The CHAIRMAN. Who told you that?

Mr. GROSS. The representatives of the Federal Housing Administration.

The CHAIRMAN. Do you remember the name of the man?

Mr. GROSS. No, sir; there were 5 or 6 of them present.

The CHAIRMAN. Do you remember the names of any of the 5 or 6?

Mr. GROSS. Yes, sir; I probably could recall some.

The CHAIRMAN. Was it the State FHA director?

Mr. GROSS. No, sir. I never did business with the State director, only with the district director.

The CHAIRMAN. Can you get us the names of the 5 or 6 FHA employees who told you that?

Mr. GROSS. I don't know which one told me. The documents are here. I will show them to you.

The CHAIRMAN. You are bringing up a very interesting subject, namely that you made \$6 million on this project and you are now telling us that the FHA officials encouraged you to increase the amount of your mortgage.

Mr. GROSS. I didn't say they encouraged me, sir. Here is what happened, if I may say so.

I went to this FHA conference and they said that the cost of the total estimated requirements of the project, instead of being \$4,411,000, would be \$4,815,600, about \$400,000 more than I estimated.

The CHAIRMAN. In other words, the FHA people raised the estimate \$400,000?

Mr. GROSS. That was their estimate. They told me I would be required to post an additional \$400,000 in cash in order to get a commitment to guarantee completion. My thought originally was that my land represented my 10 percent equity and I would not post anything, but they said no, I would have to post \$400,000 in cash.

The CHAIRMAN. At that point were you willing to put the land in? You said your land represented the 10 percent equity. At that point were you willing to put the land in?

Mr. GROSS. I had put the land in the original application.

The CHAIRMAN. Then, how did it get out in the final approval?

Mr. GROSS. Well, at this conference they told me that according to their cost findings, the general cost findings as they explained it for a typical building of the area, the cost findings were \$400,000 higher than mine, and that since they had an obligation, as they explained it, too, in the event that I defaulted—they would have to hire a general contractor to step in and finish the project, and there would have to be sufficient proceeds from the mortgage and from the builders' deposit so they could hire a general contractor to finish the project and that according to their analysis the costs under normal circumstances for the typical builder were \$4,800,000.

The CHAIRMAN. Who were the gentlemen who told you that?

Mr. GROSS. I know the district director was present.

The CHAIRMAN. What year was this?

Mr. GROSS. This was during the month of March, perhaps, or February 1947.

The CHAIRMAN. And on this other statement you made, I want to make sure I understood the statement properly. You said these FHA officials told you that if you started this project and didn't finish it, that they would have to go in and hire general contractors to finish it? Did you say they told you that?

Mr. GROSS. No, they said that in all cases—

The CHAIRMAN. In what?

Mr. GROSS. I think to speak of myself as an individual case.

The CHAIRMAN. Yes, I understand.

Mr. GROSS. They told me this was going to be a large program and they had to have criteria and standards and that one of their problems was that if they underestimated cost and there was a default, there would be insufficient funds to complete the project.

The CHAIRMAN. Yes.

Mr. GROSS. And therefore they estimated their cost for a typical building. The mere fact that I claimed to be more efficient than the

average and claimed that I could build it for less than anyone else was of no significance to them.

The CHAIRMAN. And you did build it for \$6 million less than the mortgage?

Mr. GROSS. They weren't concerned with the land, sir, and I didn't build it for \$6 million less than the mortgage.

The CHAIRMAN. How much less?

Mr. GROSS. I have the figures here.

The CHAIRMAN. In other words, you were closer than they were.

Mr. GROSS. I was closer on my own estimate of cost.

The CHAIRMAN. On your original estimate you said that you were \$400,000 below their estimate.

Mr. GROSS. Senator, I was wrong on my original estimate.

The CHAIRMAN. Four times eleven is \$4,400,000.

Mr. GROSS. I was wrong on my first estimate. I was too low. Costs were rising during 1947 and 1948 at the rate of about 20 percent a year and I was wrong.

The CHAIRMAN. I want to get back to this. You say that this district director and 4 or 5 FHA officials told you that the general rule was that if someone started a section 608 project and couldn't finish it, that they, the Government, had to step in and hire general contractors and finish it?

Mr. GROSS. In this particular case I posted an indemnity agreement to guarantee completion. Under my original application I put in the land a cost of \$4,400,000 for the buildings and asked for a mortgage of \$4,400,000, virtually the exact amount of mortgage proceeds as the cost of construction. When I got there, their estimate of cost was \$4,800,000 and the mortgage was \$4,400,000. It was obvious that they had to have provision for \$400,000 additional to guarantee completion of the structures.

The CHAIRMAN. Then they did give you a commitment of \$4,800,000?

Mr. GROSS. No, sir.

The CHAIRMAN. What did they give you a commitment for?

Mr. GROSS. I looked over the figures that they had and it was quite apparent that whether or not I put up the land I would still have to put up the \$400,000. So I said if I put in the \$400,000 and put in the land I am not going to get a 90-percent mortgage or anywhere near it. Drop the land out and put it on a leasehold.

The CHAIRMAN. Who told you to drop the land out?

Mr. GROSS. I told the FHA that I wanted them to drop the land out of the calculations, put the land on a lease, and compute the mortgage on the basis of the leasehold.

The CHAIRMAN. And they agreed to that?

Mr. GROSS. It is in the regulations.

The CHAIRMAN. They agreed to it?

Mr. GROSS. Yes, sir. That reduced my mortgage to \$4,334,000 but that was the mortgage on the leasehold. Incidentally, they didn't agree with my distribution of the costs that I took from the distribution book, but I used their figures.

The CHAIRMAN. Are there any further questions?

Senator SPARKMAN. May I ask one?

Did I understand you to say a while ago when you were talking about the amount each side, the stockholders, received, you referred to

a guaranty made by both. Did you have to guarantee the proposition personally?

Mr. GROSS. Oh, yes, sir. We posted—I have the figures here. The guaranties, excluding the cash fees we paid out, were over \$3 million and these were guaranties signed by ourselves and our wives. As a matter of fact, before we even—almost the first document here was a demand by the FHA for a statement of assets requiring us to show assets in excess of \$5 million to back up our guaranties. Here it is. We had to guarantee to the FHA that we would complete the construction of this project. Our guaranty concluded when we finished the project and then the FHA undertook to guarantee repayment of the mortgage.

Senator SPARKMAN. I think a great many people have been amazed by the showing of the small amount in stock placed in these various corporations. I was wondering if that was the sole responsibility upon which the mortgage was made. Did all of the section 608's require personal guaranties?

Mr. GROSS. They all required personal guaranties, Senator, or a security bond, one or the other. So it was not a case of just the assets of the corporation behind the undertaking but also the assets of the various individuals. That is exactly true.

The CHAIRMAN. Just a minute. That is not exactly true. That is only true as to the completion of the building.

Mr. GROSS. Yes, sir.

The CHAIRMAN. Your assets were not behind the mortgage?

Mr. GROSS. No, sir.

The CHAIRMAN. The only thing behind the mortgage was the building itself and \$90,000.

Mr. GROSS. Well, I think, Senator, that we will never agree—

The CHAIRMAN. Answer the question. Is that true or not?

Mr. GROSS. I don't understand the question.

The CHAIRMAN. You understand all right. You are a very smart businessman.

Senator SPARKMAN. I wonder if the reporter could repeat it, because I didn't understand it.

The CHAIRMAN. All right, repeat the question.

(The question was read.)

The CHAIRMAN. Is that a true statement?

Mr. GROSS. The bank that holds the mortgage has more than that. It has the buildings and the guaranty of the FHA behind it.

The CHAIRMAN. Of course, it has the guaranty of the FHA, that is the point.

Mr. GROSS. Yes, sir.

The CHAIRMAN. Can you answer the question? Isn't it a fact that the only thing behind this mortgage is the \$90,000 and the buildings and the FHA's guaranty?

Mr. GROSS. And the completed construction.

The CHAIRMAN. That is the building, of course. But the point that I made was that, of course, we know that for the \$3,000 or \$6,000 of capital stock alone, that has been brought out here, you can't build a 5 or 6 million dollar project. The point is that they borrowed money to do that and they gave certain indemnities. They had a lot of that sort of thing. But it was all in the form of loans.

Mr. GROSS. Well, sir, the FHA's guaranty is in the form of its personal—

The CHAIRMAN. When they got the proceeds of the mortgage they repaid themselves. So all this corporation had when it got all through was \$90,000 that it put in the corporation in the form of common stock plus the \$1,100 that the FHA put in for preferred stock.

Mr. GROSS. Plus the guaranty of the FHA behind its \$1,100.

The CHAIRMAN. Of course, the guaranty of the FHA is the big reason why you were able to construct the project in the first place.

Senator MAYBANK. You built a project in Aiken, S. C.?

Mr. GROSS. Yes, sir.

Senator MAYBANK. What type of project was it?

Mr. GROSS. It was a group of five hundred-odd one-family houses, three hundred-and-some-odd under section 603 and one hundred-and-some under section 203 rental and one hundred and some for VA sales.

Senator MAYBANK. Where is the project? I am asking out of curiosity.

Mr. GROSS. May Mr. Garvin answer, sir.

Mr. GARVIN. Crosson Park, the city of Aiken.

Senator MAYBANK. What was the firm in New York that represented you on your taxes?

Mr. GROSS. Mr. Harry Rodick is our tax counselor.

Senator MAYBANK. You have never consulted any firm in New York besides them?

Mr. GROSS. He belongs to a law firm.

Senator MAYBANK. What firm?

Mr. GROSS. Lord, Day & Lord.

Senator MAYBANK. Is that the firm Mr. Brownell belongs to?

Mr. GROSS. I believe he was a partner.

Senator MAYBANK. Brownell belongs to the law firm that you consulted?

Mr. GROSS. Mr. Rodick—

Senator MAYBANK. And they advised you what to do?

Mr. GROSS. Mr. Rodick is a partner.

Senator MAYBANK. He is a member of the firm and Mr. Brownell was a member of the firm; was that not correct?

Mr. GROSS. I believe he was.

Senator MAYBANK. When was that?

Mr. GROSS. You are speaking now of when we consulted him?

Senator MAYBANK. To get the information from the firm that you mentioned. What did you say his name was?

Mr. GROSS. Mr. Rodick, of Lord, Day & Lord.

Senator MAYBANK. What date was it?

Mr. GROSS. Well, Mr. Rodick has been advising us for a great number of years.

Senator MAYBANK. Does he still advise you?

Mr. GROSS. Yes, sir.

Senator MAYBANK. Thank you.

The CHAIRMAN. How long has he been advising you?

Mr. GROSS. About 10 years.

The CHAIRMAN. In other words, you have been using the law firm of Lord, Day & Lord for 10 years?

Mr. GROSS. No, sir. I don't believe Mr. Rodick was with the firm when we first consulted him. He went with them sometime or other. I don't know about that.

The CHAIRMAN. Are there any other questions?

Senator SPARKMAN. Was the advice with reference to your tax problems merely advice as to how to proceed?

You haven't had any tax difficulties, have you?

Mr. SIMON. Senator, may I say that there is a case pending in New York. I think Mr. Gross will agree. They took long-term capital gains on the money and the Commissioner of Internal Revenue is now litigating with them in New York as to the propriety of the capital gains and claiming it is not a capital gain.

Is that right, Mr. Gross?

Mr. GROSS. Yes, sir.

Senator MAYBANK. Who advised you to take capital gains?

Mr. GROSS. We always consulted with Mr. Rodick on that.

Senator MAYBANK. And that is the firm that Mr. Brownell belongs to; is that right?

Mr. GROSS. I believe Mr. Brownell was a partner in the firm, yes, sir.

Senator MAYBANK. Do they still represent you?

Mr. GROSS. Yes, sir.

Senator MAYBANK. And the internal revenue agent in New York is negotiating with you?

Mr. GROSS. I know of no negotiations. We have had a trial in the Tax Court.

Mr. SIMON. One witness testified before this committee a couple of weeks ago that in one of the Shirley Duke corporations they received a letter from the Commissioner of Internal Revenue saying that the distribution would be treated as a long-term capital gain, which is contrary to the position the Commissioner of Internal Revenue is taking in the Gross case in New York. We have a letter from the Commissioner of Internal Revenue dated July 13 in which he wanted to call the committee's attention to the fact that there were 6 Shirley Duke corporations and while the Commissioner's office had on October 18, 1950, written an advance opinion as to 1 of the Shirley Duke corporations that they would treat it as a long-term capital gain and that while the present Commissioner considers that opinion binding as to that 1 Shirley Duke corporation, as to the other 5 Shirley Duke corporations he is taking the same position, that it is not a capital gain, that he is taking in the tax case in New York against the Gross interests.

The CHAIRMAN. Without objection, we will place this letter in the record.

Senator MAYBANK. I am glad to hear that. He told me that. I talked to him some time ago. As I understand, the background of this whole thing started in the Internal Revenue Service in connection with these tax cases.

(The letter referred to follows:)

UNITED STATES TREASURY DEPARTMENT,
OFFICE OF COMMISSIONER OF INTERNAL REVENUE
Washington 25, July 13, 1954.

HON. HOMER E. CAPEHART
Chairman, Committee on Banking and Currency,
United States Senate, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: My attention has been called to the testimony on June 30, 1954, before your committee of Mr. Carl Budwesky regarding tax treatment of certain distributions made by the six corporations which built the Shirley-Duke Apartments. I understand that Mr. Budwesky testified to the

effect that distributions of excess mortgage money made by the various Shirley-Duke corporations were treated as capital gains by the stockholders on the basis of an advance ruling from the Internal Revenue Service.

Mr. Budwesky's testimony may have left the committee with the impression that the Service has ruled that the distributions by all six corporations would be entitled to capital gains treatment. Since the Service has not so ruled, I would like to take this opportunity to clarify the matter.

It is true that on the basis of a request for ruling made in a letter dated October 18, 1950, an advance ruling was issued to Shirley-Duke Apartments, Section III, Inc., on November 30, 1950. However, upon reconsideration the Internal Revenue Service adopted the position now being litigated in The Tax Court of the United States in the case of George M. and Anna Gross, et al., dockets 46260-46270. This position is that the distributions are to be treated as ordinary income rather than as capital gain.

Section 3791 (b) of the Internal Revenue Code provides authority under which the Commissioner may prescribe the extent to which any ruling may be applied without retroactive effect. Under the authority of this provision it is the policy of the Service not to apply a new ruling retroactively where the taxpayer has acted in reliance upon a different interpretation of the law expressed to it in an earlier ruling from this office. In accordance with this policy the ruling to the Shirley-Duke Apartments, Section III, Inc., will be honored. As to the five Shirley-Duke corporations which did not receive written rulings, the taxpayers as well as the district director of internal revenue have been advised that distributions from such corporations will be treated in a manner consistent with the position taken in the Gross cases unless a different disposition of the matter is required by the decisions of the courts.

Very truly yours,

T. COLEMAN ANDREWS, *Commissioner*.

The CHAIRMAN. Are there any other questions? If not we thank you, Mr. Gross.

Mr. GROSS. May I submit a statement for the record?

The CHAIRMAN. You may submit a statement for the record. Without objection, it will be made a part of the record.

(The statement referred to follows:)

STATEMENT BY ALFRED GROSS, SECRETARY OF GLEN OAKS VILLAGE, INC.

My name is Alfred Gross. I am a builder. I am also secretary of the Glen Oaks Village corporations and have held that office since the corporations were organized.

With your permission, we would like to point out respectfully some facts concerning Glen Oaks Village which may clear up some misapprehensions about the project.

We would like to tell you what we did at each stage of the job and the reasons for each move.

The story of Glen Oaks Village begins in 1946. We were building 1- and 2-family houses for sale. That is our regular business. We have been in that business since 1896. As far back as 1928, we built and sold 1,000 houses in 1 year. We were just finishing a group of 200 2-family houses and expected to start another group in Glen Oaks. Before we started Glen Oaks, however, we became interested in the possibility of a large rental project, instead of houses for sale.

We had built and sold thousands of houses financed with FHA-insured mortgages, and naturally were interested in what FHA had to say. They were running a national campaign. They were issuing bulletins and leaflets, making announcements on the radio and in the newspapers, and holding public meetings, urging builders to build apartments for rent under 608. They pointed out the advantages of the 608 program. We could get a 90-percent mortgage. FHA would insure building-loan advances.

There were disadvantages. There was rent control. New York City had, and still has rent control. It would be difficult to rent our apartments in competition with rents for existing apartments frozen at very low levels. No New York builder had been willing, up to that time, to take this risk. There was the fact that we would have to pay out nearly \$2 million in cash on the closing of the mortgage, and in addition, post \$3,300,000 in personal guaranties. This involved

tying up over \$5 million. There was the fact that we had to build for a fixed price in a rising market. When we build houses for sale, we can change the style of our houses, or our prices, to meet changing conditions, but when you undertake to build 3,000 apartments at one time, you can't change anything. This was a real risk.

After weighing all these pros and cons, although the proposition was not as attractive as a sales job, we decided to go ahead. We were the first big post-war 608 rental job in the New York area. When we started, many other builders followed.

After deciding to go ahead, we went to FHA who fixed the value of our land at \$965 a lot. This value was for land in New York City improved with paved streets, sidewalks, curbs, sewers, gas, water, and electricity.

We went to an architect and had some preliminary drawings made. We filed these sketches, together with other exhibits and our application, with FHA. This application, which showed our estimated requirements, was filled out by us in accordance with instructions and information contained in various documents and bulletins issued by FHA. Our estimated requirements were not based on actual facts. No facts were available. We had no definite plans on which we could get prices for either materials or subcontracts. FHA had the right to decide how many buildings we could build, how many rooms, how many apartments, the number of garages, and the equipment to be furnished. These items were subject to change by FHA at any time prior to the issuance of the mortgage commitment. It is only when the commitment is issued that FHA definitely states just what the final plans and specifications will call for. It is only after we get the commitment that we can draw the actual plans for the job, and it is when these plans are finished that we first find out what our probable costs will be. It took FHA over 18 months to issue the commitments covering Glen Oaks Village.

Eventually we filed all our final plans and specifications with FHA. When they approved them, we made the required payments in cash of \$1,926,292 and gave the required guaranties for \$3,332,805, signed personally by our wives and ourselves and backed by everything we owned.

There seems to be some impression that Glen Oaks was built with a cash outlay by the builders of only \$100,000. This probably refers to the \$90,000 capital stock issued by our companies. The cash and guaranties I have just mentioned are in addition to the capital stock.

Before FHA would accept our guaranty, we had to submit a financial statement showing a net worth of over \$5 million. While FHA insures the bank who lends the mortgage money, the builder insures FHA that the job will be completed.

The next point I would like to discuss is what it cost to build Glen Oaks Village.

A home builder knows two amounts, his cash outlay and his sales price. The difference between these two amounts is his margin. It may be a margin of profit, or if things go wrong, only a margin of safety against loss. In Glen Oaks Village, our cash outlay, not including land or fees was \$23,816,382 and our mortgage was \$24,359,900. The difference of \$543,518 was our cash margin, a little over 2 percent.

In addition to the total mortgage proceeds of \$24,359,900, we had received other money during construction and when the job was finished. We had sold our mortgages at \$475,104 above par, and we had also collected \$3,756,108 in rent during the 2½-year construction period.

On completion of Glen Oaks Village, this is how we stood.

We had in—

Mortgage proceeds	\$24,359,900
Mortgage premium	475,104
Rent	3,756,108
Total	28,591,107
We had paid out	23,816,382
Balance	4,774,725

Of this balance, \$4,774,725 cash on hand, we distributed \$4,600,000 to our stockholders and left \$174,725 in the corporation. Over \$4,200,000 of this distribution was due to money received other than the mortgage proceeds. This was a 608 corporation with no restrictions on distributions, dividends, or rate of return. This fact is clearly stated on pages 11 and 14 of a bulletin issued by the National

Housing Agency, entitled "Rental Housing for Veterans." We relied on this statement. However, when FHA requested information about this distribution, we supplied it.

Glen Oaks Village was completed and fully rented. We think it was well designed and well built. It won first prize in the Queens County Chamber of Commerce competition for "excellence of design and civic value." The value is there, no matter what "cost" figure is used.

Glen Oaks Village has been almost fully rented since it was finished. We have never charged the ceiling rent. We have, however, charged sufficient rent to meet the mortgage payments, maintain the property, and provide good services for the tenants:

We pay no management fees. There have been no dividends to stockholders since 1949. I do not know exactly how much Glen Oaks Village is worth today, because there is nothing exactly like it in New York with which to compare it. However, Glen Oaks is, basically, a group of 1,452 two-family houses with garages and other facilities.

Consider the two-family houses we built nearby in 1946. We sold them for \$17,500. Today they are being resold for \$21,000 without garages. Using these recent nearby sales as a basis for comparative value, Glen Oaks should be worth, conservatively, over \$30 million today.

Payments we have made against the mortgage to date have already reduced the FHA risk by nearly \$3 million. We have paid off \$1,704,000 in amortization and have given FHA \$680,600 in mortgage insurance premiums. There is in various reserve accounts on deposit with the mortgagee, \$562,450. We have no doubt that every dollar of this mortgage will be paid back.

The CHAIRMAN. Our next witness will be Mr. Victor H. Nyborg, the president of the Association of Better Business Bureaus in New York City; Mr. John R. Hoffman, the vice president of the National Better Business Bureaus; and Mr. Hugh R. Jackson, the president of the New York City Better Business Bureau.

If you three gentlemen will come up together, we will appreciate it.

Will you gentlemen give your names to the reporter and then I will swear all of you in.

Mr. NYBORG. I am Victor H. Nyborg, president of the Association of Better Business Bureaus, 405 Lexington Avenue, New York City.

Mr. JACKSON. Hugh R. Jackson, president, Better Business Bureau of New York City, 280 Broadway, New York.

Mr. HOFFMAN. John Robert Hoffman, National Better Business Bureau, 455 Lexington Avenue, New York City.

The CHAIRMAN. Do you gentlemen solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. NYBORG. I do.

Mr. JACKSON. I do.

Mr. HOFFMAN. I do.

The CHAIRMAN. Our first witness will be Mr. Jackson, president of the New York City Better Business Bureau.

Mr. SIMON. You have made an inquiry into the title I housing program in the New York City area, have you not?

TESTIMONY OF HUGH R. JACKSON, PRESIDENT, BETTER BUSINESS BUREAU OF NEW YORK CITY

Mr. JACKSON. Yes, we have.

Mr. SIMON. Will you tell us the results of your inquiry into the New York City title I housing program?

Mr. JACKSON. Mr. Counsel, I have prepared a statement summarizing the experience of the New York City Better Business Bureau in

terms of the number and the character of complaints that we have received. Would it be in order for me to present that to the committee at this time?

The CHAIRMAN. How long will it take you?

Mr. JACKSON. It is a statement of about 20 minutes, or I can try to brief it down if you would prefer, sir.

The CHAIRMAN. Is it cases?

Mr. JACKSON. That is right.

The CHAIRMAN. It is cases that you have found—

Mr. JACKSON. Regarding home-improvement complaints from the public in which FHA title I loans are concerned.

The CHAIRMAN. Do you have extra copies of your statement?

Mr. JACKSON. I do.

The CHAIRMAN. Let us have copies up here. I presume it might save time to read it.

Mr. JACKSON. Let me summarize rather than reading the full statement for the committee's record.

The CHAIRMAN. Without objection, your statement will be made a part of the record and then your comments will likewise be made a part of the record.

(The statement referred to follows:)

STATEMENT OF HUGH R. JACKSON, PRESIDENT, THE BETTER BUSINESS BUREAU OF NEW YORK CITY, INC.

Gentlemen, I am appearing here today in response to your request and subpoena to give you such information as is available to the Better Business Bureau of New York City regarding certain dealer practices and the consumer reaction to these practices in the field of home improvements in the New York City area. Mr. Nyborg of the Association of Better Business Bureaus has already informed you of the objectives, interests, and methods of operation of the various better business bureaus throughout the country in this general field. His statement on these matters also covers the Better Business Bureau of New York City and I shall therefore not repeat what he has said, or describe the general organization and objectives of the New York City Better Business Bureau.

In presenting the facts to you regarding the volume and character of complaints which have been received by us regarding home improvements it is important to remind you that these facts should be viewed in their proper perspective. They should not produce in your minds or the minds of the public an unfavorably distorted picture of the ethics, responsibility, and reliability of the overwhelming majority of companies which are providing adequate and honest service to the public in the home-improvements field.

It must be remembered that the public contacts the better business bureau when it has doubts or wishes information about the reliability of a specific company, or when it has a specific complaint to lodge about the practices of a given company. People do not write or call the bureau when they are satisfied with the service which they receive from a business concern so that our files necessarily contain the negative data where there has been consumer dissatisfaction. I should like to make it as clear to you as I can, however, that, in our judgment and experience, the vast majority of business concerns which are engaged in making home improvements in the New York area are conducted by honest and reliable businessmen. This general field of business has, however, had more than its share of "fast-buck boys" who have had little or no interest in providing fair and honest service to the public. It is about the practices of this latter group that I wish to testify in particular.

In order to give you the overall picture let me point out that during the past 18 months the New York Better Business Bureau has received a total of approximately 2,150 complaints regarding various transactions in the fields of business which we classify in the home-improvement field. This represents almost 5 percent of all the complaints received by the bureau regarding all types of business transactions during this period—a percentage which was exceeded only

by complaints received regarding television sales and service, furniture, home appliances and women's apparel. During this same 18-month period we received a total of more than 9,500 inquiries about businesses in the home-improvement field. This is the number of people who called, wrote, or visited the New York bureau to inquire about the reliability of companies in this field. It perhaps has some significance that the inquiries regarding home-improvement companies represented a somewhat greater proportion of the total inquiries received about all types of business than did the companies. The 9,500 inquiries constituted over 7 percent of the total inquiries received by the bureau regarding all fields of business, whereas complaints in this field were slightly less than 5 percent of total complaints received about all business practices.

Of the total of 2,150 complaints which the bureau recorded in the home-improvement field, the great majority involved transactions which were eligible for insured financing by the FHA under title I. Our own statistical classifications for recording home-improvement inquiries and complaints are not completely identical with the list of items which are eligible for FHA financing but we would conservatively estimate that at least 1,800 of the 2,150 complaints would be eligible for FHA-insured loans. This is not to say that all of the 1,800 transactions were, in fact, title I FHA-insured loans. The majority of complainants who communicate with the bureau recite their experiences with the dealer involved and do not refer to the financing institution or the FHA. A spot check of our files indicates that in about 20 percent of the cases received by us, mention is made of the fact that the project has been financed by an FHA-insured loan. It is obvious, however, that a much larger proportion of the total is actually financed under the terms and regulations regarding title I loans.

The bureau is primarily concerned with seeing that the public gets a fair deal from business and with curbing and restraining unethical business practices rather than with keeping statistics. I cannot therefore give you a detailed breakdown of the volume of complaints regarding each of the many varieties of home improvements about which the bureau receives information. I can break the total figures down somewhat further, however. The largest single source of complaint to the New York bureau regarding home improvements has to do with combination storm windows and doors. We estimate that approximately 1,050 of the 2,150 complaints enumerated fall in this category. Another 350 relate to furnace and heating equipment. The remaining 750 include a wide miscellany of items including such things as awnings, carpentry, fire-alarm systems, landscaping and shrubbery, painting, plastering, plumbing, and roofing and siding.

The problems for the consumer in the field of combination storm windows and doors have arisen largely through the activities of a comparatively small number of dealers who have engaged in extensive bait-advertising practices along with high-pressure selling by their salesmen when a contact is secured through such advertising, and an extremely sloppy job of installation of windows and doors when a sale is consummated. By bait advertising, we mean the offering of combination storm windows at a fantastically low price through radio, television, or newspaper advertising when there is no sincere intention or even willingness to sell windows at the advertised price. Such advertising is used merely to gain leads to sell a much more expensive product.

The practices in this field led to such serious abuse of the public and so much loss of confidence in the whole industry that the New York Better Business Bureau undertook a special program almost two years ago in cooperation with responsible local dealers and the National Combination Storm Window and Door Institute to adopt standards for advertising and selling in this field and to alert the public about the bad practices of the minority who were causing most of the difficulty. A special educational booklet titled "Things You Should Know About Combination Storm Windows and Doors" has been prepared by the bureau and more than 60,000 copies have been distributed to the public by the bureau and cooperating elements of the industry. Despite the constructive steps that have been taken however a small group of companies continues to deceive the public and create widespread public complaint.

The practices of these dealers gave rise some 3 months ago to a request from the attorney general of New York State that the files of the bureau be made available to him for investigation by his office. Except for relatively recent complaints our files on these companies are therefore not immediately available for analysis and report to you at this time.

The serious character of these complaints is revealed however by the fact that on Monday of this week, July 12, the State attorney general has filed application with the supreme court in New York and has been granted leave by the

court to proceed with an action to dissolve one of the corporations which has been under investigation. This company is the Bell Home Improvement Corp. At the same time, consent injunctions and decrees were filed with the court whereby three other companies are enjoined, restrained, and prohibited from engaging in practices similar to those with which Bell is charged. Any violations of these injunctions will leave these companies under penalty of dissolution by the attorney general as well as contempt of court. The companies against whom such judgments were entered on July 12 were Laurin Home Improvements Co., Inc., Dorwin Sales Co., Inc., and Norman Venetian Blind & Shade Corp. The attorney general is continuing his investigation of some six other companies operating in this field.

I know of no way to give you a more accurate or succinct picture of the malpractices carried on by the small segment of the storm-window industry than to place before you pertinent sections of the affidavit submitted by Assistant Attorney General Halperin of New York State in conjunction with the application filed for leave to proceed with action for the dissolution of the Bell Home Improvement Corp. The statements contained herein apply of course only to the Bell Corp. but they would, in our judgment, apply with equal accuracy to several other companies operating in this field.

After setting forth the background of the establishment of Bell Home Improvement Corp., the attorney general's affidavit to the court contains the following statements:

"The nature of the complaints against this company became so shocking that the attorney general was moved to conduct an investigation into the business practices and methods of this corporation. During the course of this investigation numerous customers of the Bell Home Improvement Corp. were examined under oath, and a mass of documentary evidence examined, analyzed, and summarized.

"This proof in the possession of the attorney general demonstrates a bare-faced and continuous fraud upon the public of such a character as to shock the conscience of anyone familiar with the facts.

"The principals of Bell Home Improvement Corp. caused to be published in newspapers and other media of public distribution and of mass circulation, advertisements which such officers of the corporation knew at the time were false and fraudulent, and who knowingly and willfully prepared such copy for publication with the unscrupulous intent of victimizing and fleecing the public of this State. The lure and the bait used by the said officers of such corporation in this deliberate scheme to loot the funds of the public of this State was the offer in bold type of storm windows and doors for sale at ridiculous and manifestly impossible prices. The officers of the corporation in discussion with this office have frankly admitted that the offer of storm windows and doors for sale at the extreme low prices advertised was for the purpose of obtaining entry into the home of members of the public who might be interested in the purchase of storm windows and doors.

"This insertion of misleading and deceptive advertising was not an isolated act on the part of the corporation. On the contrary, there was a continuous stream of advertisements offering for sale allegedly double and triple track storm windows of high quality aluminum at prices ranging from \$11.88 down to \$9.95.

The investigation by this office reveals that the type of window so advertised by the Bell Home Improvement Corp. cost them about \$10 each, and that the installation charge per window which the corporation is required to expend is \$2. Consequently, the cost of such a window so installed would be approximately \$12. It is therefore patent that the actual installed cost to Bell Home Improvement Corp. of such a window would be higher than the advertised price, without taking into consideration the additional cost of overhead, shipping, delivery, advertising, and a reasonable profit.

"When a prospect responds to one of these advertisements a salesman promptly appears at the home of the person making such a call. These salesmen work on a commission basis. They receive training and are coached by the principals of the corporation prior to making any contacts with prospects. These salesmen do not receive any commission if the result of their discussions with a prospect is an arrangement for the window advertised. They receive substantial commissions, however, if they in turn succeed in making a sale of the storm window, at whatever high price they can succeed by guile and artifice in promoting the innocent customers to accept. The salesmen are instructed and it

is the practice of such salesmen to appear at the home of the prospect with a battered, small sample of the advertised window. According to the proof, these salesmen either say nothing at all about the advertised window, or make such remarks as, that the advertised window "won't stand up," "You're not getting your money's worth," "It's a cheap window," "It requires scrubbing with steel wool every month," and "It will pit and corrode," "It is not anodized," or other depreciatory remarks.

"Following these astounding attacks upon the advertised product by the salesman, either before or after the low-priced order is taken, a bright, shiny, and glowing model of a far more expensive window or a section of such a window is then demonstrated with appropriate testimonials. The price of this window varies from \$25 to \$60 per window, as the traffic allows. Should a customer insist upon purchasing the less expensive window, the advertised product, the salesman either says the window will not suit the home or that someone else will call to make the measurements and will almost always avoid writing up an order for this less expensive window. The testimony also reveals that virtually no sales culminating in delivery of the advertised window have been made. The few actual sales of these windows have all resulted from pressure brought by the Better Business Bureau or by an attorney instituting suit on behalf of a customer.

"The testimony further indicates that where the customer insists and a sale has to be made at the advertised price, the corporation engages in a sit-down strike with respect to the delivery of these windows and that customers are unable to obtain these windows, although in some cases a period of 9 months has elapsed. The high-priced window of course, as the salesman indicates, is deliverable almost immediately.

"The testimony also reveals that it is the deceitful practice of this corporation to have a customer sign an order form and give a deposit for the low-priced window; immediately thereafter, the salesman will begin to berate and disparage the window he just sold. Thus confronted with these astounding statements, the 'sucker' is then induced to switch to the high-priced window.

"In addition the testimony reveals that when customers have ordered the high-priced windows, the storm windows that they receive do not measure up to the sample window and the promises of the salesman, and that all complaints and demands for service, or the return of deposits are coldly rebuffed by the Bell Home Improvement Corp."

The attorney general's affidavit goes on to make the following charge which will be of special and particular interest to this committee:

"The flagrant, continuous illegal conduct of the corporation and its officials is also indicated by testimony showing that the fraud was not confined to the public itself, but also consisted in attempting to defraud the Federal Housing Administration. This was accomplished in the following manner:

"The customers were in most cases induced to buy 'on time.' The purpose of avoiding cash sales was to work a racket with the Federal Housing Administration by obtaining from the customers completion certificates attesting to the fact that the windows described therein had been fully installed to the satisfaction of the customers, whereas, in truth and in fact, these completion certificates were signed at or about the time that the order was given. The customers, of course, were unaware of the fact that among the papers being signed by them were such completion certificates. These completion certificates were used in an FHA application to some bank or trust company. Upon the basis thereof, cash for the full purchase price was obtained by the corporation prior to the delivery and installation of the storm windows and despite any subsequent complaint of the customers. By this practice the corporation and its officials conspired and combined to evade the salutary provisions of title I of the National Housing Act."

In order to give you a more detailed picture of the type of complaint which is registered with the bureau regarding home improvements we have made an analysis of 100 written complaints drawn from the files of several companies which have been the source of substantial public protest and objection. Most of these relate to home improvements other than in the storm-window field, although a few recent storm-window complaints have been included. A study of these 100 cases shows that in 70 percent of the total the complainant alleges that the product or work done was unsatisfactory and the dealer has either refused to do anything by way of service or repair of the job or has not done so to the customer's satisfaction. In 11 instances the customer has complained that the job was not fully completed according to specifications. In over half

of the cases of unsatisfactory performance the homeowner had received a specific guaranty from the company which they state was unfulfilled. In 23 of the 100 cases the consumer refers to high pressure selling tactics on the part of the salesman. These tactics included claims that a decision would have to be reached immediately if the job was to be done at a supposedly special low price because the company had workmen who needed to be put to work the next day, and special bonus offers of one sort or another if the consumer would immediately sign on the dotted line. In 22 cases there were charges of bait advertising and delayed delivery or failure to deliver the advertised product in accordance with the "gimmick" practices which I have previously described to you. One of the favorite devices of the unethical operator in the home-improvement field is the use of the so-called model home and bonus-plan scheme. Under these plans the homeowner is induced to have his house sprayed with mastic paint or re-roofed or re-sided on the claim that he is being given a special price so that his home may be used as a model to show other homeowners in the area. This is frequently accompanied with the further alluring "gimmick" that the consumer will be given a \$50 credit on his costs for every job that is done within his community as a result of his home having been done first by the company. Needless to say this is fakery and misrepresentation of the first order and no special price is, in fact, offered, nor are bonuses paid. In 11 of the 100 cases analyzed by the bureau the model home approach was used by the salesman in consummating the deal and in 10 instances the bonus plan was also involved. Finally I should add with respect to this analysis that there is specific indication in at least 4 of the 100 cases that the customer was induced to sign the completion certificate before the job had actually been completed.

Excerpts of some actual letters received by the bureau will perhaps serve as helpful illustrations to your committee of the type of complaint which is made by the public against the fraudulent fringe of operators in this field. As an example of the model home scheme let me read you significant portions of a letter received by us from a complainant against a company known as Abbott Home Modernizers, Inc. The complainant wrote us as follows:

"SEPTEMBER 21, 1953.

"This may just be a waste of your time, but I would like to tell you about a concern, which I'm afraid I was unfortunate enough to do business with.

"It is Abbott Home Modernizers, Inc., 62-51 Woodhaven Boulevard, Rego Park 74, Long Island.

"Their representative, Mr. B. Farr, talked to my wife during the day of Wednesday, July 22, 1953, and he and his boss returned that same evening to discuss their proposition with my wife and I.

"They were selling 'Pressure Kote,' a chemical compound containing paint, mica, asbestos, etc., which is applied to the exterior of the house by spraying under high pressure.

"They stated that it was expensive but did many things, such as insulate and fireproof, as well as being guaranteed for 20 years not to chip, crack, fade, blister, peel, and so on. This meant I would be free of painting my house for at least 20 years and they made it sound pretty good. Also this guaranty was to be delivered by United States mail, meaning that they must back it up or be guilty of defraud by mail.

"Then they started outlining their proposition. They stated that they desired to expand their business and branch out into this area in which we are located. In fact they claimed to have 12 salesmen ready to start working this section and were rather anxious to get started as these men were receiving their salaries while waiting. The only thing that was holding them up, was they wanted to have a "show house" for these men to use as an example.

"It was in this respect that they asked if we would please cooperate with them. They pleaded, 'Please, have faith in us and you will never be sorry.' The proposal was that we were to have our house 'Pressure koted' and allow them to take pictures and bring prospective customers to examine the application. For this we were to receive \$50 for each house they did in our area, even though it might not be necessary to show our house to climax the sale, until we had received the cost of the application to our home. We also were to receive 3 gallons of foundation trim paint which I said I would apply myself.

"The cost of this job on our house was to be \$900. No downpayment would be necessary. The first payment would be in 60 days, with 36 monthly payments of \$31.57. Under ordinary conditions this payment added to my present mortgage payment and other obligations would be more than I could handle.

But they assured me, that from past experience with their product in other localities, they would easily get at least 20 homes to process.

"Usually I am the type person who is very skeptical with salesmen. In fact, after discussions with my wife and others I felt that sometimes I'm even a little unreasonable and a bottleneck to business expansion. But these men seemed to be honest and very sincere. Their product seemed worth while, so I decided to cooperate and work along with them.

"They left stating they would be back in a couple of days to take pictures etc. in preparation for a local advertising campaign. Later that same evening Mr. Farr telephoned saying he had forgotten to get my place of employment and a few other details and I told him I would like to have something in writing from him covering the details of our 'show house' agreement. He said he most certainly would bring down the details in written form and not to worry about a thing. Just have a little faith in them and everything would work out all right.

"The following Saturday afternoon a crew of men showed up with their materials and equipment. They asked if they might leave their equipment overnight and do the job the next day, Sunday, as they had orders to get the job done as soon as possible as this was to be a 'model house.' They completed the job but left me no foundation paint, as they said the salesman was to bring it.

"All this rush seemed to tie in with their statement of wanting to start salesmen working in this area. But time went on and we neither seen anyone or heard anything except to receive correspondence from the Prudential Savings Bank, Broadway and Vernon Avenue, Brooklyn, N. Y., stating that our monthly payments would be \$31.62 starting September 25, 1953.

"We continued to wait, giving them the benefit of any doubts in our minds, figuring they had just been delayed in starting their sales program.

"On August 26, I wrote Mr. Farr a short general-type letter saying we had expected to see him back before this time; what were we to do if anyone inquired of the finish on our house, and would be please bring the masonry paint so I could apply it before bad weather.

"The evening of Tuesday, September 1, my wife, the children and I were out visiting friends. When we returned there were 3 gallons of masonry paint and several prospective customer cards at the front door. (I'm enclosing one of these cards.) You can see these cards come nowhere near covering our agreement. We have heard nothing or see no one since.

"This concern may be very reliable and they may have been very sincere in their offer to us, but it seems they are doing nothing toward their part of the bargain. I feel that they obtained my sale under false pretenses and misrepresented themselves by selling me on a proposal I don't think they ever intended to carry out. Their failure to produce the 20-year guaranty even leaves me unable to use this finish as a selling point in case it becomes necessary for me to sell my house. I have nothing in writing except a copy of the original order form and guess I'm stuck with a bill I'll just have to pay in some manner or another.

"I wanted to pass my dealings with this company on to you. Your files may already contain information on this concern, but I wanted to try, if they are as unreliable as they seem, to expose them and possibly save some other young struggling couples from a similar situation."

As another example of this type of approach let me cite a complaint received regarding the Pioneer Home Equipment Co. of Newark, N. J., a concern which went bankrupt late in 1952 and which left a trail of dissatisfied and irate customers behind them.

JANUARY 2, 1952.

"Three months ago we contracted to have our house painted by Pioneer Home Improvement Co. of Newark, N. J. We were told by Mr. Miller, who is a salesman for this company that they wanted to use our house as a model, since they were just starting to work on Long Island. Mr. Miller said the price of the job would be \$1,950 to any other customers they may get but our price would be \$1,240. We were to tell anyone who asked the price, that we paid \$1,950. We were to get a perfect job and \$50 for every customer they got through this job. We feel sure now that Mr. Miller is just a high pressure salesman. He said we had to give an answer that night because they wanted to start work the next day and if we didn't get the work done now we would have to pay the higher price later.

"According to Mr. Miller the job would require 4 men working and 3 days for preparation alone. The entire job, would take at least 2 full weeks. The next

morning this company sent out 2 men who did the entire job in one day and a half. We were promised that all cracks in our stucco house would be repaired, ivy removed from all walls, and many minor promises that were never fulfilled.

"Our house had ivy on portions of all walls. The main vines were torn off and the many remaining pieces of ivy were merely sprayed over. These pieces protrude as much as 2 inches on many areas. The job is so poor that it is unbelievable that we are being asked to pay for the job.

"We are now in the process of obtaining bids on the cost to redo this work to a good job and it is our intention to sue for this amount.

"We have never signed a completion slip, yet the bank threatens to impose fines on us.

"We are very bitter in this situation and there are violations of the contract sufficient to require them to do the entire job over. Because of the bulldog tactics of this company we do not feel any courtesies on our part are necessary. The color of the paint is not even as specified, nor is the brand of paint as specified in the contract. Two more men were sent out to redo the job. They spent a day and a half trying to patch up the job, which is still disgraceful.

"I have never failed to pay a bill in my life and we will certainly pay for this job if it is completed to our satisfaction.

"No one has even had the decency to come and talk with us concerning the job and we are convinced this is a profitable racket this company is perpetrating on the public. The 2 men who were here to do the job over said they had 3 other houses to do over after they finished ours."

A final example of the model home and bonus scheme which also illustrates the occasional indication that outstanding bills are consolidated and included in FHA loans is one regarding a firm known as Approved Home Developers, Inc. This complainant writes as follows:

JUNE 15, 1953.

"I wish to report the following salesmanship practice to you on the part of salesmen from the Approved Home Developers, Inc., 69-12 Austin Street, Forest Hills, N. Y.

"Two of their salesmen approached me, whose names are a Mr. Donner and Mr. J. M. Walters. Mr. Walters said he was the son of the inventor of the siding known as Brixite and that he wanted to use my home as a model home in the community in order to stimulate sales of the said material. In return I was supposed to receive a 20 percent discount on the cost plus a bonus for every house that was covered by them within a 3-mile radius of my house. Also I was to receive a picture taken of my house before and after the job was completed. A few days after the job was completed, two friends of mine within a mile of my home told me they had been approached by the same company and offered the same proposition, and as you probably know from other sources, I have not heard from them again.

"If this information can be passed on to the FHA, they also advanced me money to pay off some small outstanding bills in order to get the job and the amount was added to cost of doing the job.

"Hoping that you might be able to use the above information as a means of stopping the company from using same tactics in selling their services to other homeowners, I remain,"

As a further illustration of the violation of FHA regulations by some of these operators let me cite another complaint regarding Approved Home Developers. This complainant writes as follows:

MARCH 4, 1954.

"It appears that we have been victimized in connection with an FHA title I loan for home improvement, and I am wondering if the Better Business Bureau can be of any help.

"Last December 5, Mrs. Arthur and I jointly signed an agreement with Approved Home Developers, Inc., 69-12 Austin St., Forest Hills, covering a spray paint job on our house, plus window trim, plus supply, and installation of two aluminum storm doors.

"The agreement provided 60 monthly installments of \$35 per month, and we signed a note with the Prudential Savings Bank, Broadway and Vernon Avenue, Brooklyn 21.

"The company delivered as agreed on the spray painting, did the trim including storm windows—except that the latter were left scattered around the yard to dry—but did not deliver the storm doors, which were represented verbally to us worth \$165.

"I was presented with an FHA completion certificate after the spray was applied, which I refuse to sign. Another crew did the trim, and presented a completion certificate to Mrs. Arthur in my absence. She had just been returned that morning, December 21, from a hospital where she had undergone surgery. The head of the painting crew virtually forced his way into the house, despite her protests that she should be in bed, and insisted that the certificate covered only the trim portion of the job, pleading that he could not get his money before Christmas unless it was signed. Under this misrepresentation, she did so.

"This completion certificate, dated December 14, was later presented to the bank, signed by Abe Eisenberg, vice president of the firm, and dated in his handwriting. The bank also was given a copy of the agreement which we signed, in which the \$35 figure agreed to as the amount of payments had been erased and \$36.36 substituted.

"I talked subsequently with Mr. Eisenberg by telephone, and he said he had no knowledge that the work had not been completed, promising the doors quickly. This was on February 11. Meanwhile, a payment came due which we paid under protest.

"I have also talked with J. N. Walters, the firm's agent who signed the original but who now claims he is no longer associated with Approved. He also promised, in the presence of William W. Skolnick, assistant vice president of the Prudential Bank, that the doors would be installed. To date no measurements have been taken.

"We realize that the signing of the completion certificate was a mistake, but notwithstanding this the original agreement has not been fulfilled: it was altered by erasure after we had signed it; the completion certificate was obtained by misrepresentation; and the company has shown no inclination to act in good faith if, in fact, the filing of the certificate was an honest mistake. For example, registered letters addressed to Eisenberg and Walters at the company's address have been refused for weeks, and finally returned to us."

One of the most substantial sources of complaint regarding unsatisfactory products and failure to live up to guaranties is in the field of mastic paints. We have been advised by trade sources that some of the mastic paint formulas provide excellent and long-lasting surfacing for dwellings of certain types but some of these mastic paints are apparently not of high quality. Moreover certain types of houses such as wood-shingle homes which have substantial moisture content should apparently never be accepted for this type of job since a satisfactory long-lasting result is said to be impossible. Under all circumstances very careful preparation of the surface is essential before the mastic paint is sprayed on the surface and the job of application is one which must be done with great skill and competence.

It is quite apparent that some fly-by-night dealers have sought to capitalize on this product by promoting jobs on all types of dwellings regardless of their suitability for the product, by hasty and inexperienced application and by issuing long-term guaranties of 10 or 20 or even more years which have left the customer with a very unsatisfactory job and no real satisfaction on such guaranties.

Typical of this type of complaint is the following letter which we have received regarding the Permastica Corp. The letter states:

"On April 24, 1953, we signed a contract with the Permastica Corp., of 215 Montague Street, Brooklyn, N. Y. to spray on Permastica on the outside of our house.

"This was done in May of 1953 and on May 21, 1953, we received a 10-year guaranty on the work.

"The job cost us \$1,185 of which we paid \$10 deposit, \$500 on completion of work and financed the balanced of \$675.

"At the same time the work was being done, I told the Permastica people that our contract called for caulking of all the windows and replacing or repairing of all loose, rotted, or broken shingles.

"They told me just spraying their product around the windows, caulked them—if I wasn't completely satisfied, during the winter, if I got any drafts, they would come back and do them again.

"About November of 1953, I wrote them telling them I was getting strong drafts from around the windows, but they never answered my letter.

"On March 31, 1954, I again wrote about the windows and, also, more important, about the entire job.

"The house was done in white and is definitely turning yellow and the brown from the old shingles is showing through and in numerous places the white seems to be wearing off completely.

"This letter, also, failed to get any reply from them.

"They did not replace or repair all the broken shingles, telling me they just fixed the real bad ones, but assured me the Permastica would keep them from breaking more or falling out in the future. So far, none have fallen out, but it certainly doesn't look good to have the broken ones showing.

"Though they gave us a 10-year guaranty, it means nothing, if within 1 year's time, they will not even reply to a letter telling them the job is not satisfactory.

"Also, before I would sign for the work having been done, I told them I wasn't satisfied with the way the shingles were covered and all they would do then, was send a man to touch up each spot I could find, with a brush.

"I really feel I have been cheated on this work and am only sorry I did not know about your offices before I signed the contract to do the job.

"It's too bad your offices are not advertised more, to let more people know they can check on a firm before doing any work and believe me, I will never have any other work done without consulting your office."

There are many other examples which I could cite to you about houses changing color, and cracking, peeling and blistering of mastic paints, as well as comparable unsatisfactory jobs regarding residing and reroofing but I shall not take the time to do so since the pertinent files of the bureau regarding these and other companies have been made available to the staff of your committee in response to your supena.

In concluding this statement I should like to avail myself of the invitation of your committee to make a few general observations regarding the home-improvement business and the activities of the FHA in relation thereto. I believe that it must be obvious to all impartial observers that a vast amount of home modernization and improvement has been carried on in recent years to the distinct benefit of individual homeowners, the economy of our country, and the thousands of relatively small companies that have carried on the bulk of this work. Let me reiterate the statement which I made at the outset that the vast majority of this work has been carried on honestly and reliably, by the overwhelming majority of the companies involved. This whole field of home improvement is, of course, one where the ready and easy provision of credit is essential for only a relatively small proportion of homeowners are in position to have such improvements made if they must be paid for fully in cash at the time of the improvement. The existence of provisions for FHA insurance of title I loans has undoubtedly been an exceedingly important factor, both in the past and in the present, in assuring easy credit for this type of work and facilitating its development. It would seem to us therefore that this program has been and now is distinctly in the public interest.

From the reports and complaints which have reached us it is also obvious, however, that the public has not been fully protected against the machinations of sharpshooting promoters in all instances and that the facilities, prestige, and credit of the Government have in fact been used to help promote and give aid and comfort to some of these charlatans as well as to the responsible majority of dealers in these fields. No one can say with precision how much homeowners have lost through the machinations of gyp artists and shoddy operators in the home-improvement field but it would not be unreasonable to estimate that more than \$50 million of home-improvement work has been done in the metropolitan New York area in the last 2 years where the customer feels that he has either been deceived or has not secured full value and satisfaction for his investment.

The amendments to the regulations governing title I loans which have been made in recent months, with their increased emphasis upon the necessity for lending institutions to assure themselves of the reliability of dealers and the outlawing of FHA insurance for deals involving the model-home scheme or bonus plans, are all steps in the right direction but the important thing of course is not the writing of regulations but the provision of efficient administrative machinery to see that they are enforced.

No plan can or will be devised which will eliminate all fraud or deception in this field anymore than it can be done in any other field of human endeavor. I suggest, however, on the basis of our experience to date, that more effective steps can and must be taken to minimize the evils which have arisen in this field. I believe that the fundamental principle enunciated in the existing regulations to the effect that the lending institution itself, rather than the FHA, must exercise the basic responsibility of determining the reliability and bona fides of the dealer is essentially correct. But such a principle carries the bank or other lending institution beyond its normal role of determining mere credit

responsibility as it does in most loan situations, and effective supervision and direction of the banks' activities in this area would seem to be essential by the FHA if the regulation is to be made really effective. Adequate administrative machinery and sufficient personnel for supervision and checking of these matters by the FHA would certainly seem to be called for.

It is significant that very few of the lending institutions in the New York area have checked with the better business bureau regarding the volume or nature of complaints about specific companies in determining their reliability for FHA-insured loans and it is equally significant I think that the FHA itself has made little or no attempt to review or utilize the information available at the New York Better Business Bureau except in isolated specific instances which we have called to the attention of local FHA authorities.

We conclude that an intensification of effort on the part of both the FHA and the lending institutions in eliminating fraud, deception, or misrepresentation is certainly required in this field and we repeat here our often expressed willingness, as a voluntary agency of business which is dedicated to building confidence in private enterprise by eliminating justifiable causes of complaint against business, to give full cooperation in seeing to it that our economy may move forward with full protection of the rights of the public and responsible business itself.

Mr. JACKSON. Let me say at the outset that in the course of the past year and a half the New York City Better Business Bureau has received approximately 2,150 complaints from members of the consuming public regarding problems of home improvements.

In addition to this 2,150 complaints, we have during this period received over 9,500 inquiries from the consuming public asking for information about the reliability of companies engaged in various fields of home-improvement activity, most of which would be eligible for FHA financing under title I. Of the total of 2,150 complaints, of course, we do not know that all of them actually involved FHA loans because the consumer writes us complaining about the transaction with the dealer without necessarily stating specifically that this was an FHA-insured loan. A spot check on our files indicates that it is specifically mentioned in about 20 percent of the cases, but we would know that the proportion was actually a good deal higher than that. Of the total of 2,150 complaints, slightly over half have had to do with combination storm windows and doors.

About 350 have related to furnace and heating equipment complaints and the remaining 750 have involved a wide variety of home improvements, including matters such as awnings, carpentry, fire-alarm systems, landscaping and shrubbery, painting, plastering, plumbing, roofing and siding: the problems in relation to combination storm windows and doors have been so serious and the volume of complaints has been such that the New York City Better Business Bureau has been working particularly closely in this field with the responsible elements of the industry and in the past few months with the attorney general of the State of New York.

Senator MAYBANK. Is that still going on?

Mr. JACKSON. Yes, sir.

Senator MAYBANK. Today?

Mr. JACKSON. Yes, sir.

Mr. SIMON. Mr. Jackson, can you tell us how they operate?

Mr. JACKSON. If I may, let me say that the attorney general within the past 3 days has moved to dissolve one of the storm-window corporations which is operating in the New York area.

The CHAIRMAN. Are they definitely financing under the FHA?

Mr. JACKSON. Yes, sir, and has entered consent injunctions and decrees with the Supreme Court of New York State against three other companies permanently enjoining and restraining them from engaging in practices, including, for instance, the taking of completion certificates before the work is actually done for FHA financing and insurance.

Senator MAYBANK. Let me ask a question?

The CHAIRMAN. Senator Maybank.

Senator MAYBANK. The more we get into this thing the worse it apparently gets. It seems as though everybody tries to get something out of the Government for nothing. Suppose we did away with title I, couldn't the banks in New York finance home improvements?

Mr. JACKSON. I would not pretend to be an expert on this question.

Senator MAYBANK. I am just asking your judgment of it.

Mr. JACKSON. In my judgment, on the basis of the experiences we have had with the consuming public, it would seem to me that title I has been of definite value in providing easy credit for a lot of small homeowners. I for one could not say, on the basis of my experience, that this could be handled without it.

The CHAIRMAN. Is it the job of the Federal Government to supply easy credit or the job of private enterprises to do it?

Mr. JACKSON. I would say, sir, that it is the job of private enterprise, that in this situation a good deal of home improvement has been done to the benefit of our people by virtue of FHA insurance that I think would probably not have been done.

In response to counsel's question as to how these companies operate, I think if I could cite to you part of the statement which the attorney general has made in his affidavit to the court asking for a dissolution of the company, Attorney General Goldstein of New York State, in presenting that affidavit on Monday of this week commencing action for the dissolution of the corporation, he said that the proof in his possession regarding it could demonstrate a barefaced fraud upon the public of such character as to shock the conscience of anyone familiar with the facts.

He goes on to point out that the principals of this company, which is the Bell Home Improvement Corp., had followed a consistent practice of advertising on radio, television, and in newspapers, offering combination storm windows at ridiculously low prices.

Senator MAYBANK. Are they still doing that?

Mr. JACKSON. Yes, sir.

Senator MAYBANK. I saw some advertisements on television myself.

Mr. JACKSON. Of \$8 to \$10 or \$11, where the purpose is obviously not to sell windows at this price, but it is what we call bait advertising in the better business bureau. It is a lure and a device to get a contact with the potential customer to try to sell him a much more expensive item. The attorney general relates in detail, which I have in this statement but I will not take the time to read it in detail, that it is quite obvious from an investigation that these windows are seldom if ever sold. that these companies that engage in these practices produce shoddy merchandise about which there is complaint and which is sold at a price 4 or 5 times the price of the advertised product, with the salesman getting no commission if he happens to sell the low-priced window but if he sells a window at whatever the traffic will bear at a much higher price, his commission is very great.

I think there are two particular statements in this affidavit that I should quote to you. One is that with regard to this practice—

where the customer does insist and a sale has to be made at the advertised price, the corporation engages in a sitdown strike with respect to the delivery of these windows and customers are unable to obtain these windows, although in some cases a period of 9 months has elapsed. The high-priced window, of course, as the salesman indicates, is deliverable almost immediately.

He goes on to say that where complaints are made even when the high-priced windows are delivered, they are coldly rebuffed by the corporation. Then of particular interest to the committee is this statement in the action.

The flagrant continuous illegal conduct of the corporation and its officials is also indicated by the testimony showing that the fraud was not confined to the public itself but also consisted in attempting to defraud the Federal Housing Administration. This was accomplished in the following manner. The customers were, in most cases, induced to buy on time. The purpose of avoiding cash sales was to work a racket with the Federal Housing Administration by obtaining from the customers completion certificates attesting to the fact that the windows described therein had been fully installed to the satisfaction of the customers, whereas in fact these completion certificates were signed at or about the time the order was given.

The customers, of course, were unaware of the fact that among the papers being signed by them were such completion certificates. These completion certificates were used in an FHA application to some bank or trust company and upon the basis thereof cash for the full purchase price was obtained by the corporation prior to the delivery and installation of the storm windows and despite any subsequent complaint of the customers. By this practice the corporation and its officials conspired and combined to evade the salutary provisions of title I of the National Housing Act.

That represents the statement of the attorney general of New York in this, based upon the files of the better business bureau in our cooperative action.

Mr. SIMON. Mr. Jackson, do you think they could successfully do that without the cooperation of the banks?

Mr. JACKSON. I think in many cases they can.

Mr. SIMON. Without the bank's cooperation?

Mr. JACKSON. Yes.

Mr. SIMON. Do you think they have the bank's cooperation in some cases?

Mr. JACKSON. I am not aware of situations where they do. We receive a number of complaints indicating that people have been given papers to sign at the time they have signed the order where they did not understand or recognize that they were signing a completion certificate. There are other instances where there is evidence of connivance between the homeowner and the dealer.

I could cite one complaint to you where the complainant himself indicates that the dealer advanced cash in order to pay off certain debts which the owner had and included the full amount in the FHA loan. I have no evidence in the files of the better business bureau in New York to indicate that there is direct connivance between the banks and the dealers with respect to these matters.

Senator MAYBANK. I have skipped through your statement. What about these houses that you mention on pages 20 and 21 that were treated and that changed color? How could that happen?

Mr. JACKSON. We have had a substantial number of complaints about what we would call the fast-buck dealer in the field of mastic

paint where high-pressure promotion has resulted in sales being made. A house has been sprayed with mastic paint.

Senator MAYBANK. You say it is sprayed white and changes to brown?

Mr. JACKSON. That is right. That is what several complainants have reported to the bureau over the past year and a half.

Senator MAYBANK. Have you seen any of those houses?

Mr. JACKSON. I have not personally, no, sir. Some of these mastic paints are apparently a good-quality product, but it is also exceedingly important that care be taken as to what type of house it is applied to.

For instance, a wood-shingle house with a lot of moisture content apparently will not hold this paint even though it is guaranteed for 10 or 20 years.

I would like to say, having launched into this problem immediately, that I would like to make it quite clear that from the point of view of the better business bureau our files indicate that a large number of the dealers who are engaged in the home-construction business are perfectly honest and reliable businessmen and I would not want to leave the impression with this committee or the public that the files indicate that this field is surrounded by fraud.

The CHAIRMAN. We understand that.

Mr. JACKSON. If I may, sir, let me read my conclusions and then I shall be glad to answer any further questions.

We believe that it must be obvious to all impartial observers that a vast amount of home modernization and improvement has been carried on in recent years to the distinct benefit of individual homeowners, the economy of our country, and the thousands of relatively small companies that have carried on the bulk of this work. Let me reiterate the statement which I made at the outset that the vast majority of this work has been carried on honestly and reliably, by the overwhelming majority of the companies involved.

No plan can or will be devised which will eliminate all fraud or deception in this field any more than it can be done in any other field of human endeavor.

I suggest, however, on the basis of our experience to date, that more effective steps can and must be taken to minimize the evils which have arisen in this field. I believe that the fundamental principle enunciated in the existing regulations to the effect that the lending institution itself, rather than the FHA, must exercise the basic responsibility of determining the reliability and bona fides of the dealer is essentially correct.

Senator MAYBANK. The FHA man can't do it, Mr. Jackson. The Attorney General has to take action. It is spread all the way from Maine to California.

The CHAIRMAN. This principle has been a law since 1934.

Mr. JACKSON. This principle does carry banks into an area which they don't normally involve themselves. It does seem to us that the FHA, if it is to continue in this field, should be geared and equipped to do a more effective job of supervision of the bank's activity in this field than they have done to date. It is significant that very few of the lending institutions in the New York area succeeded with the better business bureau regarding the volume or nature of complaints about specific companies in determining their reliability for FHA-insured loans and it is equally significant, I think, that the FHA itself has

made little or no attempt to review or utilize the information available at the New York Better Business Bureau except in isolated specific instances which we have called to the attention of local FHA authorities. We concluded that an intensification of effort on the part of both the FHA and the lending institutions in eliminating fraud, deception, or misrepresentation is certainly required in this field and we repeat here our willingness as a voluntary agency of business concerned with protecting the good name of business and the consuming public to give our full cooperation in the New York area to the FHA and to the banks in ferretting out these frauds and gyps which we still have.

Senator MAYBANK. But you still think it can only be done if the bank assumes some responsibility?

Mr. JACKSON. I think so.

Senator MAYBANK. There are millions of banks throughout America. How can one FHA office in Washington with \$150,000 allowed for the inspections cover all of that?

Mr. JACKSON. I would agree that would be impossible and produce an administrative barrier that would be exceedingly difficult. I do think, however, that the FHA should be equipped to do a more effective job of supervision of the banks' activities in this field than I see evidence of having taken place in the New York area in the course of the last year and a half.

Senator MAYBANK. In justice to the FHA and the present administration of the FHA, they have not had the money to do it.

I think it was testified here that last year they had about five people out of the Washington office to make these checks. I think we gave Mr. Cole \$150,000 this year to hire some people but that is not much money when you think of the area between California and Maine and Florida and the State of Washington.

Mr. JACKSON. I am not an expert on the Federal budget. I can only report my conclusions on the basis of our experience.

The CHAIRMAN. Now, if you will trade places with Mr. Nyborg and remain there, we may have some questions for you a little later. You gentlemen are all associated with the New York Better Business Bureau.

Mr. Nyborg, you are president of the Association of Better Business Bureaus of New York?

Mr. NYBORG. Yes, sir.

The CHAIRMAN. Do you have a statement?

Mr. NYBORG. I do have a statement. I can brief this down by paraphrasing what is here. I have only one extra copy in my file at the moment.

The CHAIRMAN. Do you want to read your statement?

Mr. NYBORG. No, I will brief it down and make that a part of the record.

The CHAIRMAN. The statement has to do with specific cases, does it?

Mr. NYBORG. This statement has to do with the general experience of the better business bureaus in 93 cities of the country involving this subject.

The CHAIRMAN. Then, without objection we will place your statement in the record and then you may proceed to tell us your experiences.

(The statement referred to follows:)

STATEMENT OF VICTOR H. NYBORG, PRESIDENT, ASSOCIATION OF BETTER BUSINESS BUREAUS, INC.

The Association of Better Business Bureaus, of which I am president, is the research, industry, and public relations office for the 93 better business bureaus in the United States and 7 in Canada. This office generally acts in the capacity of a service office for its member bureaus, offering conference facilities to them and acting as a clearinghouse for information for them. It also is the repository for statistical data on business-consumer problems, reported by bureaus periodically. This data is tabulated and analyzed, and referred to when studying unusual or significant problems affecting an industry, trade, or number of business concerns, and the public. Such data are helpful in working out solutions through voluntary, cooperative action between the bureaus and those concerned.

The Better Business Bureaus are supported by approximately 70,000 business firms in all lines of enterprise, which provide funds to the bureaus individually in their own communities and they, in turn, provide a fixed percentage of that income to the operation of the association office.

The Better Business Bureaus were founded over 40 years ago by leaders in organized advertising for the purpose of combating fraud, deception, and chicanery in the advertising and selling of goods and services to the public. Essentially, the bureaus still have as their basic objective the improvement of advertising and selling practices, in the public interest, and in eliminating the causes of justifiable public complaint against business. They are, basically, fact finders and dispensers of factual information. They do not recommend, endorse, or approve companies, products, services, individuals, or organizations, either directly or indirectly. Neither do they support or oppose any form or method of doing business, so long as the practices followed are legitimate, honest, and generally in the public interest.

The bureaus render service to members and nonmember business firms alike. There is no differentiation between members and nonmembers in matters requiring Better Business Bureau action to protect the legitimate competition and the public interest. There is no charge to the public for information and assistance concerning everyday business transactions and affairs.

As an example of the extent of service the Better Business Bureaus render the public each year, you will be interested to know that they handled, in 1953, a total of 1,895,828 inquiries and complaints about business firms, business transactions, products, and services. Out of this total, approximately 75 percent were inquiries for information and 25 percent for complaints. This ratio has existed generally since World War II. The bureaus' contacts with the public has increased almost 100 percent since 1949, according to records which were established at that time. At the same time Better Business Bureau work with industry and business groups in developing codes and standards for advertising and selling, and in eliminating troublesome business-consumer problems, has increased significantly. In 1953 the bureaus conducted or participated in 777 trade-practice conferences, an increase of 228 over 1952, and indications are that there will be another significant increase in trade-practice work this year.

Our interest, the interest of the Better Business Bureaus, in home improvement problems affecting the public and legitimate business is the same as our interest in similar problems in other fields of business enterprise. The bureaus' aim is to eliminate justifiable causes of complaint against contractors, and allied businesses, lending agencies, and others concerned. In this respect, the Better Business Bureaus receive requests for information from homeowners concerning the reliability of contractors, and what consumers can do to protect their interests, generally.

In instances where complaints are received from homeowners where individuals feel they have been harmed or offended in some manner as a result of dealing with contractors and lending agencies on home improvement propositions, the Better Business Bureaus investigate, endeavoring to obtain all the facts so as to be able to advise complainants fairly and impartially, and to plan what corrective steps may be appropriate as a result in eliminating the causes of the complaints. We have only a professional interest in problems affecting business and the public. We endeavor to alleviate or eliminate those problems whenever and wherever possible through voluntary, cooperative action, turning to public exposure and referral to the authorities only as a last resort.

Before proceeding further, I would like to make it clear that my appearance before you today, in answer to the committee's subpoena, is not to discuss individual instances of complaints involving malpractices in advertising and sell-

ing in the home improvement field, but rather to reflect as far as possible the overall experiences of the 93 United States bureaus which, in varying degrees, have been closely involved with this subject. Mr. Hoffman representing the national bureau and Mr. Jackson the New York City bureau will testify as to specific instances.

I should also like to emphasize at this point that the experiences of the Better Business Bureaus indicate strongly that the problems which have been a cause of irritation, question, and criticism affect only a relative minority of contractors and homeowners, that the vast majority of contractors in the country have carried out their business transactions openly, honestly, and fairly and that many thousands of homeowners have benefited immeasurably from the opportunities afforded them through the title I provisions of the Federal Housing Act. I say this because in Better Business Bureau work we are conscious of the fact that there is always a danger, regardless of what field of business enterprise is under scrutiny, that a whole business or industry is unfairly tarred with the same black brush used to expose and condemn the minority.

Now, what has been the size and scope of home improvement problems, generally, as reflected in the files and statistical reports of the bureaus. Secondly what has been done about those problems. Thirdly, what have been the results.

I should like to take up each of these points in order, and then, in summation, I will endeavor to make some recommendations for the consideration of the committee.

Based on the annual statistical analysis of Better Business Bureaus activities, photostats of which are in your possession, we have made a further study and find since 1949, when our present statistical recording system was instituted, that inquiries and complaints about home improvement problems have ranked, in volume, in the top 4 of 52 business classifications. Since 1949, when home improvement inquiries and complaints constituted 4 percent of our workload, the volume has increased to 6.4 percent, or 122,060 of the total number of inquiries and complaints in all classifications recorded in 1953.

During this 5-year period, our records show a fairly constant increase in contacts made by the public with the Better Business Bureaus. The only exception was in the years 1951 and 1952. In 1951 home improvement problems brought to the bureaus amounted to 5.8 percent of the workload. In 1952, they amounted to 5.6 percent.

In 1949 when we estimated 41,653 inquiries and complaints in this field, to the end of last year, there was almost a threefold increase in volume. In contrast to that increase, there was less than a twofold increase in inquiries and complaints in all classifications of business activity.

This increase in volume of home improvement problems brought to the bureaus by the public should not be construed, however, as showing a corresponding increase in malpractices in this field. Rather, this increase reflects, we believe, the results of stepped-up publicity and educational activity by the bureaus and others interested in protecting the public and in exposing the minority of questionable contractors.

I believe this can be substantiated to a reasonable degree by looking at the ratio of inquiries to complaints handled by the bureaus in all classifications of business activity—the national average—as against the ratio of inquiries to complaints in the home-improvement field. In 1949 the national average of inquiries to complaints was 77 and 23 percent, respectively. In the home-improvement field for that year, the ratio of inquiries to complaints was 69 to 31 percent. We consider the national average of 77 percent good. It was the highest annual average in the past 5 years.

In 1953 the national average was 73 percent for inquiries to 27 percent for complaints. In the home-improvement field the ratio was 70 percent for inquiries to 30 percent for complaints. I might point out that the home-improvement-field ratio hit a low of 66 percent for inquiries in 1952 before the present more favorable ratio of 70 percent came about.

Another way of describing the improvement can be seen in the accompanying chart marked "No. I" comparing, on a quarterly basis from 1949 through 1953, the number of inquiries and complaints handled in all classifications versus the number of inquiries and complaints handled in the home-improvement field. On chart No. II you will note that, since the fourth quarter of 1952, the complaint curve has flattened out somewhat, although showing an increase in volume. You will also note that since then complaints have not exceeded the number of inquiries for information and assistance, which is an encouraging sign. It shows

that more home owners are investigating home-improvement propositions prior to entering business transactions than previously was the case.

Now what has been the nature of the inquiries and complaints brought to the Better Business Bureaus. In essence, the inquiries are caused by questions in the minds of homeowners about the propositions offered to them by contractors either through advertising or verbally, or both. And the complaints are caused by a wide variety of unfortunate business experiences which either have offended the homeowner or have harmed them financially or in some other way.

The nature of these propositions and schemes cover almost every conceivable type of sales approach which the innocent, inexperienced, and gullible are unable to assess properly, or are unable to resist despite better judgment.

In general, these problems include the following as reflected in our files:

1. Model home scheme which covers roofing, siding, brick-veneer fronts, shingles, patios, porches, painting, and other similar improvements. This scheme appeals to the ego of the homeowner as well as holding out the lure of possible revenue from bonuses resulting from the home being used as a model.

2. Repair of roof, shingles, chimneys, etc., are often sold on a scare-technique basis. The minor repair of shingles turns out to be a major one because the condition of the roof is worse than expected—there is danger of leakage and damage to the interior of the house; the chimney needs more than a brick or two replaced, it may be in danger of collapsing causing danger to life and property. This technique is also used in the sale of home-rewiring contracts where an "inspector" will note that the wiring is "inadequate" for the load created by the limited number of outlets and the large number of appliances, thus endangering the family to the hazards of fire, loss of fire-insurance protection, etc.

3. Mastic paint jobs which are sold on the basis of excessive claims and guaranties. The result often has been cracking, peeling, chipping, etc., of the paint within weeks or months after application. Some contractors which offered a 10-year written guaranty have been forced to withdraw the guaranty. Other contractors, which have had to do a repainting job resulting from customer complaints, have forced homeowners to sign a release against further claims before doing the repainting. On occasions paint manufacturers have disclaimed any responsibility for unsatisfactory painting jobs and refuse to share the expense of repainting or make any allowance to the contractor which bought the paint.

4. Repair and replacement of heating systems has been a major cause of complaint in some areas. Here again the scare selling technique has been successfully used. Repairs turn out to be major rather than minor as originally suggested. Sharp repairmen and contractors dismantle furnaces and refuse to reassemble them because of alleged danger of asphyxiation or fire, etc. As a result they sell new equipment, often when not needed, and frequently at high cost to home owners who must take out loans for an extended period.

5. Underquoting and overpricing is a technique frequently used on home improvement and repair jobs. Some dealers underquote legitimate dealers, then overmeasure materials to gouge the home owner. Others are "free" and "loss leader" merchandise as bait to sell more merchandise such as fiber glass awnings and canopies, but then they add the cost of the items to those that are purchased. Promises are often outlandish and those made verbally do not appear in written contracts. Often companies will repudiate them, disclaiming responsibility for what their salesmen promised.

6. Completion certificates signed prior to actual completion of work occurs with sufficient frequency to be considered a problem. Certificates signed in advance of completion of a job may result in the job never being completed and the home owner is left not only with work still to be done, but with the responsibility of repaying his loan. Many contractors know that a breach of contract is not considered a criminal offense and know that most home owners do not have the money, time, or inclination to file a civil suit.

7. Itinerant contractors and these without any fixed place of business cause many problems. Operating on a floating basis from city to city, or from one part of town to another, using a truck without identification, they pick up work here and there and move on as the situation may dictate or opportunity beckons. These contractors leave a trail of unfinished or shoddy work. Operating without bond or restriction, and enjoying freedom of movement, it is difficult for local authorities to restrain them.

8. Bonus or cost-plus operators are a source of frequent complaint in some areas. These operators, principally salesmen who sell contracting jobs for home improvements, make arrangements with contractors to do work on a fix-fee basis,

or cost-plus basis. Salesmen will sell the home owner for all the traffic will bear, skim off the profits, pay the contractor and move on, leaving both contractor and home owner to their own devices to settle any eventual difficulties. By then the salesman has left for other parts. In some instances, a home owner may pay, for example, \$1,500 to find later, that the contractor is receiving only \$500 for doing the actual work.

All of these and other practices are recorded in the files of individual Better Business Bureaus and details are available to committee representatives on request.

Losses of homeowners resulting from their dealings with unreliable and scheming contractors is difficult if not impossible to estimate. Neither the Association of Better Business Bureaus or its member Bureaus have any estimates which we would consider reasonably accurate and we hesitate to make even an educated guess. However, we may have some idea as to what losses are in some cities where newspapers have published figures based on their investigations. In New Orleans, for example, according to a feature article in the New Orleans States of April 17, a photostat of which members of the committee have, losses there are estimated at more than a million dollars a year. In Oakland, Calif., a published news story there estimated that home owners in the Oakland area spent more than a million dollars on faulty home modernization work. While such figures may be projected for various communities around the country, and thus hit a total exceeding \$100 million, I do not believe the resulting total would be accurate, nor fairly reflect either the size or scope or impact of the problems being considered by this committee. The actual total could be more, or less.

The fact that the bureaus handled 36,409 complaints last year, for example, does not suggest that each and every home owner who came to us suffered any appreciable loss, or even any loss at all. In fact, these complaints involve many matters besides financial or material loss. Some reflect, I might say, a loss of even greater importance, and that is a loss of public confidence in business itself, something which is hard to earn, but very easy to lose. We are all interested, of course, in protecting the home owner's pocketbook, but we also should keep well in mind the desirability of protecting his peace of mind, and faith and confidence in our system of free enterprise.

Any presentation made before the committee would be remiss in not showing some of the bright spots resulting from sincere, interested cooperative action on the part of contractors, lending agencies, Federal Housing Administration officials, and others to protect the consumer. Unfortunately, it often seems necessary for problems to get so bad, so widespread, and affect so many people before anything is done about seeking solutions for the common good.

Our figures have shown for 5 years how seriously the home improvement situation has grown. Better Business Bureaus, individually and collectively, went to work early to seek the cooperation of those who should be interested in curbing the abuses. Outstanding, perhaps, of such local bureau action was that taken by the San Francisco Better Business Bureau, and I ask the members of the committee to refer to the photostatic copy of a special report issued by that bureau on May 29 of last year in which the bureau reports on how an effective program was planned and carried out to eliminate the mastic paint problem in that area. This program received the support and backing of the Federal Housing Administration office, the contractors' State license board, district attorney's office, the unions, and associations of contractors. And joining this group were the newspapers, radio, and television stations. One result of the campaign was the elimination of an estimated 95 to 100 fly-by-night salesmen. This bureau, I might add, produced a leaflet for home owners called *The Facts on Mastic—Not Fantastic*, which was produced in great quantity and which procured by many Better Business Bureaus to help eliminate the same problem in their cities.

In Los Angeles, that city's Better Business Bureau also conducted a highly effective campaign to rid that city of home improvement fly-by-night contractors during 1952 and 1953. There again the bureau received the cooperation of the authorities, lending agencies and media, and the bureau prepared and disseminated all the way from Santa Barbara to the Mexican border posters together with factual data regarding the mastic paint racket. More than 7,600 paint dealers and contractors received material on the subject. Members of the committee also have a photostat of that bureau's January 6, 1954, bulletin on this subject.

Houston and Dallas are two more bureaus which carried out highly successful programs in cooperation with parties concerned in their respective cities. One

result, according to a bulletin of the Houston bureau on February 1 of this year, was that few home repair schemes were reported to it during January and February.

Another photostat which members of the committee have relates to a letter written by James Stephens, manager of the Atlanta Better Business Bureau, on February 5 of this year, in which he reports that a program initiated by the bureau in the fall of 1953 in cooperation with the FHA "has practically killed the model home scheme in this area."

There are many similar reports of actions taken by Better Business Bureaus, individually, and cooperatively with agencies, organizations, and firms in exposing home improvement schemes and in issuing factual information, such as the "mastic paint" booklet, 27 Questions for Home Owners, and other similar literature all designed to aid the homeowner in recognizing not only spurious propositions, but to help him take the precautionary steps prior to entering a business transaction.

Unfortunately, not all FHA offices, or all lending agencies, or all contractors have shown the same high purpose, or high degree of interest in eliminating the causes of justifiable public complaint in the home improvement field. The St. Louis Better Business Bureau, for example—and I refer you to a bulletin published by that bureau on June 15 of this year—comments on the lack of interest in the problems which the committee is now studying until public furor made it necessary to do so. The bulletin states in part, and I quote: "We have documentary proof that [the FHA] instead of showing zeal in protecting the gullible and trusting innocents by aggressive action to secure evidence for convictions under Federal law, and to recover from culprits who obtained funds under false completion certificates, these top officials in Washington urged their employees and the United States Department of Justice, through its United States attorneys, to hound and if necessary sue in Federal court to collect on notes as innocent holders of negotiable paper." The bulletin also refers to the fact that the public has no protection against being defrauded or harmed by poor workmanship, inferior materials, etc., and that the public is confused by what it calls "liberal usage of FHA insured loans."

Still, it should be noted that cooperation on the part of FHA offices with Better Business Bureaus has increased encouragingly since earlier this year when administrative procedures were tightened. Of particular assistance was a letter written by the Deputy Commissioner on January 13 which stated in part, and I quote:

"As a further step in controlling the activity of unethical dealers and salesmen who may endeavor to operate in the title I program, we ask that each director establish a working relationship with the local better business bureau and similar organizations operating in the jurisdiction. * * *

"We believe that close cooperation with your local better business bureau will serve as one means of maintaining a close watch over title I operations in your area. Experience has shown that home-owner complaints received by the local better business bureau may indicate a dealer operation warranting prompt action on the part of the local lending institution and by your office."

This letter was widely publicized by better business bureaus and the resulting knowledge of the interest expressed in it to work with the bureaus has encouraged local FHA administrators, lending agencies, contractors, and others to work together with greater effectiveness.

It is my feeling—and I am sure that I speak for all better business bureaus when I say this—that a further strengthening of such interest and cooperation on the part of the FHA and others will go far in helping to eliminate many of the problems which have heretofore existed in the home-improvement field.

The one specific recommendation which I would like to make deals with the handling of completion certificates. I believe that most of the troubles resulting from premature signing of completion certificates would be eliminated if the lending agencies were required to ask the home owner, on presentation of the certificate by the contractor, whether the work actually was completed and completed satisfactorily. If this procedure were to be followed prior to the filing of the certificate for an FHA guaranty on the loan, there would be less likelihood of home owners being faced with the responsibility of repaying a loan for work that still remained to be done.

TESTIMONY OF VICTOR H. NYBORG, PRESIDENT, ASSOCIATION OF BETTER BUSINESS BUREAUS

Mr. NYBORG. I would also like to present to the committee as basic information and background information some statistical records and without reading them make them available to the committee's staff for examination because I have made some analyses based on this information starting in 1949 carrying through 1953.

(The documents referred to follow :)

ASSOCIATION OF BETTER BUSINESS BUREAUS, INC.,
January 31, 1950.

Memorandum to : All Bureau Managers
Re : Summary of Bureau Statistics for 1949
From : Willard M. Zurflieh, Executive Assistant

The following report presents the final figures and analysis of bureau statistics, as reported to the association during 1949.

Please note that the report contains a sheet of summary tables, which have been included for reproduction possibilities. You will also find one sheet with tables representing the total statistics submitted to the association's office by your bureau. There may be slight differences from your own figures and if so, this is due generally to incomplete data in our hands.

We believe this report is extremely valuable and that it can be put to good use in membership work as well as in general bureau publicity. Your members should be impressed with the magnitude of work accomplished by all the bureaus during the year.

Actually, during the year, the data submitted by the bureaus was of tremendous assistance to the association in dealings with various national trade groups. It has been recognized, however, that with the new report form providing for additional breakdown of the main categories the statistics for 1950 will be many more times valuable and we sincerely request that every bureau will endeavor to cooperate during the year by sending in their data for each month.

FOREWORD

The need for accurate statistics on a uniform basis was acknowledged to be an essential better business bureau program for 1949. Thus, a reporting form was designed which would show the amount of case work handled by the bureaus according to nine major categories. It was also decided to show a separate breakdown of inquiries and complaints. To answer the oft repeated question as to whether business, as well as the public, actually made use of bureau facilities, the form was designed to clearly provide this necessary information.

In reading and studying this report it must be borne in mind that the figures do not indicate the amount of time or money spent in handling each individual instance of service. It is strictly a numerical count of cases serviced.

During the year, an average of 46 bureaus reported their monthly statistics. Not all bureaus, normally sending in data, submitted statistics every month. Some bureaus recorded their instance of service only by inquiries and complaints. There were also some bureaus which could not, for various reasons, report any figures until the end of the year. And there were certain bureaus unable to report at all. Statistics were used from a total of 77 bureaus. Proper notes will be made of these factors as the situation demands.

Therefore, it is important that the reader understands that the total instances of service reported on page 3 represents only the actual number received and recorded by the association. What the complete figure is cannot be stated definitely, and we strongly urge no effort be made to project them. Only the actual reported total should be stated as a specific overall figure. But, a general expression such as "in excess of 1 million instances of service" would be considered acceptable.

Even though incomplete, as to full coverage, the record as established by the reporting bureaus clearly shows that the better business bureaus have performed with amazing effectiveness on behalf of business in the public interest. Your association's office is well pleased with the results of this first year's effort. But, in spite of the limitations of the figures, experts who have studied them have been

favorably impressed. They have stated that the tabulations and analyses have been based upon sound and accepted research principles. The limitations of the data in no way effects their usefulness.

These professional research men assure us that no bureau need be anything but proud in quoting the overall figure of 1,010,898 instances of service.

PUBLIC RELATIONS

Publicity and education

Number of bulletins issued.....	1,097
Circulation of bulletins.....	1,177,624
Number of billboards used.....	19
Number of car cards used.....	12,261
Number of Fact booklets issued.....	258,011
Number of other booklets issued.....	82,443
Number of BBB advertisements.....	1,315
Number of news publicity items.....	2,270
Number of speaking engagements.....	1,112
Number of posters distributed.....	240,891
Number of radio spots used.....	3,283
Number of radio programs.....	541
Number of television shows.....	40
Other types of publicity.....	¹ 654,107

¹ Includes 300,000 copies of warning issued by the national bureau on fake surveys and 125,036 copies of Canada's Business System and You, distributed by the Better Business Bureau of Vancouver.

In studying the above tables it should be immediately apparent that the better business bureaus used almost all of the recognized public relations tools in a huge program designed to better inform the public about American business. Not only was the public told about bureau services but by the very nature of the above material many thousands of people were helped without having to personally visit a bureau office. The thousands of Fact booklets distributed on such subjects as houses, cosmetics, savings, insurance, etc., supplied people with useful information enabling them to make wise transactions and purchases.

The 2,270 news stories, 3,283 radio spot announcements, 541 radio programs and 40 television shows all carried vital stories of importance planned to educate the public and business of various schemes to which they might fall victim.

The 240,891 posters distributed were placed in shops, factories and industrial plants of all types, bringing bureau warnings and educational messages to the employees and customers of business at the grassroots level.

Over 1 million bulletins were mailed to bureau members, teachers, librarians and public officials, keeping them informed of bureau operations and advising of specific frauds and questionable activities.

Thus, through all these media the bureaus warned, exposed and instructed. All the information was based upon fact and all the facts helped in the bureaus' efforts to eliminate the causes of customer complaints against business.

And thus, in eliminating these causes the bureaus continued to promote public understanding and confidence in legitimate business. Proof that the better business bureaus' work is known and accepted by the public is shown in the results of the national survey conducted early in 1949 for the association by the National Opinion Research Center of the University of Chicago. According to the survey 48 percent of the adult public knows about the bureaus and of this figure 30 percent, or about one-third of the Nation, have accurate knowledge of better business bureau work.

PUBLIC SERVICE

OVER ONE MILLION INSTANCES OF SERVICE PERFORMED BY THE BETTER BUSINESS BUREAUS DURING 1949

Total instances of service for 1949¹

	Total	Per- cent	Inquiries	Com- plaints
Financial.....	155,064	15	136,071	18,993
Commercial.....	206,161	21	149,690	56,471
Merchandise.....	347,107	34	213,939	133,168
Manufacturing.....	9,330	1	7,591	1,739
Wholesale.....	6,007	(1)	4,833	1,174
Solicitations.....	78,100	8	70,921	7,179
Schemes.....	27,112	3	22,911	4,201
Requests for booklets.....	75,524	7	75,524	-----
Miscellaneous inquiries and complaints.....	106,493	10	92,186	14,307
Total for the year.....	1,010,898	100	773,666	237,232

¹ Includes data from regularly reporting bureaus, plus year-end figures from nonreporting bureaus.

Inquiries (77 percent) ----- 773,666
 Complaints (23 percent) ----- 237,232

Seventy-seven percent, of all bureau case work was of an inquiry nature. This high percentage indicates that the majority of people and business firms are seeking information before and not after getting into trouble. It also tends to prove that the bureaus' work in promoting confidence in business through the constant stream of educational material has been effective.

Since a major part of the public's contact with business is at the retail level, it naturally follows that the bureaus would handle more casework in the merchandise category than any other. Thirty-four percent of all instances of service were of a merchandise character. Twenty-one percent represented work in the commercial category and 15 percent in the financial group. The 10 percent of miscellaneous inquiries and complaints represented requests for services from other bureaus, local, State, and Federal authorities and some requests for assistance involving situations not normally handled by bureaus.

Instances of service to consumer and business¹

	Total	Per- cent	Consumer				Business			
			Inquiries	Per- cent	Com- plaints	Per- cent	Inquiries	Per- cent	Com- plaints	Per- cent
Financial.....	102,380	100	73,435	72	11,760	11	15,057	15	2,128	2
Commercial.....	158,054	100	85,641	54	38,848	25	26,266	17	7,299	4
Merchandise.....	242,926	100	115,356	48	83,378	34	25,851	11	18,341	7
Manufacturing.....	7,590	100	3,626	46	992	13	2,826	36	416	5
Wholesale.....	4,612	100	2,320	50	359	8	1,592	34	341	8
Solicitations.....	62,834	100	23,215	37	3,254	5	34,284	55	2,081	3
Schemes.....	19,800	100	12,522	64	1,871	9	4,334	22	1,073	5
Booklets.....	63,899	100	41,651	65	-----	-----	22,248	35	-----	-----
Miscellaneous in- quiries and com- plaints.....	76,443	100	49,256	64	10,509	14	14,905	19	1,773	3
Total.....	738,808	100	407,022	54	150,971	21	147,363	20	33,452	5

¹ The above table represents data from an average of 46 bureaus who reported their data by a consumer and business breakdown. It is safe to assume that the percentages would not be greatly changed were all statistics included.

In every category, for both consumers and business, inquiries exceeded complaints. The fact that 25 percent of the recorded inquiries and complaints reported by an average of 46 bureaus were from business, clearly reveals that business does voluntarily seek the services of bureaus to help remove questionable business practices even before the bureaus are required to act. It proves too, the value of the constant educational and preventive activities of the bureaus.

TRUTH IN ADVERTISING

The bureaus kept a constant eye on advertising and selling practices through their merchandising divisions. Hundreds of thousands of advertisements both national and local were read or listened to. Although, advertisers for the most part adhered closely to the established rules and standards promulgated by the bureaus through the Guide for Retail Advertising and Selling and Do's and Don't in Advertising Copy, there were inevitable inaccurate statements and illustrations. Many of these were not intentional and were quickly corrected when brought to the attention of the advertisers. But, there were others that required persuasion and publicity to correct and some had to be referred to proper authorities for settlement.

The table of reported cases, presented on the next page, will give some indication of the volume of work handled by the bureau in maintaining truth in advertising.

	Total	Number of ads shopped			Ads requiring action	
		Papers	Magazines	Radio	By bureau	By authorities
Financial.....	2,186	2,004	76	106	1,222	34
Commercial.....	1,520	1,367	27	126	411	39
Merchandise.....	27,765	26,259	-----	1,506	10,332	150
Manufacturing.....	245	204	37	5	29	2
Wholesale.....	47	36	6	5	28	-----
Solicitations.....	173	136	24	13	63	26
Schemes.....	60	58	-----	2	19	10
Miscellaneous inquiries and complaints.....	1,559	1,255	31	273	402	8
Total.....	33,868	31,319	313	2,236	12,506	269

Of the hundreds of thousands of advertisements scanned or listened to nearly 34,000 were questioned and/or shopped. Of this total close to 13,000 required some type of action. But, only 269 of the 13,000 advertisements required reference to authorities before proper corrections were obtained.

SUMMARY TABLE OF DATA SUBMITTED BY THE BETTER BUSINESS BUREAUS OF THE UNITED STATES AND CANADA FOR 1949

Publicity and education

Number of bulletins issued.....	1,097
Circulation of bulletins.....	1,177,624
Number of billboards used.....	19
Number of car cards used.....	12,261
Number of fact booklets issued.....	258,011
Number of other booklets issued.....	82,443
Number of B-B-B advertisements.....	1,315
Number of news publicity items.....	2,270
Number of speaking engagements.....	1,112
Number of posters distributed.....	240,891
Number of radio spots used.....	3,283
Number of radio programs.....	541
Number of television shows.....	40
Other types of publicity.....	1,654,107

¹ Includes 300,000 copies of warning issued by the national bureau on fake surveys and 125,036 copies of Canada's Business System and You, distributed by the Better Business Bureau of Vancouver.

Instances of service

	Total	Percent	Inquiries	Complaints
Financial.....	155,064	15	136,071	18,993
Commercial.....	206,161	21	149,690	56,471
Merchandise.....	347,107	34	213,939	133,168
Manufacturing.....	9,330	1	7,591	1,739
Wholesale.....	6,007	-----	4,833	1,174
Solicitations.....	78,100	8	70,921	7,179
Schemes.....	27,112	3	22,911	4,201
Requests for booklets.....	75,524	7	75,524	-----
Miscellaneous inquiries and complaints.....	106,493	10	92,186	14,307
Total for the year.....	1,010,898	100	773,666	237,232

Instances of service (100 percent) ----- 1,010,898
 Inquiries (77 percent) ----- 773,666
 Complaints (23 percent) ----- 237,232

	Number of ads shopped			Ads requiring action	
	Papers	Magazines	Radio	By bureau	By authorities
Financial.....	2,004	76	106	1,222	34
Commercial.....	1,367	27	126	411	39
Merchandise.....	26,259	-----	1,506	10,332	150
Manufacturing.....	204	37	5	29	2
Wholesale.....	36	6	5	28	-----
Solicitations.....	136	24	13	63	26
Schemes.....	58	-----	2	19	10
Miscellaneous inquiries and complaints.....	1,255	31	273	402	8
Total.....	31,319	313	2,236	12,506	269
		33,868		12,775	

ASSOCIATION OF BETTER BUSINESS BUREAUS, INC.,
New York 17, N. Y., March 15, 1951.

Memorandum to: All bureau managers.
 Re: Summary of bureau statistics for 1950.
 From: Willard M. Zurflieh, executive assistant.

The following report presents the final figures and analysis of bureau statistics, as reported by members of the Association of Better Business Bureaus during 1950.

In 1949 we suggested that the annual statistical report would be valuable as a membership sales aid. During 1950 the use to which individual bureaus put the material showed that we had greatly underestimated its true significance and value. Therefore, we urge all bureaus to recognize the importance of the data in the 1950 report in relation to its value as a sales aid.

As was the case during 1949, the statistics reported by the bureaus during 1950 were of inestimable value to the association's office in its dealings with several national trade groups. The data, revealed by the detailed breakdown of categories, contains a wealth of information which will be an important part of the association's story to industry during 1951.

In any interpretation of these figures it must always be recognized that they represent, at most, a pure numerical count. They do not truly reflect, except by further analysis, the complete value of bureau services either to business, to individual communities or to the public generally.

During the year an average of 49 bureaus reported their monthly statistics. Some bureaus submitted figures at the end of the year. Some bureaus submitted data not used in monthly tabulations, but important for this yearly report. Only eight bureaus found it impossible to report any data. Thus, 82 bureaus are represented in this study. The tables in the following report reflect general conditions for 1950 throughout the United States and Canada.

At the very beginning of the bureau statistics project in 1949 analysis revealed that the data set a pattern. Month after month the pattern was the same and, with few exceptions, individual bureau reports agreed with the overall pattern.

This report shows the important place the Better Business Bureau movement fills in our economy—both as to service by and for business and in the public interest.

A SUMMARY OF BETTER BUSINESS BUREAU STATISTICS FOR 1950 PUBLIC SERVICE

Once again the better business bureaus performed more than 1 million instances of service in a single year.

1949----- 1, 012, 898
1950----- 1, 173, 292

This is an increase of 16 percent over last year.

The total 1950 instances of service breaks into the following :

Inquiries (71 percent)----- 836, 554
Complaints (29 percent)----- 336, 738

A year ago complaints were 23 percent of the total. But during 1950 it was evident that a higher percentage of people were complaining as each month passed. (Even so, far more people check with the bureaus before rather than after some business transaction.)

TABLE I.—Total instances of service for 1950—by major categories

	1949 per- centage	Total	1950 per- centage	Inquiries	Com- plaints
	<i>Percent</i>		<i>Percent</i>		
Financial.....	15	161, 109	14	141, 024	20, 085
Commercial.....	21	212, 984	18	149, 617	63, 367
Merchandise.....	34	479, 970	41	265, 811	214, 159
Manufacturing.....	1	10, 766	1	8, 468	2, 298
Wholesale.....		3, 850		3, 267	583
Solicitations.....	8	96, 567	8	88, 613	7, 954
Schemes.....	3	29, 083	2	26, 245	2, 838
Request for booklets.....	7	53, 069	4	53, 069	
Miscellaneous inquiries and complaints.....	10	125, 894	11	100, 440	25, 454
Total for the year.....	100	1, 173, 292	100	836, 554	336, 738

It is evident that the figures for 1950 closely conform to the percentages for 1949, even though there was a numerical increase for both inquiries and complaints. The big difference, in a single category, is the increase in the number of instances of service regarding merchandise, from 34 to 41 percent—a 20 percent gain. Some of the reasons for this jump will be explained on page 90.

Now for the first time in bureau history it is possible to evaluate the amount of work done in each of the major categories. The following tables and charts will analyze individual classifications.

Financial category (14 percent of the total)

	Percent	Total	Inquiries	Com- plaints
Banks.....	1	1, 909	1, 666	243
Building and loan and savings and loan.....	2	3, 650	3, 283	367
Business opportunities.....	8	12, 355	10, 967	1, 388
Auto financing.....	8	13, 073	7, 829	5, 244
Loan, discount, and financing.....	9	13, 997	10, 655	3, 342
Security and investments.....	13	21, 199	18, 886	2, 313
Real estate.....	18	29, 702	26, 022	3, 680
Insurance.....	41	65, 224	61, 716	3, 508
Total.....	100	161, 109	141, 024	20, 085

The financial category is responsible for 14 percent of all instances of service. Since larger amounts of money are usually involved it often follows that an investment of more time and service is expended per case in this group than in most others.

Forty-one percent of all financial instances of service involved insurance. Over 65,000 people contacted the bureaus during 1950 concerning some phase of insurance; of this number 96 percent were seeking general information and checking on the reputation and reliability of various insurance companies, agents, or brokers.

Real estate, security and investment transactions accounted for 18 percent and 13 percent, respectively, of the financial total.

It is significant that almost 9 out of every 10 people who contacted the bureaus with some financial problem were investigating before investing. It is equally significant that every classification in the financial category is covered in one or more fact booklets. There are at least 10 fact booklets which give valuable guidance on financial matters, thus helping the bureaus to better serve these inquiries. Thus it would appear that when most people are faced with situations involving larger amounts of money they take time to check first.

Only in the auto-financing classification was there a relatively higher ratio of complaints to inquiries; 38 percent of all auto-financing cases were in the nature of complaints. And relatively more complaints were received in this group than in any other financial classifications. In other words, 26 percent of all financial complaints involved auto financing.

Most of the auto-financing complaints, according to bureau reports, had to do with the "pack" which was explained to the purchaser as the cost of insurance but actually a large part of the exorbitant cost constituted a rebate to the dealer placing the paper. Recent FTC regulations, brought about to a great degree by persistent efforts of the bureaus, to correct the evils of "packing" should reduce this abuse in the coming year.

Commercial category (18 percent of the total)

The commercial category includes those types of business generally offering services rather than commodities. This group accounted for 18 percent of the total number of instances of service. The breakdown of the data is as follows:

	Percent	Total	Inquiries	Complaints
Movies and theaters.....		911	565	346
Restaurants.....		1,158	605	553
Hotels and resorts.....	1	1,681	1,243	438
Public utilities.....	1	1,807	1,124	683
Transportation.....	5	10,826	7,389	3,437
Other personal services.....	7	14,780	10,314	4,466
Organizations.....	7	16,575	14,795	1,780
Employment.....	9	18,800	15,048	3,752
Professional services.....	11	22,521	16,812	5,709
Advertising media.....	12	25,257	19,659	5,598
Education.....	13	27,525	24,546	2,979
Dry cleaners.....	15	32,409	12,604	19,805
Photographers.....	18	38,734	24,913	13,821
Total.....	100	212,984	149,617	63,367

Photographers and photographic services were numerically the highest in the commercial category but problems relating to dry cleaning caused the Bureaus more concern. It is the only classification in this group wherein complaints exceed inquiries.

The fact that over 200,000 instances of service were performed relating to commercial transactions reveals the effect which the sale or purchase of a service has on the public confidence in business generally.

In the professional services classification, 22,521 instances of service were rendered, of which 5,709 were complaints.

There are opportunities here for business to strengthen its reputation for fairness. For example, in the restaurant business there were 1,158 contacts with the bureaus; 553 or 47 percent were complaints. The total number is not large but any business which alienates an important percentage of its customers is not building public confidence.

MERCHANDISE

As would be expected, the greatest volume of bureau casework is in connection with transactions involving merchandise. People naturally spend more

money for goods than for services. And more money is spent than saved or invested by individuals. Although some transactions may involve only pennies, the public is somehow (more) inclined to be critical of their business contacts relating to the economics of everyday living. A seeming paradox exists. Because although the public generally is more critical of everyday expenditures it is naturally less likely to investigate first before completing a transaction.

It is evident there is a need for business to exercise more care in its offers and daily dealings with the public to build greater good will.

The merchandise table on the following page reveals the amount of work done in each classification. It will be obvious to the reader that a wide variety of businesses are serviced. And almost a half-million instances of service were performed in the interests of merchandisers.

Merchandise category

	Percent	Total	Inquiries	Complaints
Liquor stores.....		963	606	357
Drug stores.....		2,257	1,185	1,072
Vending machines.....	1	4,492	3,301	1,191
Office supplies.....	1	6,015	3,302	2,713
Food stores.....	1	6,054	3,212	2,842
Agriculture.....	1	7,284	5,375	1,909
Upholstery.....	2	9,598	4,919	4,679
Furs.....	2	9,882	6,297	3,585
Men's apparel.....	2	10,422	5,315	5,107
Hardware.....	2	10,811	5,940	4,871
New car dealers.....	3	12,585	7,307	5,278
Department stores.....	3	13,729	6,607	7,122
Fuel.....	3	13,832	8,793	5,039
Auto equipment and service.....	3	13,872	6,479	7,393
Jewelry.....	3	15,344	8,512	6,832
Door to door selling.....	4	18,712	12,726	5,986
Used car dealers.....	5	23,335	11,897	11,438
Book subscriptions.....	5	23,353	16,635	6,718
Women's apparel.....	5	24,649	11,053	13,596
Furniture and rugs.....	8	38,028	16,579	21,449
Photo supplies, radio, and music.....	9	44,393	10,072	34,321
Magazine subscriptions.....	10	47,025	33,383	13,642
Construction (home).....	12	58,202	40,696	17,506
Home appliances.....	14	65,133	35,620	29,513
Total.....	100	479,970	265,811	214,159

In the automobile business we find that 59,792 people came to the bureaus during 1950 with problems. 24,109 or 14 percent registered complaints. In other words, 4 out of every 10 of these people were dissatisfied customers.

The home construction business caused 58,202 bureau contacts. Over 17,000 or 30 percent made complaints. This business, it should be noted, is one which, due to the increasing number of building units erected during the year, created a steady monthly rise in instances of service.

Closely behind the construction business came the home appliances with 65,133 contacts and home furnishers, such as furniture-rugs, with 38,028 contacts.

There were more complaints than inquiries in the furniture-rug field, but almost 50 percent of the home appliance instances of service were complaints.

Complaints to inquiries are relatively high for every merchandise classification. Take drug and liquor stores, with the fewest number of instances of service. Out of 2,257 instances of service for drug stores, 47 percent were complaints. Thirty-three percent of the 963 liquor stores instances of service were complaints.

In both the men's and women's apparel line a total of 35,071 instances of service were performed, with 18,703, or 56 percent recorded as complaints. Furthermore, more complaints than inquiries were received by the bureaus concerning women's apparel stores.

In the photo supplies-radio and music classification, 44,393 instances of service were noted: 34,321, or 78 percent were complaints. From separate records and interviews with bureau managers we know that the major portion of the work in this field concerned television. It is impossible to quote the exact TV figure, but we know that well over 50 percent can be attributed to the TV industry. (A separate TV classification is listed for 1951.)

Of all merchandise instances of service, 55 percent were inquiries and 45 percent were complaints. During 1949 the percentages were: Inquiries 62 percent:

complaints 38 percent. This represents an 18 percent increase in merchandise complaints. Certainly this is cause for alarm. The bureaus, as well as the business firms concerned, have a real problem to solve.

It seems apparent that the reason for an increase of 18 percent in complaints relating to merchandise transactions was caused by a step-up in promotional activities including sharper competitive practices. The trend illustrates the very great need for business to avoid a breakdown of ethical standards even in a buyer's market.

OTHER CATEGORIES

Although the volume of instances of service performed for the following categories increased over 1949, little or no change occurred in percentages.

	Total	Inquiries	Complaints
Manufacturing.....	10,766	8,468	2,298
Wholesale.....	3,850	3,267	583
Solicitations.....	96,567	88,613	7,954
Schemes.....	29,083	26,245	2,838
Booklets.....	53,069	53,069	.....
Miscellaneous.....	125,894	100,440	25,454

Relatively more people took the time to check with the bureaus regarding solicitations and schemes. This reflects a need for an intensified bureau program to uncover and report the facts regarding operations in these categories. It is significant that business firms depend heavily on this phase of bureau operations—in fact 57 percent of the instances of service relating to solicitations were performed directly for business establishments.

The actual number of fact booklets requested by the general public was considerably less during 1950 than for 1949. Here is an opportunity for all bureaus to help reduce the number of consumer complaints. More publicity about and distribution of these self-servicing booklets is indicated.

The following section shows the breakdown of the instances of service according to consumer or business.

Consumer versus business use of bureau services

	Total	Per-cent	Consumer				Business			
			Inquir-ies	Per-cent	Com-plaints	Per-cent	Inquir-ies	Per-cent	Com-plaints	Per-cent
Financial.....	167,109	100	119,343	74	17,518	11	21,681	13	2,567	2
Commercial.....	212,984	100	118,881	56	56,377	27	30,736	14	6,990	3
Merchandise.....	479,970	100	222,916	45	192,159	41	42,895	9	22,000	5
Manufacturing.....	10,766	100	4,342	41	1,687	15	4,126	38	611	6
Wholesale.....	3,850	100	1,537	40	330	9	1,730	44	253	7
Solicitations.....	96,567	100	34,649	36	5,909	6	53,964	56	2,045	2
Schemes.....	29,083	100	19,812	68	2,291	8	6,433	22	547	2
Booklets.....	53,069	100	33,964	62	.....	.....	1,905	38	.....	.....
Miscellaneous inquiries and complaints.....	125,894	100	72,891	57	23,428	19	27,559	22	2,026	2
Total.....	1,173,292	100	628,325	54	299,699	25	208,229	18	37,039	3

The actual number of instances of service performed directly for business increased in 1950 over 1949 but when compared to the total for each year we find that there were relatively less direct calls from business for service during 1950. In view of the increase in consumer complaints there is a definite need here, it seems, for business to consult with the bureaus more frequently in order to help eliminate the causes of consumer complaints.

In 1949 5 percent of all instances of service were business complaints—in 1950 the figure dropped to only 3 percent. The fact that there were relatively less business complaints than in 1949 is an indication of greater self-regulation by business itself.

In the above table we use each category as 100 percent. In this manner we can see the relationship of consumer to business instances of service. Twenty-one

percent of all instances of service were performed for business—79 percent for consumers as compared to 75 percent and 25 percent in 1949. In actual figures we see that nearly 1 million of the instances of service (928,024) were for consumers—and nearly one-quarter of a million (245,268) were performed directly at the request of business.

TRUTH IN ADVERTISING

An encouraging fact concerning the data in this report is that there were less recorded advertisements of a questionable nature in 1950 than during the previous year. Similarly there were less advertisements necessitating corrective action.

Despite the increase in consumer complaints regarding merchandise transactions it seems evident that something other than questionable advertisements was the cause of increased public complaint regarding such transactions.

There can be no question that the bureaus are greatly responsible for this achievement. They constantly call errors in advertisements to the attention of advertisers and through meetings with trade groups, codes and standards for ethical advertising were drawn up. And the two publications, *Do's and Don'ts in Advertising* and the *Guide for Retail Advertising and Selling* continued to win wide acceptance and approval by advertisers.

It should be noted that, out of the hundreds of thousands of advertisements and commercials which were studied, only 21,634 were questioned by the bureaus. And only 158 required action by authorities as a last resort—seven one-hundredths of 1 percent.

However certain changes took place during the year. The number of questionable advertisements in the commercial category increased slightly (the only increase) with a corresponding increase in such advertising requiring corrective action. There were far less questionable radio commercials. There was a slight increase in the number of magazine ads questioned.

	Total	Number of ads shopped			Ads requiring action	
		Papers	Magazines	Radio	By bureau	By authorities
Financial	1,278	1,244	18	16	560	43
Commercial	1,889	1,768	18	103	779	18
Merchandise	17,889	16,965	502	422	6,990	82
Manufacturing	66	50	—	16	19	3
Wholesale	12	12	—	—	4	—
Solicitations	190	183	1	6	9	4
Schemes	98	91	3	4	15	3
Miscellaneous inquiries and complaints	218	166	—	52	70	5
Total, 1950	21,634	20,479	542	613	8,446	158
Total, 1949	33,868	31,319	313	2,236	12,506	29

A detailed breakdown of the above table will be found at the end of this report. In relation to the total number of questionable ads, there were more financial ads requiring action than any other category. However, 175 advertisements which required bureau action were the business opportunities type—generally classified ads. But 252 bank advertisements out of 398 required bureau action. This is a high percentage of advertisements needing corrective action. It proves that the bureaus performed a valuable service to banking institutions in helping to remove the causes of public suspicion resulting from questionable advertising.

The real estate, business opportunities, and security investment advertising was responsible for 25 percent of the advertising referred to authorities. The other 75 percent was split among 30 different classifications.

In the commercial category a number of businesses used questionable advertising. Of 195 individuals and companies placing "Help wanted" ads, 142 required corrective bureau action, only 1 case went to authorities. Dry cleaners placed 193 questionable ads, 146 needing correction. Photographers created 240 questionable ads with 97 requiring modifications. Professional services were responsible for 348 such advertisements; 109 needed correction.

It is interesting to note that although only 7 advertisements run by public utilities were questioned, all 7 required action by the authorities.

In the merchandise field there were some questionable advertisements for each classification.

It is interesting that two of the lowest figures concerned the magazine and subscription book industries, both of which are participating in BBB vertical programs. However, it should be noted that out of 83 questionable magazine subscription ads, 48 needed bureau correction.

Businesses such as department stores, stores selling furniture, rugs, home appliances, jewelry, TV sets, and clothing accounted for most of the questionable advertising.

Nevertheless, more ads were referred to authorities regarding drugstore sales and upholstering than were referred to authorities concerning all the above mentioned businesses.

PUBLIC RELATIONS

Publicity and education

Number of bulletins issued.....	1, 411
Circulation of bulletins.....	1, 409, 239
Number of billboards used.....	3
Number of car cards used.....	6, 537
Number of fact booklets issued.....	¹ 103, 729
Number of other booklets issued.....	141, 784
Number of BBB advertisements.....	1, 080
Number of news stories.....	5, 531
Number of speaking engagements.....	945
Number of posters distributed.....	343, 510
Number of radio spots used.....	2, 455
Number of radio programs.....	601
Number of television shows.....	34
Number of Retail Guide.....	3, 455
Other types of publicity.....	163, 496

¹1950 was the first year in several years where there was a decline in the number of fact booklets distributed by the bureaus. There was a sharp drop of 154,782 copies distributed in 1950—from 258,011 to 103,229. While this may appear, on the surface, to indicate less effort on the part of the bureaus to place these booklets in the hands of the public, the figure does not take into account the resultful missionary work which the bureaus have conducted with business firms. These firms ordered 586,062 copies direct for distribution to their employees, customers, and others. Therefore, the total distribution figure should show a noteworthy increase of approximately 100 percent.

Publicity continued to play an important part in better business bureau operations in 1950. The volume of materials produced, in some categories, was unprecedented, particularly in the number of bulletins published and circulated. While the number of bulletins published increased 20 percent—from 1,097 to 1,411 in 1950—the circulation rose from 1,177,624 copies to 1,409,239, an increase of almost 30 percent.

In the use of posters, there was a remarkable increase of 102,619 copies—from 240,891 in 1949 to 343,510 in 1950—an increase of more than 30 percent. The significant part of the great increase in these two categories is that it reflects the bureaus' efforts to develop and expand employee service programs to bring bureau services to larger numbers of people.

In the field of news and feature stories, the bureaus continued to show increasing activity and effectiveness. In 1949 bureaus reported 12,270 news and feature stories published, as represented by the clippings and tear sheets. In 1950, there were 15,531 published, an increase of 20 percent. This reflects on not only the capacity and effectiveness of the bureaus to employ publicity as a useful tool, but it reflects on the 16-percent increase in bureau services rendered as shown in the additional 162,394 inquiries and complaints handled in 1950.

The figures in the table do not show the distribution of certain special materials. These include:

1. GI insurance dividend warning leaflet.....	243,000
2. Key speeches given at the 1950 conference.....	60,000
3. "Guide" promotion circular.....	60,000
4. "Labor Rackets" story in Printers' Ink.....	100,000
5. 1949 Annual Report.....	23,568

While it is an inclination to be carried away with the great volume of materials produced and distributed, it should be remembered that these figures are only

a reflection of activity. They are not an end in themselves. It can be reliably assumed, however, that these figures reflect on the soundness of basic bureau policies and procedures.

SUMMARY

The preceding pages have shown in considerable detail the areas wherein consumers and business firms have found it necessary to contact the better business bureaus. The figures indicate where greater effort must be spent by the bureaus to meet growing problems. And certainly there is ample evidence that business has many opportunities for self-improvement, particularly in those fields where the bureaus report a high rate of consumer problems.

It is gratifying that far more people are still seeking advice before entering into important transactions rather than after. The report shows that 71 out of every 100 bureau calls are inquiries. Of course we must recognize that this percentage is somewhat less than it was in 1949 when 77 out of every 100 calls were inquiries—so that during 1950 there was an increase in the number of complaints to the bureaus.

Since this study has revealed that most of the increase in complaints relates to merchandise transactions, it follows that greater bureau attention should be focused on classifications in this category. It would be impractical for every single consumer and business establishment to call the bureau before making any purchase—but some way must be found to impress both the public and the businessman of the importance of careful shopping. Greater stress must be placed on educating the public concerning the economics of our business system. Likewise more effort should be devoted to working with business to overcome specific consumer problems.

The Better Business Bureaus are in a unique position as an impartial organization capable of creating a better understanding of the basic business system principles, and thus creating better goodwill between buyer and seller.

This report demonstrates that the bureaus are accomplishing this job, day after day, month after month at the community level. And it also shows that much more needs to be done. More self-servicing booklets, pamphlets, talks and other materials is indicated. More employee service programs are necessary. Increased local and national joint better business bureau-industry programs are essential and, of course, greater business support of the bureaus is vital.

It should be quite obvious from the data in this study that the bureaus have done a remarkable job. Certainly the business membership of the bureaus can take justifiable pride in the achievements for 1950.

A STATISTICAL ANALYSIS OF BETTER BUSINESS BUREAU ACTIVITIES FOR 1951

Prepared by The Research Department, the Association of Better Business Bureaus, Inc., Chrysler Building, New York, N. Y., Willard M. Zurflieh, director of research

FOREWORD

The 1,432,228 instances of service which are analyzed, by classification, in the following pages only show the number of times the bureaus have been called upon for assistance. The figure is the highest in bureau history and, reflects the high regard in which the public and business hold the bureaus.

However, no figures are reported which tell the behind the scenes story of the many steps taken in processing each request for assistance. If these were added the total figure could be well over 3 million.

We only mention this because not all instances of service can be handled on the spot; many require further study involving time and money.

In telling the full better business bureau story instances of service form only a part. Actually the figures as reported under Bureau Statistics are grouped according to three headings:

1. Instances of service
2. Advertising checked and corrected
3. Education and publicity

Instances of service show the number of times the bureaus have been called upon from sources outside the bureau offices. These contacts are in the nature of inquiries or complaints regarding some form of business transaction.

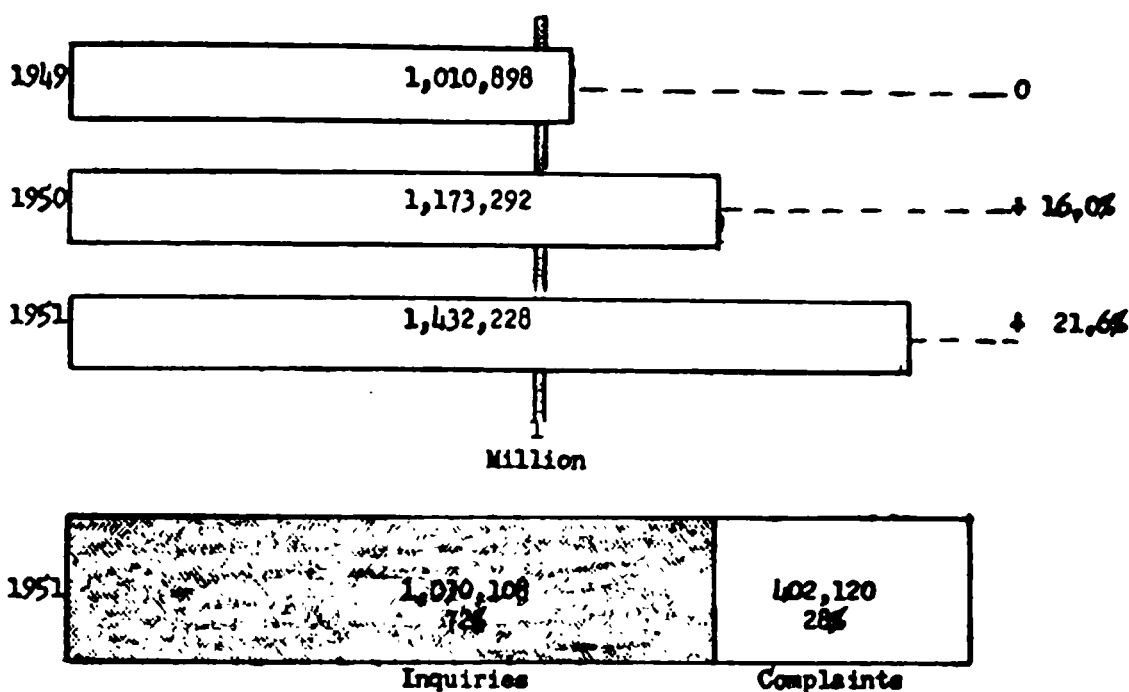
The work done by the bureaus regarding advertising is initiated by the bureaus themselves. By a constant watching of all advertising the bureaus not only protect the consumer but help build public confidence in business.

And supplementing these two facets of bureau work is the continuous program of educational and publicity work done by the bureaus. Through bulletins, posters, facts and other booklets, radio, TV and speeches the bureaus warn and educate the public and business about their own responsibilities. Much of this work is self-servicing enabling intelligent decisions to be made without the necessity of contacting a better business bureau.

Therefore, a statistical analysis of these three bureau functions will reveal that bureau activity is a good barometer of market conditions.

A SUMMARY OF BUREAU STATISTICS FOR 1951

PUBLIC SERVICE



Of the 1,432,228 instances of service 72 percent represented inquiries. There is a difference of only 1 percent over 1950 when inquiries were 71 percent of the total. The majority of consumers and business still find it to their advantage to investigate before investing.

TABLE I.—Total instances of service by major categories

	1949		1950		1951	
		Percent		Percent		Percent
Financial.....	155,064	15	161,109	14	196,215	14
Commercial.....	206,161	21	212,984	18	293,607	21
Merchandise.....	347,107	34	479,970	41	677,444	47
Manufacturing.....	9,330	1	10,766	1	11,393	1
Wholesale.....	6,007		3,850		3,763	
Solicitations.....	78,100	8	96,567	8	93,082	7
Schemes.....	27,112	3	29,083	2	32,643	2
Booklets.....	75,524	7	53,069	4	53,469	3
Miscellaneous inquiries and complaints.....	106,493	10	125,894	17	70,612	5
Total.....	1,010,898	100	1,173,292	100	1,432,228	100

The percentages in table I show how closely the pattern established in 1949 has been followed. This is ample proof that the better business bureaus are operating basically the same. Once again there was an increase in the merchandise category. In 1950 it jumped to 41 percent from 34 percent in 1949. In 1951 merchandise cases were responsible for 47 percent of all instances of service.

There are certain classifications which caused the bureaus the most concern. Ten of these created 64,002 instances of service, or 45 percent of the total. They were also directly responsible for 379,368 inquiries or, 36 percent of all inquiries and 190,009 complaints, or 47 percent of all complaints.

TABLE II

Classification	1950 rank	1951 rank	Instances of service	Percent of total
Solicitations.....	1	1	93,082	6.5
Construction.....	4	2	82,513	5.8
Television.....	7	3	80,548	5.6
Insurance.....	2	4	80,467	5.6
Automotive ¹	5	5	64,357	4.5
Home appliances.....	3	6	62,460	4.4
Magazine subscriptions.....	6	7	52,028	3.6
Furniture, rugs.....	9	8	47,150	3.3
Photographers.....	8	9	46,360	3.2
Dry cleaners.....	10	10	42,925	3.0
Subtotal.....			615,890	45
All others.....			780,338	55
Total.....			1,432,228	100

¹ Auto equipment and service, new and used cars.

The above table is presented simply to show which classifications are responsible for a large amount of bureau activity. With certain exceptions the rank order by years is very close. The reason for the shift in rank and explanations concerning each of the 10 categories will be discussed in detail in subsequent sections.

TABLE III.—Financial category (14 percent of the total)

	Percent	Total	Inquiries	Complaints
Banks.....	1	1,865	1,648	217
Building and loan and savings and loan.....	2	3,659	3,247	422
Business opportunities.....	5	10,615	9,437	1,178
Auto financing.....	7	13,029	8,208	4,821
Loan, discount, and financing.....	8	16,266	13,452	2,814
Miscellaneous.....	9	17,267	14,090	3,177
Securities and investments.....	10	19,445	18,375	1,070
Real estate.....	17	33,592	27,445	6,147
Insurance.....	41	80,467	73,797	6,670
Total.....	100	196,215	169,699	26,516

The 1950 report on bureau statistics showed a high ratio of complaints to inquiries in the auto financing field. This is again true for 1951 where 37 percent of all auto financing cases were complaints. This is only slightly less than in 1950.

There was a noticeable increase in the real-estate complaints. Even though percentagewise there were less real-estate cases; complaints increased over 1950, from 12 to 18 percent.

The insurance industry again accounted for 41 percent of all financial contacts with the bureaus. And 37 percent of all financial inquiries concerned insurance. But even though the increase in insurance contacts was 23.5 percent over 1950 there was no change in the ratio of insurance services to other classifications. In 1950-51 insurance problems amounted to 6 percent of the total figure.

With the exception of solicitations, where 94 percent of all contacts with the bureaus were of an inquiry, no other category had as high a percentage of inquiries as the financial group. This was due to the greater caution exercised by consumers and businesses regarding larger money matters. Out of every 100 people contacting the bureaus on a financial matter 86 were seeking information before entering a transaction. Compare this percentage with 74 percent for commercial inquiries and 60 percent for merchandise inquiries.

TABLE IV.—Commercial category (21 percent of the total)

(This group includes businesses offering services rather than commodities)

	Percent	Total	Inquiries	Com-plaints
Railroads.....		1,380	1,022	358
Public utilities.....	1	2,231	1,401	830
Airlines.....	2	5,813	4,267	1,546
Moving and storage.....	5	14,299	10,910	3,389
Employment.....	7	19,877	16,617	3,260
Organizations.....	7	20,494	18,034	2,460
Education.....	8	23,900	20,769	3,131
Other personal services.....	8	24,134	18,511	5,623
Professional services.....	8	24,340	17,792	6,548
Advertising media.....	9	27,189	23,328	3,861
Miscellaneous.....	14	40,665	32,695	7,970
Dry cleaners.....	15	42,925	17,084	25,841
Photographers.....	16	46,360	32,406	13,954
Total.....	100	293,607	214,836	78,771

Over 46,000 instances of service, or 16 percent of the commercial category, were recorded about photographers. These contacts concerned the reputation of legitimate photographic studios, as well as complaints about various coupon schemes and other questionable business stimulators.

However, as in the 2 previous years, the dry cleaning industry caused the bureaus great concern. More problems about the serviceability of fabrics were recorded than there were problems in any other commercial classification. In fact, there were more dry cleaning complaints than inquiries. In time it is hoped that this situation can be changed as more and more bureaus set up bureau-industry dry cleaning arbitration boards. Generally speaking solution of complaints in this field requires extensive study and only through cooperation of dry cleaners, retailers and manufacturers together can the abuses in this field be eliminated.

In 1950 airlines, railroads, moving and storage were grouped under a transportation heading. These were handled separately during 1951.

Very few contacts were made with the bureaus about railroads but almost 6,000 people had reason to call the bureaus about air travel. The files reveal a large percentage of these contacts concerned nonscheduled airlines and air ticket agencies. Moving and storage services were 14,299. Altogether there was a 91 percent increase in transportation instances of service. This constitutes one of the greatest single increases in all bureau services.

It is obvious that greater bureau emphasis must be directed to the field of transportation.

Although the total number of services rendered regarding public utilities was small, 37 percent were of a complaint nature. This is exactly the same percentage as for 1950. It would appear that some attention is required here.

In summing up the work done in the commercial category it can safely be said that the bureaus did an excellent job—inquiries increased from 70 to 73 percent.

Yet there is room for improvement. There are opportunities for commercial-type businesses to better their relationships with the public.

MERCHANDISE CATEGORY

The table on the following page will show that the greatest volume of bureau work was done in the merchandise field. Almost 700,000 contacts were about commodities. And it also follows that the greatest number of complaints would be registered in this category; 40 percent were complaints. But there is an encouraging note in that less people complained during 1951 than for 1950; from 45 percent in 1950 to 40 percent in 1951.

This could mean that a little more care is being taken before purchases are made. It could also mean that business is doing a better job of building goodwill. Both are healthy signs.

TABLE V.—*Merchandise category (47 percent of the total)*

	Percent	Total	Inquiries	Complaints
Office supplies.....		4,403	3,359	1,044
Vending machines.....		4,607	3,916	691
Photo supplies.....	1	6,436	4,093	2,343
Post control.....	1	6,842	5,816	1,026
Fuel.....	1	6,978	4,299	2,679
Food stores.....	1	7,520	4,399	3,121
Agriculture.....	1	7,520	4,866	2,654
Furs.....	2	9,687	6,180	3,507
Hardware.....	2	9,825	6,011	3,812
Men's apparel.....	2	9,890	5,578	4,312
Radio and music.....	2	10,500	5,911	4,589
Upholstry.....	2	13,617	7,163	6,454
New-car dealers.....	2	14,972	8,953	6,019
Jewelry.....	2	16,536	8,975	7,555
Department stores.....	3	18,020	9,713	8,307
Auto equipment and service.....	3	18,765	9,251	9,514
Direct sellers.....	3	21,746	15,418	6,328
Book subscription.....	4	24,659	18,444	6,215
Heating equipment.....	4	26,014	16,336	9,678
Women's apparel.....	4	26,691	13,959	12,732
Used-car dealers.....	5	30,620	15,861	14,759
Furniture-rugs.....	7	47,150	22,443	24,707
Magazine subscriptions.....	8	52,028	39,385	12,643
Miscellaneous.....	8	56,905	39,492	17,413
Home appliances.....	9	62,460	34,728	27,732
TV.....	12	80,548	37,777	42,771
Construction.....	12	82,513	55,614	26,899
Total.....	100	677,444	407,840	269,604

With almost 700,000 instances of service involving merchandise, the bureaus had a busy year in this category alone. With only a few changes the classifications in the merchandise category ranked the same as in the previous year.

The construction business caused 82,513 bureau contacts. In volume this was a 42 percent gain. But in comparison to other businesses (which also had increases) the ratio remained the same. The only change was a slight decrease in complaints. It is evident that people were checking more carefully in 1951 than in 1950 on their building transactions.

In 1950 television instances of service were recorded under the heading "Photo Supplies, Radio and Music." Most of the services in this group were about TV. In 1951 TV had a separate listing. More than 80,000 people had TV problems and, 53 percent were in the nature of complaints. However, analysis by quarter periods reveals that the highest number of complaints were handled early in 1951. There was a gradual drop during the balance of the year. As TV spreads across the Nation there will be continued problems—generally of a service nature but, as business learns to cope better with this complex problem and, as the public also learns the limitations of TV, there should be less reason for calling the bureaus. The standards developed by the bureaus and the TV industry should continue to help create mutual understanding and fair play.

Home appliances, furniture and rugs were responsible for a total of 109,610 instances of service. These two classifications always follow closely in volume the construction figures. After people buy a home they must furnish it.

Even though there were more complaints than inquiries in the furniture-rug field there were relatively less complaints than in 1950. Complaints also dropped percentagewise for home appliances.

Now it follows that if there will be less building during the current year there will be somewhat less activity in the above groups. Even the replacement factor will be diminished since many people stocked up early in the 1951 scare buying period.

Relatively there was no change in the auto equipment and service classification. Complaints continued to be greater than inquiries. Since so much of our economic life and method of living today revolves around the automotive industry it would seem just plain good business for these dealers and service people to build better goodwill. If we add the figures for the 3 automotive classifications a total of 64,357 instances of service results with 46 percent of this number as complaints. This is much too high. It is fortunate that the bureaus were able to service the people with problems concerning this industry otherwise there would be many more dissatisfied customers.

However, an encouraging factor is the overall drop in merchandise complaints since 1950. From 45 percent to 40 percent. This can be taken to indicate that despite an increase of 41 percent in total merchandise instances of service, business has cut some of its sharp competitive practices. It could also mean that the promotional activities of the better business bureau in educating the consumers has been effective in creating a better understanding between business and its customers.

TABLE VI.—Other categories

	Total	Inquiries	Complaints
Manufacturing.....	11,393	9,000	2,393
Wholesale.....	3,763	3,003	760
Solicitations.....	93,082	87,683	5,399
Schemes.....	32,643	28,301	4,342
Booklets.....	53,469	53,469	-----
Miscellaneous.....	70,612	56,277	14,335

Only two significant changes occurred during the year in the above table.

The solicitations instances of service were relatively high because of the increase in appeal for funds. Even so there were less bureau contacts concerning solicitations and a greater number than in 1950 were investigating first. This is a reflection on the bureaus' preventative work. The bureaus have been waging a relentless war on fake appeals for funds. It is apparent that progress is being made.

In the wholesale field there was a 5 percent increase in complaints. This was a result of the many new companies offering merchandise at wholesale or big discounts—with the result that some people became victims of deals involving inferior merchandise and no service. Most wholesale firms do not engage in retail business.

TABLE VII.—Consumer versus business use of bureau services

	Total	Per- cent	Consumer				Business			
			Inquiries	Per- cent	Com- plaints	Per- cent	Inquiries	Per- cent	Com- plaints	Per- cent
Financial.....	196,215	100	140,231	72	23,177	12	29,468	15	3,339	1
Commercial.....	293,607	100	170,701	58	68,566	23	44,135	15	10,205	4
Merchandise.....	677,444	100	336,326	50	240,681	35	71,514	11	28,923	4
Manufacturing.....	11,393	100	4,785	42	1,766	16	4,215	37	627	5
Wholesale.....	3,763	100	1,456	39	282	7	1,547	41	478	13
Solicitations.....	93,082	100	33,416	36	2,979	3	54,267	58	2,420	3
Schemes.....	32,643	100	19,586	60	2,775	8	8,715	27	1,567	5
Booklets.....	53,469	100	25,451	48	-----	-----	28,018	52	-----	-----
Miscellaneous.....	70,612	100	40,813	58	11,157	16	15,464	22	3,178	4
Total.....	1,432,228	100	772,765	54	351,383	24	257,343	18	50,737	4

Business uses of bureau services kept pace with the general increase in instances of service as compared to 1950. Requests for bureau assistance by business amounted to 308,080 instances of service or 22 percent of the total. There were 62,812 more business requests for bureau services, representing a 26 percent increase over the previous year. Nevertheless, there is still a need for more businesses, generally, to avail themselves of the assistance the bureaus offer. Consumer problems can be greatly reduced by business itself through the better business bureau. The bureaus are agencies of business and promote voluntary efforts to eliminate the causes of consumer complaints.

A step in this direction is the noticeable increase in requests for booklets from business. This indicates a willingness to keep and build good consumer relations. In 1950 business requested 1,905 booklets—38 percent of all booklets. In 1951 the figures show 28,018 of all booklets requested went to business firms. This represents 52 percent of all such requests.

TABLE VIII.—*Truth in advertising*

	Total	Number of ads shopped				Ads requiring action	
		Papers	Maga- zines	Radio	TV	By bureaus	By au- thorities
Financial.....	968	883	10	71	4	278	2
Commercial.....	1,685	1,618	19	42	6	852	24
Merchandise.....	16,120	15,159	106	622	233	6,591	191
Manufacturing.....	10	9			1	1	
Wholesale.....	27	27				3	
Solicitations.....	15	14			1	6	1
Schemes.....	52	47		5		13	
Miscellaneous.....	150	145		5		35	1
Total.....	19,027	17,903	135	745	245	7,779	207

In addition to the many thousands of instances of service performed each year the bureaus study millions of advertisements in all media. Only a small percentage seem to be questionable. During 1951 the questionable ads were less than in 1950. This is further proof that business wants to have the respect of the consumer. But of the questionable ads (19,027) the bureaus had to take some action in 7,779 cases. Only 207 were referred to the authorities. Percentagewise this is a slight increase over 1950—from 0.7 percent to 1.25 percent. The files on these 207 cases would show a high degree of intent to defraud the public.

A closer look at the figures shows that of 972 TV ads 856 or 89 percent needed correction by bureaus or the authorities. This is unfortunately high but many TV dealers resorted to tricky and sometimes unfair advertising in order to move their stocks last summer. The situation is somewhat improved now.

Women's and men's apparel advertising accounted for a high number of questionable advertisements—but less than in 1950.

A reflection of the times is the drop in business-opportunity advertising. Since there was near full employment in 1951 people were relatively less inclined to try branching out for themselves.

Used-car advertising still continues to be subject to bureau suspect; 61 percent of ads of this nature required bureau adjustment; 12 cases went to the authorities.

Department stores, home appliance, and furniture advertising still provide the bureau with considerable work. About 25 percent of all questionable advertising concerned these businesses and they accounted for 20 percent of all the advertisements which had to be brought to the attention of the proper authorities as a last resort.

However, except for the fringe elements business can take pride in a better report on advertising abuses for 1951. This is far from saying that there is little room for improvement. It does mean that more sales can be made through honest than false advertising. It also indicates that the bureaus' efforts to "maintain truth in advertising" are being fruitful. There were many requests for the publications, *A Guide for Retail Advertising* and *Do's and Don't's in Advertising Copy*. These bureau books if used can spell the difference between factual and misleading copy.

PUBLIC RELATIONS

Publicity and education

Number of bulletins issued.....	1,553
Circulation of bulletins.....	1,287,644
Number of billboards used.....	46
Number of car cards used.....	3,531
Number of Fact booklets issued.....	123,474
Number of other booklets issued.....	158,227
Number of BBB advertisements.....	855
Number of news stories.....	3,986
Number of speaking engagements.....	987
Number of posters distributed.....	288,061
Number of radio spots used.....	2,492
Number of radio programs.....	575
Number of television shows.....	111
Retail "Guides" issued.....	775
Other types of publicity.....	52,202
Trade, business conferences.....	285

This table showing the production of information materials and the various publicity activities of the better business bureaus during 1951 reflects only in a small measure the results of the time and effort the bureaus give day in and day out to inform and protect business and the public. These figures are impressive. They are a testament to the bureaus' effectiveness in handling publicity and an indication of the need for and the receptivity to bureau news and informational materials by business and the public, and by the various media which serve the public. These figures, in total, are approximately the same as in 1950 and slightly higher than in 1949. There were, of course, increases in production of some materials. There was a reduction in others. The same is true with the employment of certain media. But generally speaking, the bureaus continued to maintain a high rate of activity, the results of which perhaps can best be seen in the 1,432,228 instances of service handled during the past year, and in the increase of 258,936 such instances.

Better business bureau publicity is regarded as the right arm of bureau operations. It is informative and educational. It warns and it protects. Much of it is of the self-help type of interest to consumers. Most of it appears in local and regional publications, and is local in origination. The basic reason for this local emphasis is that "all business is local," for it is on this level where business and the public come into intimate daily contact and where business-consumer problems largely exist. Here is where the better business bureaus do their main work. In the handling of publicity, bureaus use the widest latitude within the framework of generally accepted better business bureau policies and procedures. This has proved to be sound as each community or area has problems and situations peculiar to itself and bureaus vary as to their facilities not only in conducting their publicity activities, but in the servicing of inquiries and complaints resulting from their efforts.

Although the exposé type of BBB publicity seems to appeal to editors and writers of some publications, particularly those with national circulation, the bureaus strive to keep sensationalism within proper bounds and to stress wherever and whenever possible the constructive aspects of their work and the efforts of responsible business to act in the public interest.

At all times the bureaus are keenly aware of their responsibilities in reaching the widest possible audience with information of interest and help. The only deterrent lies in the facilities which they have available to service properly the growing number of requests for help. To help cope with this problem, the bureaus are studying new and improved techniques in reaching their various audiences with more effective self-servicing informational materials and publicity. Booklets, for example, in the bureaus' Fact booklet series on economic subjects are being revised and reprinted to meet changing conditions. Seven new editions were brought out last year. New and better employment of industrial posters for shops and factories also are being studied. Television as a vehicle for mass communications is another medium which is receiving closer attention of bureaus in television areas. In the preparation and use of such materials and in the application of various public relations and publicity techniques, the bureaus draw not only on the experience of all bureaus in the BBB network, they also benefit from the welcome interest and help of professional specialists in their communities.

While the association's office serves mainly in a guidance and consulting capacity with its ninety-odd member organizations in the preparation of materials and the handling of publicity, it also plays an important role in acting as an information clearinghouse for the entire BBB movement. A basic task is interpreting better business bureau objectives, policies and operations to business, the public and to their various agencies and representative groups. It also endeavors to highlight the efforts of responsible business to act in the public interest. As a result, the association's office last year was contacted continuously by trade, business and consumer publications for general information and editorial assistance and articles appeared in a number of nationally known publications in which the better business bureaus were referred to or featured. Although association officers and executives appeared on several radio and television programs and addressed a number of business groups during the year, prime attention is given to national publications in various fields to reach business and the public at large.

Unquestionably, better business bureau publicity plays a vital part in daily bureau operations. With increased effectiveness, business and the public will receive greater satisfaction from their relationships with one another and there will be a better general understanding of and respect for the American competitive enterprise system.

CONCLUSION

This is the time when each year a look back at the activities during the past 12 months make it possible to evaluate and put into proper perspective plans for the coming year.

Perhaps the most important fact revealed in this statistical summary is that although the figures reflect individual bureau operations they clearly demonstrate the power of the entire better business bureau network in a never ending and always increasing effort to promote private enterprise in the public interest.

Every bureau, in its own community is doing a grassroots job—but without the support and cooperation both actual and morally of other bureaus this effort would have less impact.

The bureau statistics report for 1951 proves beyond question that the bureaus are national in scope.

It is apparent that the statistics are accurate because a study of the reports for 1949–50 and, this report for 1951, reveals almost exact percentages. Differences, where they occur, are as a result of definite changes in market conditions. This is positive proof that the bureaus on an individual basis operate basically the same—with the same policies, objectives, and results.

Financial category

This group showed the highest percentage of inquiries. As to the current situation this was so because of larger amounts of money involved and also because people generally are not familiar with the many complicated phases of finance.

It is quite possible that there will be an increase in the bureau contacts regarding financial matters in 1952 because, even with higher taxes, there will be more disposable income according to U. S. News & World Report, January 11, 1952. People will be looking for opportunities to earn greater returns on their savings and investments.

Commercial category

Two of the most difficult industries from the standpoint of a number of instances of service are the dry cleaners and photographers. They, year in and year out, present a lot of difficulties. This is truer of the dry cleaning business. There is no real intent to defraud here—just that a dry cleaning complaint involves several people, the consumer, the dry cleaner, the retailer and the manufacturer. Each passes the responsibility to the other. The figures for 1951, 42,925, clearly point out the need for a program within this entire field. Some progress is being made in certain bureau cities. Not only must the industry and its allied connections assume a better attitude toward the consumer but the consumer must have more education on the serviceability of fabrics.

Among photo studios there is some intention to defraud and mislead. However, the picture was a little better in 1951 than the previous year. If the bureaus continue to educate and expose in matters concerning photography studios 1952 should show continued results.

During 1952 the bureaus will continue their efforts to eliminate the abuses in the airline field. As mentioned in the preceding pages much of the trouble in this field came as a result of high pressure ticket agencies.

Merchandise category

Inquiries increased over 1950. This is encouraging and shows that people are possibly realizing that there is just as much reason to be careful with daily "bread and butter" transactions as with the infrequent financial matters.

Construction instances of service were greatest but inquiries exceeded complaints. Furniture, rugs, home appliances closely followed.

Bureau services regarding magazines sold house-to-house were high but inquiries exceeded complaints and when compared to 1950 there was an increase in inquiries. This record is interesting because it shows the effectiveness of the joint better business bureau industry program in this field. It is also significant that the activity recorded from this classification when weighed against the total number of selling contacts is in relation to similar experience in other fields.

TV presents a difficult picture. The industry is growing exceedingly fast and spreading from coast to coast. It is expected that much has been learned during the past year to enable the manufacturers, dealers and service people to deal more fairly with the public—but as permission is granted for more TV stations the problems might continue to cause many instances of service for a year

or two. But it is almost certain that the ability of the industry to solve many of its service problems (as reflected in the picture for 1951) will be continued in 1952.

Generally speaking, both business and the public showed more intelligence in their relationship during 1951. There are problems yet to be faced but business is showing a greater desire to maintain public confidence. Possibly because of this manifestation the public has reacted more favorably to business.

It appears that a gradual improvement in business-consumer relations is taking place. The report for 1951 further indicates that this improved condition will continue through 1952.

APPENDIX A

Individual bureau instances of service

Bureau:	<i>Total instances of service</i>	Bureau:	<i>Total instances of service</i>
Akron	21,612	National	20,651
Albuquerque	1,600	Norristown	256
Amarillo	2,011	Oakland	13,297
Atlanta	15,608	Oklahoma City	19,314
Austin	2,193	Omaha	27,622
Bakersfield	6,012	Ottawa	1,214
Baltimore	12,653	Peoria	19,175
Baton Rouge	4,795	Philadelphia	28,849
Binghamton	590	Phoenix	14,000
Boston	38,490	Pittsburgh	26,992
Buffalo	18,767	Portland, Maine	2,518
Charlotte	3,037	Portland, Oreg	37,188
Chicago	60,000	Providence	6,957
Cincinnati	24,542	Quebec	1,012
Cleveland	66,685	Reno	1,364
Columbus	10,651	Roanoke	3,476
Corpus Christi	673	Rochester	12,577
Dallas	14,610	Sacramento	4,628
Dayton	25,602	St. Louis	50,000
Denver	122	San Antonio	26,350
Des Moines	20,493	San Diego	20,629
Detroit	50,483	San Francisco	35,751
Elkhart	1,636	San Jose	3,058
Fort Wayne	7,709	Santa Ana	100
Fort Worth	15,056	Santa Barbara	2,944
Grand Rapids	7,875	Schenectady	2,198
Halifax	9,934	Scranton	9,262
Hamilton	9,511	Seattle	8,437
Hartford	9,918	Shreveport	4,109
Honolulu	-----	South Bend	5,950
Houston	20,177	Spokane	4,000
Huntington	147	Springfield, Mass	14,192
Indianapolis	33,598	Springfield, Mo	3,564
Kansas City	14,236	Stockton	82
Lima	3,000	Syracuse	7,400
Lincoln	5,880	Terre Haute	1,693
Long Beach	31,754	Toledo	14,310
Los Angeles	85,440	Toronto	41,206
Louisville	16,810	Tulsa	8,324
Marion	364	Utica	9,100
Memphis	4,514	Vancouver	9,879
Milwaukee	53,253	Washington	12,999
Minneapolis	15,296	Wheeling	400
Montreal	25,433	Wichita	14,000
New Orleans	18,000	Winnipeg	5,449
New York	76,463	Worcester	8,499

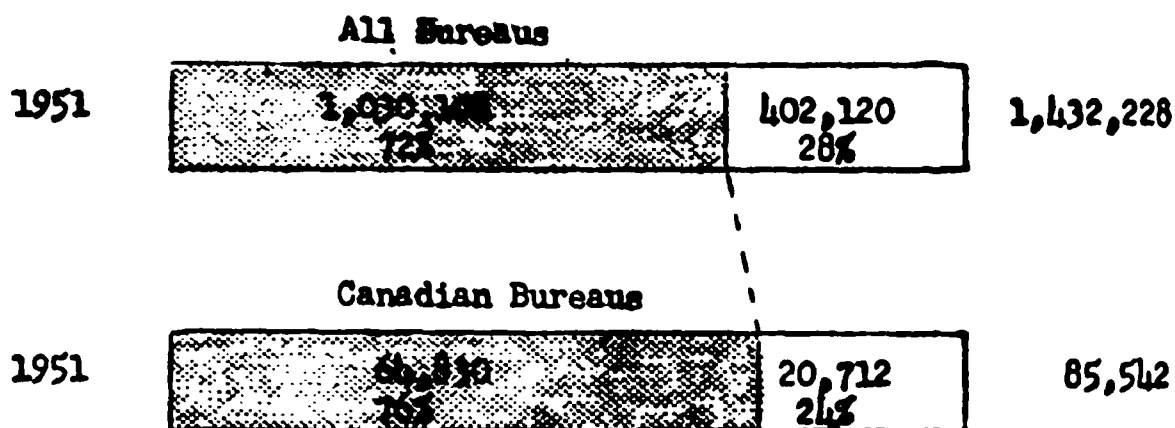
APPENDIX B

Instances of service, 1949-51

	1949	1950	1951	Total	Percent
Merchandise.....	347,107	479,107	677,444	1,504,521	42
Commercial.....	206,161	212,984	203,607	712,752	20
Financial.....	155,054	161,109	196,215	512,388	14
Solicitations.....	78,100	96,567	93,082	267,749	7
Requests for booklets.....	75,524	53,059	53,469	182,062	5
Schemes.....	27,112	29,083	32,643	88,838	2
Manufacturing.....	9,330	10,766	11,393	31,489	1
Wholesale.....	6,007	3,850	7,763	13,620	(1)
Miscellaneous.....	106,493	125,894	70,612	302,999	9
Total.....	1,010,898	1,173,292	1,432,228	3,616,418	100

¹ Less than 1 percent.

CANADIAN SUPPLEMENT
1951



The Canadian bureaus which reported statistics¹ recorded 85,542 instances of service or 6 percent of the grand total. Complaints were lower in Canada than in the United States but this was probably due to the fact that TV is almost nonexistent across the northern border. Only 24 cases were brought to the attention of Canadian bureaus. And TV in the States caused a considerable number of problems.

It is also interesting to note the close conformity of the Canadian and United States bureaus as revealed in table I.

TABLE I

	All bureaus	United States bureaus	Canadian bureaus
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Financial.....	14	14	15
Commercial.....	21	21	18
Merchandise.....	47	47	42
Manufacturing.....	1	1	2
Wholesale.....	(1)	(1)	(1)
Solicitations.....	7	6	12
Schemes.....	2	2	5
Books.....	3	4	1
Miscellaneous.....	5	5	5
Total.....	100	100	100

¹ Less than 1 percent.

¹ Montreal, Toronto, and Vancouver, 12 months; Halifax, 11 months; Ottawa, 1 month.

In the next table we see the classifications creating the most bureau work.

TABLE II.—Top 10

Rank	All bureaus	Rank	Canadian
1	Solicitations	1	Solicitations.
2	Construction	2	Construction.
3	Television	3	Automotives.
4	Insurance	4	Home appliances.
5	Automotive	5	Dry cleaners.
6	Home appliances	6	Book subscriptions.
7	Magazine subscriptions	7	Magazine subscription.
8	Furniture, rugs	8	Security and investment.
9	Photographers	9	Insurance.
10	Dry cleaners	10	Used cars.

Once again there is close conformity between the Canadian and United States bureaus.

TABLE III
FINANCIAL CATEGORY

	Total	Inquiries	Complaints
Banks	162	161	1
Loan, discount and finance	1,571	1,414	157
Building and loan and savings and loan associations	90	73	17
Auto financing	1,918	1,092	826
Security and investment	2,796	2,634	162
Real estate	2,292	1,901	391
Business opportunities	959	867	92
Insurance, life	2,173	1,881	292
Casualty and surety	193	168	25
Health, accident, medical	368	314	54
Miscellaneous	375	273	102
Total	12,897	10,778	2,119

COMMERCIAL CATEGORY

	Total	Inquiries	Complaints
Advertising media	1,921	1,329	592
Airlines	27	27	273
Education	1,319	1,046	68
Employment	675	607	2,130
Dry cleaners	3,690	1,560	43
Moving and storage	127	84	347
Other personal services	1,918	1,571	254
Organizations	1,113	859	553
Photographers	1,841	1,288	666
Professional services	2,061	1,395	23
Public utilities	103	80	34
Railroads	100	66	179
Miscellaneous	642	463	
Total	15,537	10,375	5,162

MERCHANDISE CATEGORY

	Total	Inquiries	Complaints
Agriculture.....	454	257	179
Pest control.....	79	66	13
Auto equipment and service.....	1,042	746	296
New car dealers.....	1,753	1,402	351
Used car dealers.....	2,632	1,774	858
Construction (home).....	5,600	4,170	1,430
Department stores.....	513	369	154
Direct selling.....	1,519	1,031	488
Book subscriptions.....	2,135	1,449	654
Magazine subscriptions.....	2,911	1,948	963
Food stores.....	589	223	376
Fuel.....	1,131	718	413
Furniture, rugs.....	2,256	1,371	885
Furs.....	1,445	970	475
Men's apparel.....	767	424	343
Office supplies and equipment.....	261	204	87
Hardware.....	559	406	153
Heating equipment and service.....	406	287	119
Home appliances.....	4,109	2,723	1,386
Jewelry.....	824	546	278
Photo supplies, sales and service.....	390	256	134
Radio and music, sales and service.....	312	205	107
Television, sales and service.....	24	17	7
Upholstery.....	645	420	225
Vending machines.....	38	38	-----
Women's apparel.....	1,965	1,179	786
Miscellaneous.....	1,096	849	247
Total.....	35,455	24,056	11,300

OTHER CATEGORIES

Manufacturing.....	1,327	734	593
Wholesale.....	105	66	39
Solicitations.....	10,563	10,215	348
Schemes.....	4,763	4,270	493
Requests for booklets.....	384	384	-----
Miscellaneous.....	4,491	3,952	539
Total.....	85,542	64,830	20,712

The preceding table shows in detail the volume of work handled by the Canadian bureaus. It is quite obvious that the public and business experience much the same type of problems as exist in the States. Much of the analysis presented in the main report would prevail for Canada. However, I feel the Canadian association may prefer to make a more comprehensive analysis than what is presented in these typed sheets. Furthermore, there are obvious differences in the figures which can only be explained by someone more familiar with Canadian better business bureau operations.

Consumer versus business use of Canadian better business bureaus

	Total	Consumer		Business	
		Inquiries	Complaints	Inquiries	Complaints
Financial.....	12,897	8,557	1,919	2,221	307
Commercial.....	15,537	8,193	4,345	2,182	613
Merchandise.....	35,455	21,192	10,786	2,864	153
Manufacturing.....	1,347	115	460	619	-----
Wholesale.....	105	58	31	8	-----
Solicitations.....	10,563	1,958	158	8,257	191
Schemes.....	4,763	3,962	300	308	183
Booklets.....	384	215	-----	169	-----
Miscellaneous inquiries and complaints.....	4,491	3,179	457	773	52
Total.....	85,542	47,429	18,456	17,401	2,256
Percent.....	100	55	22	20	3
All bureaus.....	-----	54	24	18	4

A comparison of business versus consumer use of bureau services reveals practically no difference between the figures of Canadian bureaus and all bureaus on a percentage basis.

OTHER COMPARISONS

The Canadian bureaus were active in checking advertising and figures show general agreement with the overall pattern. Canadian bureaus carried on a good publicity and educational program using nearly all the sources available to educate and promote.

CONCLUSION

Since this is the first time a separate breakdown of Canadian bureau statistics has been made it is impossible to judge the relative position of 1951 statistics to previous years. The Canadian bureaus conform very closely to the pattern established by all bureaus. Even if the Canadian figures were subtracted from the grand totals there would be no appreciable difference (table I). Due to the pressure of time these calculations were not made. The figures are available, in the main report and the Canadian supplement if any Canadian bureau wishes a purified comparison.

Summary of Better Business Bureau services for 1951¹

Type of business	Total instances of service	Instances of service				Number of ads shopped				Ads requiring action	
		Consumer		Business		Papers	Magazines	Radio	TV	By Bureau	By authorities
		Inquiries	Complaints	Inquiries	Complaints						
FINANCIAL											
1. Banks.....	1,865	1,167	198	481	19	86		2	11		
2. Loan, discount and finance.....	16,266	10,166	2,472	3,286	342	68	31		32	2	
3. Building and loan and savings and loan associations.....	3,669	2,550	367	697	55	1					
4. Auto financing.....	13,029	7,166	4,547	1,042	274	61			19	4	
5. Security and investments.....	19,445	13,903	875	4,472	195	37		2	1	7	
6. Real estate.....	33,592	22,876	5,543	4,569	604	254	3	1	82	3	
7. Business opportunities.....	10,615	7,293	934	2,144	244	294	6		102	3	
8. Insurance, life.....	30,511	25,172	1,983	3,112	244	4			3	1	
9. casualty, surety, fire.....	17,914	13,811	1,487	2,383	233	1					
10. health-accident-medical.....	32,042	25,698	2,371	3,621	352	37	5	33	18		
11. Miscellaneous.....	17,267	10,429	2,400	3,661	777	40	2		10		
Total, financial.....	196,215	140,231	23,177	29,468	3,339	883	10	71	4	278	20
COMMERCIAL											
12. Advertising media.....	27,189	17,102	1,876	6,226	1,985	677	14	11	5	382	6
13. Airlines.....	5,813	3,465	1,383	802	163	35		1		38	1
14. Education.....	23,900	17,805	2,844	2,964	287	127	1	1		70	2
15. Employment.....	19,877	14,590	2,524	2,027	736	368				149	
16. Dry cleaners.....	42,925	14,595	24,296	2,489	1,545	24				15	1
17. Moving and storage.....	14,299	10,066	3,132	844	257	10	3	4		15	5
18. Other personal services.....	24,134	16,122	4,947	2,389	676	66		1		43	1
19. Organizations.....	20,494	10,410	1,599	7,624	861	28				5	1
20. Photographers.....	46,360	29,114	13,166	3,292	788	78		3	1	39	
21. Professional services.....	24,340	13,703	5,720	4,089	828	153		7		75	7
22. Public utilities.....	2,231	1,084	714	317	116	2	1	14		10	
23. Railroads.....	1,380	767	306	255	52	2				1	
24. Miscellaneous.....	40,665	21,878	6,059	10,817	1,911	48				10	
Total, commercial.....	293,607	170,701	68,566	44,135	10,205	1,018	19	42	6	852	24
MERCHANDISE											
25. Agriculture.....	7,520	3,805	2,346	1,061	308	13		4		36	1
26. Pest control.....	6,842	4,673	848	1,143	178	40				5	

27. Auto equipment and service.....	18,765	7,562	8,707	1,689	807	152		2		73	
28. New-car dealers.....	14,972	8,869	5,375	3,084	644	233	6	4	7	112	3
29. Used-car dealers.....	30,620	13,626	13,381	2,235	1,378	727	2	25	7	469	12
30. Construction (home).....	82,513	47,693	25,166	7,921	1,733	291	3	8	2	224	4
31. Department stores.....	18,020	7,406	6,956	2,307	1,351	1,825	59	20	6	857	21
32. Direct selling.....	21,746	12,939	5,567	2,479	761	64				33	
33. Book subscriptions.....	24,659	14,425	5,376	4,019	839	9				4	
34. Magazine subscriptions.....	52,028	32,153	11,394	7,232	1,249	23				11	
35. Food stores.....	7,520	3,482	2,655	917	466	576	4	17		141	36
36. Fuel.....	6,978	3,866	2,449	433	230	90		2		38	
37. Furniture, rugs.....	47,150	19,190	22,632	3,253	2,075	1,389	6	37	3	625	13
38. Furs.....	9,687	5,202	3,100	978	407	634		6	2	157	20
39. Men's apparel.....	9,890	4,530	3,541	1,048	771	950	2	76		299	6
40. Office supplies and equipment.....	4,403	1,906	643	1,453	401	114		2		15	1
41. Hardware.....	9,823	5,196	3,369	815	443	183				54	
42. Heating equipment and service.....	26,014	13,787	8,403	2,549	1,275	324		24		231	5
43. Home appliances.....	62,460	30,356	24,921	4,372	2,811	1,676		27	5	859	3
44. Jewelry.....	16,530	7,075	6,348	1,900	1,207	969	1	45	5	429	8
45. Photo supplies, sales and service.....	6,436	3,231	2,034	862	309	143		11		40	
46. Radio and music, sales and service.....	10,500	4,630	3,969	1,281	620	172		33	2	77	1
47. Television, sales and service.....	80,548	31,736	39,066	6,041	3,705	942		29		844	12
48. Upholstery.....	13,617	6,414	6,073	749	381	65	6			29	
49. Vending machines.....	4,607	3,050	544	866	147	89	1			43	5
50. Women's apparel.....	26,691	12,251	11,264	1,708	1,468	2,316	15	37	1	546	5
51. Miscellaneous.....	56,905	30,273	14,454	9,219	2,959	1,150	1	213	193	340	5
Total, merchandise.....	677,444	336,326	240,681	71,514	28,923	15,159	106	622	233	6,591	161
52. Manufacturing.....	11,393	4,785	1,766	4,215	627	9			1	1	
53. Wholesale.....	3,763	1,456	282	1,547	478	27				3	
54. Solicitations.....	93,082	33,416	2,979	54,267	2,420	14			1	6	1
55. Schemes.....	32,643	19,586	2,775	8,715	1,567	47		5		13	
56. Requests for booklets.....	53,469	25,451		28,018		1					
57. Miscellaneous.....	70,612	40,813	11,157	15,464	3,178	145		5		35	1
Grand total.....	1,432,228	772,765	351,383	257,343	50,737	17,903	135	745	245	7,779	207

¹ From the 1951 Annual Report on Better Business Bureau Statistics compiled by the Association of Better Business Bureaus, Inc., Chrysler Bldg., New York 17, N. Y.

Publicity and education—"Telling the BBB Story"

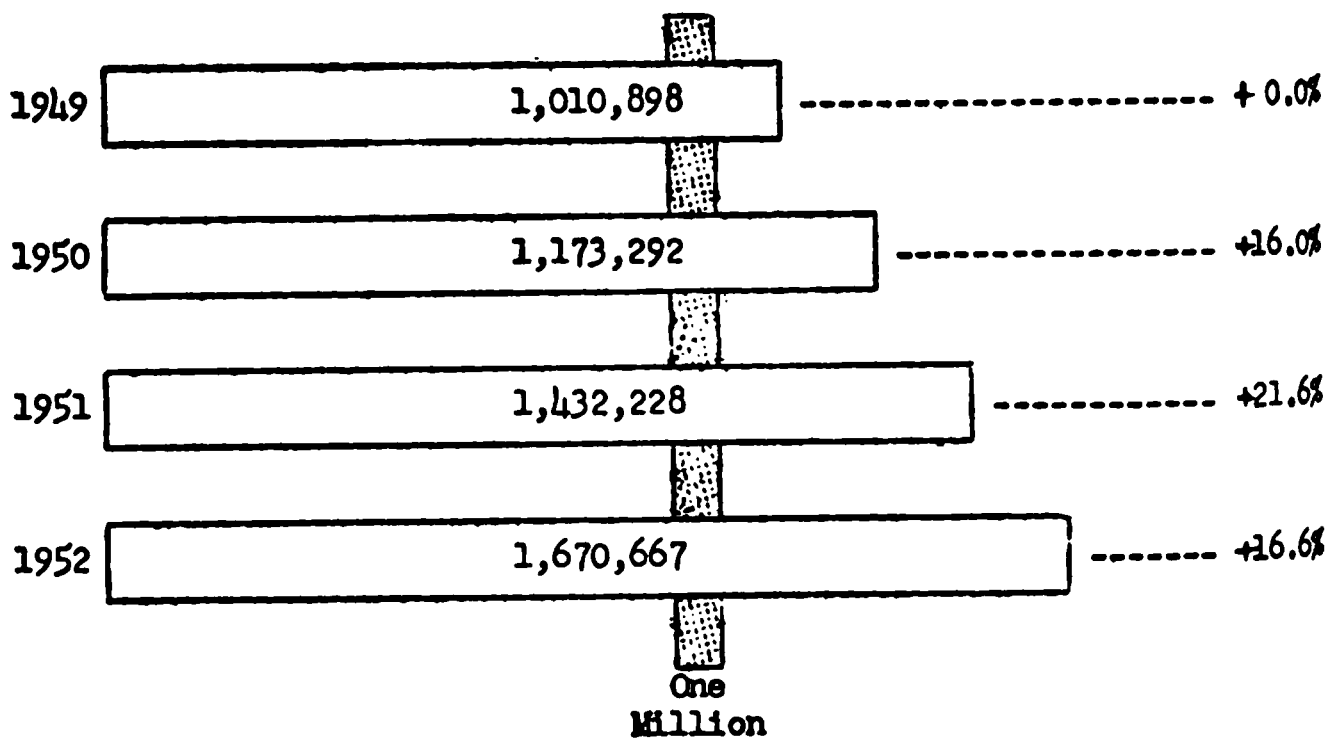
	Business management	Employees of business	General consumers	Total
Number of bulletins issued.....	1,256	112	185	1,553
Circulation of bulletins.....	725,116	257,620	304,908	1,287,644
Number of billboards used.....	X	X	46	46
Number of car cards used.....	X	X	3,531	3,531
Number of fact booklets issued.....	50,975	18,213	64,286	123,474
Number of other booklets issued.....	133,502	4,012	20,713	158,227
Number of BBB advertisements.....	140	15	700	855
Number of news stories, articles.....	1,016	56	2,914	3,986
Number of speaking engagements.....	334	81	572	987
Number of posters distributed.....	173,629	79,128	35,304	288,061
Number of radio spots used.....	X	X	2,492	2,492
Number of radio programs.....	X	X	575	575
Number of television shows.....	X	X	111	111
Retail "Guides" issue 1.....	663	9	103	775
Other types of publicity.....	24,782	16,587	10,833	52,202
Trade, business conferences.....	285	X	X	285

A STATISTICAL ANALYSIS OF BETTER BUSINESS BUREAU ACTIVITIES FOR 1952

Prepared by the Research Department, Association of Better Business Bureaus, Inc.

A SUMMARY OF BUREAU STATISTICS FOR 1952

PUBLIC SERVICE



There was an increase of 17 percent in the instances of service performed by the 96 better business bureaus, in 1952. This is a total increase of 65 percent over 1949.

The 1,670,667 instances of service reported for 1952 reveals that 75 percent were inquiries and the balance in the nature of complaints.

1952—Inquiries.....	75
Complaints.....	25

There was a 3-percent increase over 1951 in the number of inquiries. (Seventy-five out of every one hundred contacts were "investigating before investing.")

TABLE I.—Total instances of service by major categories

Classifications	1949		1950		1951		1952	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Financial.....	155,664	15	161,109	14	196,215	14	223,204	13
Commercial.....	206,161	21	212,984	18	293,607	21	333,829	20
Merchandise.....	347,107	34	479,970	41	677,444	47	821,760	49
Manufacturing.....	9,330	1	10,766	1	11,393	1	14,702	1
Wholesale.....	6,007	(1)	3,850	(1)	3,763	(1)	5,680	(1)
Solicitations.....	78,100	8	96,567	8	93,082	7	118,450	7
Schemes.....	27,112	3	29,083	2	32,643	2	32,244	2
Booklets.....	75,524	7	53,069	4	53,469	3	47,280	3
Miscellaneous inquiries and complaints.....	106,493	10	125,894	11	70,612	5	73,509	4
Total.....	1,010,898	100	1,173,292	100	1,432,228	100	1,670,667	100

¹ Less than 1 percent.

With the exception of schemes, there was an increase in every category. The percentage figures remained in the same general pattern as for previous years. There was slightly less activity in the financial and commercial categories and, a little more in the merchandise field. The following pages will present more details.

TABLE II.—Instances of service (the top 10)

Classifications	Rank order			Instances of service	Percent of total
	1950	1951	1952		
Solicitations.....	1	1	1	118,450	7.1
Home appliances.....	3	6	2	93,991	5.6
Insurance.....	2	4	3	93,559	5.6
Construction.....	4	2	4	93,056	5.6
Automotive ¹	5	5	5	85,038	5.1
Television.....	7	3	6	84,202	5.0
Photographers.....	8	9	7	53,127	3.2
Magazine subscriptions.....	6	7	8	51,457	3.1
Furniture, rugs.....	9	8	9	47,280	2.8
Dry cleaners.....	10	10	10	42,435	2.5
Total.....				762,595	45.6
All others.....				908,072	54.4
Grand total.....				1,670,667	100.0

¹ Auto equipment and service, new and used cars.

No new classifications have moved into the "top 10" during the past 3 years but the rank order has changed somewhat. This is especially true of television which dropped from third place in 1951, to sixth place in 1952. This is remarkable when it is considered that the television industry is still relatively new in many communities. What happened is, that previous experience in metropolitan areas during 1950 and 1951, made it possible to eliminate many abuses before they started. Furthermore, the television industry working with the better business bureaus, developed self-regulating procedures of greater effectiveness which unquestionably produced the improved conditions.

The same story cannot be said of the home appliance "industry" which jumped from the sixth place in 1951 (62,460 instances of service) to second place in 1952 (93,991 instances of service).

Aside from these major shifts, no other appreciable changes took place in the lineup of the "top 10," which again accounted for 45 percent of all instances of service.

TABLE III.—*Financial category (13 percent of the total)*

Classifications	Percent	Total	Inquiries	Complaints
Banks.....	1	1,838	1,563	275
Building and loan and savings and loan.....	3	5,513	5,028	465
Business opportunities.....	6	13,532	11,624	1,608
Auto financing.....	6	14,034	10,652	2,382
Loan, discount, and finance.....	8	17,542	13,999	2,543
Security and investments.....	9	20,215	18,719	1,496
Miscellaneous.....	10	21,719	18,570	3,149
Real estate.....	16	35,252	29,506	5,746
Insurance.....	42	93,559	86,677	9,882
Total.....	100	223,204	196,338	26,666
Percent.....		100	89	11

In comparison with 1951, the above table reveals no change in the rank order and little percentage changes, despite an increase in activity for every classification except banks. The ratio of complaints to inquiries increased during 1952 for banks; business opportunities; loan, discount and finance; and security and investments. All other classifications showed a slight increase in inquiries. In other words, out of every 100 contacts with the bureaus about financial matters, 89 were "investigating before investing." Of this number, 39 were about insurance and 13 about real estate.

TABLE IV.—*Commercial category (20 percent of the total)*

Classifications	Percent	Total	Inquiries	Complaints
Railroads.....	(1)	1,268	987	261
Public utilities.....	1	2,840	1,923	917
Airlines.....	2	6,014	3,801	2,213
Moving and storage.....	4	13,265	9,034	4,331
Employment.....	5	17,876	14,372	3,504
Other personal services.....	6	20,549	15,453	5,096
Professional services.....	8	25,895	19,681	6,214
Organizations.....	8	26,329	23,986	2,343
Advertising media.....	10	34,583	27,805	6,778
Education.....	11	37,423	32,970	4,453
Dry cleaners.....	13	42,435	20,539	21,896
Miscellaneous.....	16	52,125	42,638	9,487
Photographers.....	16	53,127	36,552	16,575
Total.....	100	333,829	249,741	64,068
Percent.....		100	75	25

¹ Less than 1 percent.

The business in the commercial category was the cause of 20 percent of the total instances of service. But during 1952 more people checked first before entering into any transaction. There were a few increases in complaints—airlines and employment and advertising media caused a higher percentage of complaints during 1952 than in 1951. Even though there were more complaints than inquiries about dry cleaning, there were relatively less than in 1951.

TABLE V.—*Merchandise category (49 percent of the total)*

Classifications	Percent	Total	Inquiries	Complaints
Office supplies and equipment.....	(1)	2,840	2,076	764
Fuel.....	(1)	4,845	3,353	1,492
Photo supplies—sales and service.....	(1)	5,513	3,341	2,172
Hardware.....	1	9,022	5,531	3,491
Furs.....	1	10,191	6,571	3,720
Radio and music—sales and service.....	1	10,859	6,331	4,528
Men's apparel.....	1	11,695	6,982	4,713
Agriculture.....	2	13,031	9,030	4,001
Ven. ling machines.....	2	13,899	11,189	2,710
Pest control.....	2	14,368	12,270	2,198
New-car dealers.....	2	16,373	10,364	6,009
Upholstery.....	2	16,874	8,757	8,117
Food stores.....	2	17,375	13,657	3,718
Department stores.....	2	18,879	10,968	7,911
Jewelry.....	3	21,552	11,401	10,151
Auto equipment and service.....	3	24,058	13,305	10,754
Heating equipment and service.....	3	24,893	16,952	8,941
Book subscriptions.....	3	25,394	20,239	5,155
Women's apparel.....	4	30,239	15,422	14,817
Direct selling.....	4	33,413	23,823	9,590
Used-car dealers.....	5	44,607	24,712	19,895
Furniture, rugs.....	6	47,260	23,640	23,640
Magazine subscriptions.....	6	51,457	39,673	11,784
Miscellaneous.....	10	81,863	62,462	19,401
Television.....	10	84,202	46,396	37,806
Construction.....	11	93,056	66,163	26,893
Home appliances.....	11	93,991	61,659	8,941
Total.....	100	821,769	536,167	285,602
Percent.....		100	65	35

¹ Less than 1 percent.

The merchandise category again was responsible for the major portion of the better business bureaus' activities. Over 800,000 instances of service were performed. In 1951, 39 percent of the instances of service for the merchandise category were complaints. In 1952, 35 percent of the merchandise contacts were complaints. This change reflects a slightly better relationship between business and the public. However, certain changes within the merchandise category since 1951, are worth highlighting:

Measured by volume, more people contacted the bureaus about home appliances than about any other type of merchandise. There is a jump from 62,460 to 93,991 in 1952 (50 percent), and yet relatively more people (10 percent) made inquiries before purchasing, than was the case in 1951.

There was also a 202-percent increase in the instances of service concerning vending machines; a 110-percent increase in bureau service on pest control and a 131-percent increase in instances of service about food stores. The latter classification is not generally the cause of any great amount of bureau work but, the very high increase last year can be attributed to no other reason except the growth and spread of the home freezer-frozen food plans. But, even in this field 80 out of every 100 persons contacting the bureaus, were making inquiries.

Television instances of service increased only 5 percent but, the number of people making inquiries before purchasing, increased almost 10 percent. There is still room for improvement here, since 45 percent of the TV instances of service are complaints.

In the women's apparel field, 49 percent of all contacts with the bureaus were complaints. This is about the same picture as existed in 1951. There was a 3-percent increase in complaints concerning furniture and rugs, where 50 percent of all bureau contacts were complaints.

An interesting change occurred in the instances of service performed by the bureaus in behalf of the magazine-subscription industry. For the first time, the statistics relating to this industry check with better business bureau experience in other fields. First of all, there were slightly less calls on the bureaus about magazines and inquiries increased from 48 percent in 1951 to 77 percent in 1952. This unquestionably can be attributed to the progress and effectiveness of the joint CR-BBB programs, through which business has the full opportunity of exercising its responsibilities to correct causes of complaints which exist.

TABLE VI. *Other categories (17 percent of the total)*

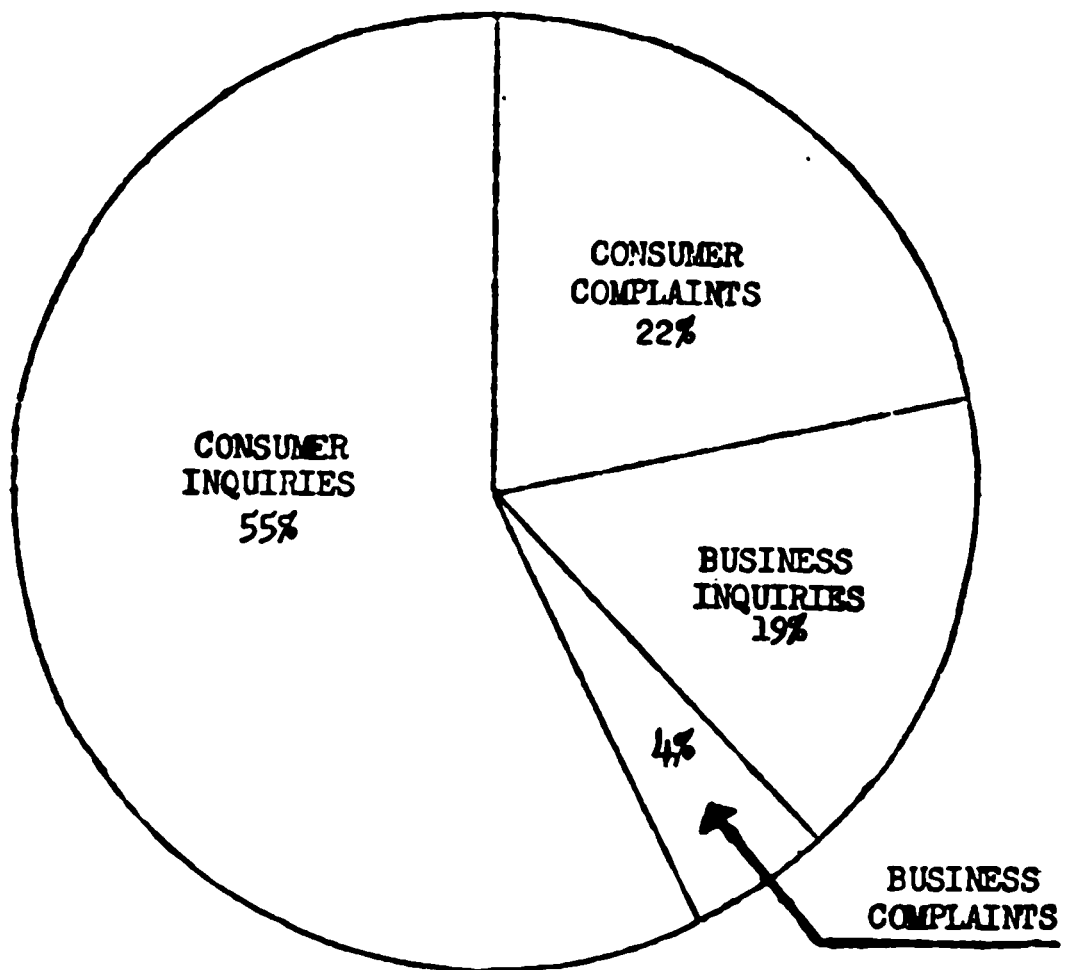
Classifications	Percent	Total	Inquiries	Com-plaints
Wholesale.....	(¹)	5,680	4,919	761
Manufacturing.....	1	14,702	13,290	1,412
Schemes.....	2	32,244	27,891	4,353
Requests for booklets.....	3	47,280	47,280	.....
Miscellaneous.....	4	73,509	59,248	14,261
Solicitations.....	7	118,450	112,037	6,413

¹ Less than 1 percent.

The volume of instances of service for the above categories increased considerably and, along with this increase, was a corresponding increase in inquiries over complaints. The bureaus handled a 28-percent increase in solicitations during 1952, making this category again the leading size cause of contacts with the bureaus.

CONSUMER vs. BUSINESS

USE OF BUREAU SERVICES



Contrary to the belief held by some, business not only supports the better business bureaus but, frequently calls upon the bureaus for assistance. There were 384,272 specific requests from business establishments for bureau services. This number accounted for 23 percent of the 1,670,667 total instances of service in 1952.

The largest single cause of business concern and reason for calling the bureaus were the 79,125 inquiries concerning solicitations.

Bureau files on solicitations were directly responsible in the saving of millions of dollars for business out of which it would undoubtedly have been cheated. Even so, 3,553 business firms filed complaints about various solicitations. In addition to this protection, millions of dollars the public might have foolishly given away to fake charitable appeals was saved for spending in legitimate channels, because over 30,000 consumers checked with the bureaus about various appeals.

Other major business requests concerned advertising media, insurance, appliances, automotive, television, magazine subscriptions, construction, schemes, and organizations.

TRUTH IN ADVERTISING

For proper evaluation of the following table, we think it essential to point out that the figures do not represent total bureau activity in this field. The figures used are based upon calculations from reports submitted by approximately 55 percent of the bureaus. However, past experience indicates that the basic percentages accurately reflect overall bureau activity in this field.

TABLE VII.—*Truth in advertising*

	Number of ads shopped.					Ads requiring action	
	Total	Papers	Maga-zines	Radio	TV	By bu-reaus	By au-thorities
Financial.....	1,157	910	5	241	1	458	76
Commercial.....	1,810	1,534	50	220	6	1,227	132
Merchandise.....	21,120	19,298	480	1,027	315	7,296	595
Manufacturing.....	39	8	1	30	-----	18	-----
Wholesale.....	50	50	-----	-----	-----	6	-----
Solicitations.....	15	15	-----	-----	-----	6	1
Schemes.....	60	53	1	6	-----	18	5
Miscellaneous.....	121	119	-----	2	-----	34	-----
Total.....	24,372	21,987	537	1,526	322	9,061	809

Actually, hundreds of thousands of advertisements were scanned. Of these 24,372 were selected for study and investigation. Of this number the bureaus took direct action on 9,061 separate advertisements. An additional 809 cases were brought to the attention of the authorities after all efforts to correct the situation failed. The 809 cases were 3.3 percent of the advertisements selected for special consideration. (Note carefully, that this refers to 3 percent of the questioned advertisements and not 3 percent of all advertising.) In 1951 only 1.2 percent of the questioned ads were brought to the attention of authorities.

Most of the "Ads Requiring Action" either by the bureaus or the authorities, appeared during the first few months of 1952. This is an interesting fact because it follows the pattern of business activity which took place during the last quarter of 1951 and bureau statistics show a marked decline in instances of service, during this period. The consumer, for a number of reasons, was not spending money. As a result business counselors, economists and others predicted a leveling off and maybe even a slight recession.

As a result, and in an effort to stimulate sales, considerable advertising began to appear early in 1952, which created a public and business discontent and in effect, helped to create and perpetuate the conditions that business in general, feared.

Later during the year, with the easing of consumer credit controls and more optimistic pronouncements by business leaders, business improved and the type of advertising which caused the public unfavorable reaction toward business, began to decrease and significantly also, public complaints against advertising.

Publicity and education

	Total	Management	Employees	Consumers
Number bulletins issued.....	1,666	1,104	176	386
Number circulated.....	2,269,966	1,362,401	651,863	255,702
Number billboards used.....				
Number car cards used.....	3,617			3,617
Fact booklets issued.....	242,047	130,371	52,930	58,746
Other booklets issued.....	199,768	72,823	36,445	90,500
Number better business bureau advertisements.....	3,548	658	2,608	282
Number of news stories.....	2,473	1,052	51	1,370
Speaking engagements.....	1,167	490	109	568
Posters distributed.....	352,000	249,529	58,941	43,530
Number of radio spots.....	2,746			2,746
Number of radio programs.....	596			596
Number of television shows.....	136			136
Retail guides issued.....	917	674		243
Other types of publicity.....	58,694	22,377	7,961	28,356
Trade, business conferences.....	549	549		

The production and distribution of informational materials along with various publicity activities of the better business bureaus during 1952 took a sharp increase over 1951. The figures are impressive yet they are only an indication of the time, effort, and expense in promoting private enterprise in the public interest.

The fact that there was a 17-percent increase in the instances of service for 1952 can be traced, in part, to the educational phase of bureau work. But more important, in this regard, is the fact that there was an increase in the number of inquiries handled. It would seem logical to assume that the educational work of the bureaus prompted many people to seek advice by checking with the better business bureau before entering a business transaction.

Furthermore a great deal of the above informational materials was and is of a self-servicing nature designed to help people make intelligent decisions without the need to check with the bureaus.

Unquestionably, local bureau publicity plays a major role in protecting the public and business, but it also is effective in proving the value of the bureau to local business. A well-conceived and executed program of publicity and public relations goes a long way in securing new members.

CONCLUSION

The statistical information contained in the preceding report speaks for itself. It reveals how extremely busy the better business bureaus are. It also reflects a tremendous amount of preparatory work in order to answer inquiries and complaints, handle advertising cases, and conduct an intensive educational program.

This report rounds out 4 full years of reporting bureau statistics. In this period 5,287,085 instances of service were performed. This would be a yearly average of 13,900 instances of service per bureau, or about 53 daily requests for service from consumers and the public for each better business bureau. Of course, some bureaus would not normally handle this amount of work, while others take care of much more. But, 53 daily instances of service represents a busy day for any operation.

Bureau statistics, as for any year, covers all phases of business activity, and the 1,670,667 instances of service for 1952 are positive proof of the acceptability of the better business bureaus by both business and the consumer, as impartial agencies for public service.

Any major economic change or introduction of a new product or service is quickly reflected in bureau statistics. For example, the growth and spread of television, freezer-food plans, the increase in new homes with the corresponding demand for furniture and appliances, were responsible for a heavy workload on better business bureaus.

Therefore, no story concerning the better business bureaus, locally or nationally, is complete unless bureau statistics is a part thereof. Locally the figures show operations at the grass-roots level. Nationally, the figures reveal the close conformity to current market conditions and are used effectively in demonstrating that the better business bureau movement is national in scope, and equipped to carry out programs designed to eliminate abuses and strengthen public confidence in our economic system.

APPENDIX A

Individual bureau instances of service, 1952

Bureau	Total	Inquiries	Com-plaints	Bureau	Total	Inquiries	Com-plaints
Akron.....	32,701	27,833	4,868	Norristown.....	262	156	108
Albuquerque.....	7,768	6,755	1,013	Oakland.....	22,639	18,467	4,172
Amarillo.....	3,195	2,740	455	Oklahoma.....	20,374	17,699	2,675
Atlanta.....	23,592	21,337	2,255	Omaha.....	24,996	23,226	1,770
Austin.....	4,049	3,421	628	Ottawa.....	12,000	9,000	3,000
Bakersfield.....	3,000	2,220	780	Peoria.....	18,313	12,953	5,360
Baltimore.....	14,843	7,586	7,257	Philadelphia.....	26,844	13,253	13,591
Baton Rouge.....	5,000	3,700	1,300	Phoenix.....	23,400	17,316	6,084
Binghamton.....	1,152	852	300	Pittsburgh.....	36,431	24,416	12,015
Boston.....	68,971	51,039	17,932	Portland, Maine.....	1,902	1,659	243
Bridgeport.....	1,474	1,019	455	Portland, Oreg.....	37,850	28,298	9,552
Buffalo.....	20,382	12,803	7,579	Providence.....	9,112	8,336	776
Charlotte.....	2,597	1,830	767	Quebec.....	4,023	3,735	288
Chicago.....	172,900	108,056	64,844	Reno.....	1,505	1,145	360
Cincinnati.....	27,559	16,432	11,127	Roanoke.....	3,997	3,128	869
Cleveland.....	65,849	44,893	20,956	Rochester.....	15,163	12,049	3,114
Columbus.....	15,164	10,440	4,724	Sacramento.....	11,921	10,803	1,118
Corpus Christi.....	3,263	2,769	494	St. Louis.....	60,000	44,400	15,600
Dallas.....	12,727	9,916	2,811	San Antonio.....	12,795	8,610	4,185
Dayton.....	21,150	19,197	1,953	San Diego.....	29,414	24,102	5,312
Denver.....	30,000	18,000	12,000	San Francisco.....	41,639	24,754	16,885
Des Moines.....	22,573	19,640	2,933	San Jose.....	6,297	5,249	1,048
Detroit.....	30,483	17,990	12,493	Santa Ana.....	150	111	39
Elkhart.....	2,922	2,481	441	Santa Barbara.....	2,472	1,884	588
Fort Wayne.....	10,883	9,064	1,819	Schenectady.....	2,546	1,884	662
Fort Worth.....	13,047	11,420	1,627	Scranton.....	8,000	4,960	3,040
Grand Rapids.....	7,896	6,275	1,621	Seattle.....	13,709	10,137	3,572
Halifax.....	14,039	10,504	3,535	Shreveport.....	5,611	5,010	601
Hamilton.....	4,386	4,325	61	South Bend.....	5,950	4,403	1,547
Hartford.....	11,006	6,853	4,153	Spokane.....	6,000	4,440	1,560
Honolulu.....				Springfield, Mass.....	14,000	9,000	5,000
Houston.....	21,024	15,514	5,510	Springfield, Miss.....	3,863	3,124	739
Huntington.....	100	74	26	Stockton.....	94	75	19
Indianapolis.....	20,981	13,870	7,111	Syracuse.....	9,500	8,000	1,500
Kansas City.....	35,092	28,201	6,891	Terre Haute.....	1,857	1,431	426
Lima.....	3,500	2,590	910	Toledo.....	19,071	12,178	6,893
Lincoln.....	8,120	6,874	1,246	Toronto.....	35,826	27,693	8,133
Long Beach.....	32,000	23,680	8,320	Tucson.....	982	654	328
Los Angeles.....	35,569	23,655	11,914	Tulsa.....	11,103	9,687	1,416
Louisville.....	13,386	9,469	3,917	Utica.....	8,000	5,920	2,080
Marion.....	825	611	214	Villejo.....	1,297	708	589
Memphis.....	5,496	4,087	1,409	Vancouver.....	10,098	7,700	2,398
Milwaukee.....	32,855	25,597	7,258	Washington.....	18,619	12,868	5,751
Minneapolis.....	14,776	11,604	3,172	Wheeling.....	440	326	114
Montreal.....	19,951	17,310	2,641	Wichita.....	16,774	13,835	2,939
Miami Beach.....	994	786	208	Winnipeg.....	3,819	2,490	1,329
National.....	20,823	18,546	2,277	Worcester.....	7,453	5,103	2,350
New Orleans.....	24,000	17,760	6,240				
New York.....	98,493	54,709	43,784				
				Grand total.....	1,670,667	1,202,702	467,965

APPENDIX B

Instances of service, 1949-52

	1949	1950	1951	1952	Total	Percent
Merchandise.....	347,107	479,970	677,444	821,769	2,326,290	44
Commercial.....	206,161	212,984	293,607	333,829	1,046,581	20
Financial.....	155,064	161,109	196,215	223,204	735,592	14
Solicitations.....	78,100	96,567	93,082	118,450	386,199	7
Requests for booklets.....	75,524	53,069	53,469	47,280	229,342	4
Schemes.....	27,112	29,083	32,648	32,244	121,082	2
Manufacturing.....	9,330	10,766	11,393	14,702	46,191	1
Wholesale.....	6,007	3,850	3,763	5,680	19,300	(1)
Miscellaneous.....	106,493	125,894	70,612	73,509	376,508	7
Total.....	1,010,898	1,173,292	1,432,228	1,670,667	5,287,085	100

¹ Less than 1 percent.

Summary of Better Business Bureau services for 1952¹

Type of business	Total instances of service	Instances of service				Number of ads shopped				Ads requiring action—	
		Consumer		Business		Papers	Magazines	Radio	TV	By bureau	By authorities
		Inquiries	Complaints	Inquiries	Complaints						
FINANCIAL											
1. Banks.....	1,838	1,108	235	455	40	14				3	
2. Loan, discount and finance.....	17,542	11,350	2,824	2,649	719	65		70	1	51	
3. Building and loan and savings and loan associations.....	5,513	4,284	425	744	60	11		95		73	
4. Auto financing.....	14,034	9,557	3,087	1,095	295	20		2		6	
5. Security and investments.....	20,215	14,231	1,233	4,488	263	94	1	14		39	14
6. Real estate.....	35,252	24,641	5,006	4,865	740	185		20		77	7
7. Business opportunities.....	13,532	9,256	1,637	2,368	271	311	4			117	18
8. Insurance, life.....	31,242	26,806	1,281	2,874	281	117				56	36
9. Insurance, casualty and surety.....	20,884	16,665	1,775	2,214	230	5				3	
10. Insurance, health-accident-med cal.....	41,433	34,182	2,900	3,936	415	25		40		2	1
11. Miscellaneous.....	21,719	14,248	2,454	4,322	695	63				31	
Total financial.....	223,204	166,328	22,857	30,010	4,009	910	5	241	1	458	76
COMMERCIAL											
12. Advertising media.....	34,583	11,447	3,285	16,358	3,439	516	37	31	2	500	16
13. Airlines.....	6,014	2,688	1,942	1,113	271	28		1		14	26
14. Education.....	37,423	27,843	3,817	5,127	636	177		12		53	19
15. Employment.....	17,876	11,816	2,735	2,550	769	385	3	11	4	371	35
16. Dry cleaners.....	42,435	18,290	20,199	2,249	1,697	53		120		85	2
17. Moving and storage.....	13,365	8,179	3,969	855	362	31		19		22	6
18. Other personal services.....	20,549	12,987	4,439	2,466	657	50	4			44	
19. Organizations.....	26,329	13,349	1,343	10,637	1,000	10		3		4	
20. Photographers.....	53,127	32,142	15,407	4,410	1,168	95	3	5		40	10
21. Professional services.....	25,895	14,890	5,101	4,791	1,113	83	2	7		57	18
22. Public utilities.....	2,840	1,582	807	341	110	2				2	
23. Railroads.....	1,268	832	236	155	45	1				1	
24. Miscellaneous.....	52,125	29,972	7,350	12,666	2,137	104	1	11		34	
Total commercial.....	333,829	186,017	70,630	63,724	13,458	1,535	50	220	6	1,227	132
MERCHANDISE											
25. Agriculture.....	13,031	6,867	3,571	2,163	430	11		1		12	1
26. Pest control.....	11,308	10,503	1,721	1,767	374	25		1		26	2
27. Auto equipment and services.....	21,058	11,019	9,508	2,286	1,155	211	0	11	16	172	10

28. New-car dealers.....	16,373	8,023	5,158	2,341	851	515	6	30	27	474	24
29. Used-car dealers.....	44,007	21,099	17,129	3,613	2,766	717	19	46	49	711	74
30. Construction (home).....	93,056	54,810	24,567	11,353	2,326	354	6	21	1	197	70
31. Department stores.....	18,879	8,703	6,004	2,265	1,907	2,100	26	64	9	719	17
32. Direct selling.....	23,413	19,680	8,721	4,143	869	141	3	10	3	30	2
33. Book subscriptions.....	25,394	16,658	4,622	3,581	533	7		3		2	
34. Magazine subscriptions.....	51,457	31,800	10,243	7,873	1,441	69				18	7
35. Food stores.....	17,375	11,902	3,023	1,755	695	428	6	23	4	157	16
36. Fuel.....	4,845	2,737	1,366	596	126	188		8		145	2
37. Furniture—rugs.....	47,280	20,141	20,808	3,499	2,837	1,396	29	56	10	540	21
38. Furs.....	10,191	5,259	2,874	1,212	846	571	5	50		262	9
39. Men's apparel.....	11,695	5,462	3,684	1,520	1,029	959	4	44	2	207	11
40. Office supplies and equipment.....	2,840	923	886	1,153	378	219		11		28	1
41. Hardware.....	9,022	4,692	2,995	839	496	323	3	5		54	4
42. Heating equipment and services.....	24,893	14,438	6,746	2,514	1,195	294	6	55	4	234	11
43. Home appliances.....	93,991	52,353	27,446	9,306	4,880	2,058	100	96	66	763	106
44. Jewelry.....	21,552	8,944	8,535	2,457	1,616	865	11	129	14	384	28
45. Photo supplies, sales and service.....	5,513	2,905	1,891	436	281	119	4	10	2	30	13
46. Radio and music, sales and service.....	10,859	5,060	3,985	1,271	513	86	19	3		46	16
47. Television, sales and service.....	84,202	39,154	33,091	7,242	4,715	1,994	90	213	93	1,025	127
48. Upholstery.....	16,874	7,543	7,560	1,214	557	136	2	53	2	51	5
49. Vending machines.....	13,899	7,700	2,224	3,489	486	180	11	6		133	6
50. Women's apparel.....	30,239	13,456	13,063	1,966	1,754	3,058	98	65	7	491	9
51. Miscellaneous.....	81,863	49,282	16,700	13,180	2,701	2,255	26	13	4	376	3
Total merchandise.....	821,769	441,133	247,809	95,031	37,793	19,299	480	1,027	315	7,296	595
52. Manufacturing.....	14,702	7,483	883	5,807	529	8	1	30		18	
53. Wholesale.....	5,680	2,636	488	2,283	273	50				6	
54. Solicitations.....	118,450	32,812	2,960	79,125	3,553	15				6	1
55. Schemes.....	32,244	10,090	2,741	11,801	1,612	53	1	6		16	5
56. Requests for booklets.....	47,280	30,543		16,737							
57. Miscellaneous.....	73,509	42,782	12,203	16,466	2,058	119		2		34	
Grand total.....	1,670,667	925,824	360,571	320,987	63,285	21,089	537	1,526	322	9,061	809

¹From the 1952 Annual Report on Better Business Bureau Statistics compiled by the Association of Better Business Bureaus, Inc., Chrysler Building, New York 17, N. Y.

Publicity and education—"Telling the BBB Story"

	Business management	Employees of business	General consumers	Total
Number of bulletins issued.....	1,104	176	386	1,666
Circulation of bulletins.....	1,382,401	651,863	255,702	2,269,966
Number of billboards used.....	X	X		
Number of car cards used.....	X	X		
Number of fact booklets issued.....	130,371	52,930	58,746	242,047
Number of other booklets issued.....	72,823	36,445	90,500	199,768
Number of BBB advertisements.....	658	2,608	282	3,548
Number of news stories, articles.....	1,052	51	1,370	2,473
Number of speaking engagements.....	490	109	568	1,167
Number of posters distributed.....	249,529	58,941	43,530	352,000
Number of radio spots used.....	X	X	2,746	2,746
Number of radio programs.....	X	X	596	596
Number of television shows.....	X	X	136	136
Retail guides issued.....	674		243	917
Other types of publicity.....	22,377	7,961	28,356	58,694
Trade, business conferences.....	549	X	X	549

A STATISTICAL ANALYSIS OF BETTER BUSINESS BUREAU ACTIVITIES FOR 1953

Prepared by the research department, Association of Better Business Bureaus, Inc.

FOREWORD

Although these statistical reports have been prepared primarily for use by local bureaus, they serve a useful function as an aid to the association of Better Business Bureaus, Inc., in interpreting the work of the bureaus.

Using this report as a base, industry, media, educators, and government will be told how the better business bureaus assist business in self-regulatory procedures; how the bureaus, as agencies of business, are daily protecting and strengthening our economic system.

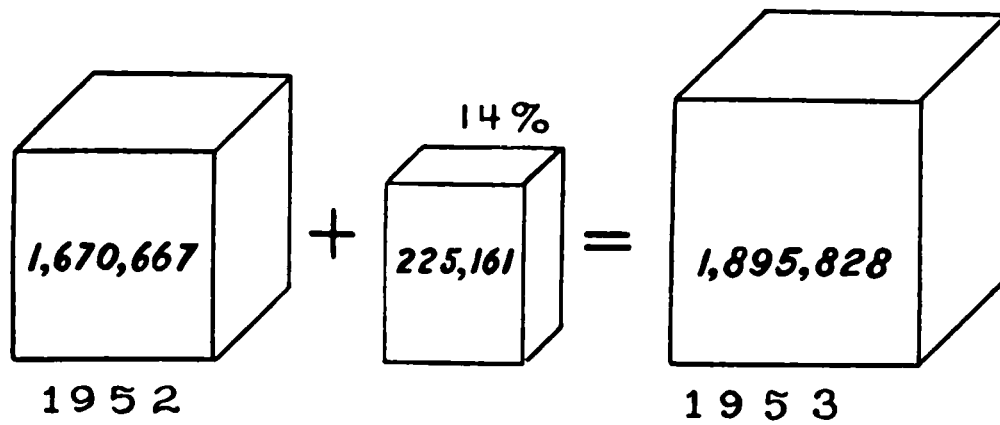
No statistical report, in itself, can possibly picture the broad scope of better business bureau work. No figures are included showing the time, money, or personnel involved. No statistics could explain methods of operation. But some conception of the behind-the-scenes story can be obtained from the analysis of 1,895,828 inquiries and complaints (instances of service) which were handled, the thousands of questionable advertisements studied, and the millions of pieces of literature distributed to assist both business and the public to better understand each other.

The report includes information from 97 better business bureaus in the United States and Canada (Honolulu excluded). The Canadian bureaus accounted for 108,724 instances of service, which was less than 1 percent of the total for all bureaus. The inclusion or exclusion of Canadian figures would not materially affect basic percentages since the Canadian supplement¹ follows the same pattern as that for all bureaus.

A SUMMARY OF BUREAU STATISTICS FOR 1953**SECTION I—PUBLIC SERVICE**

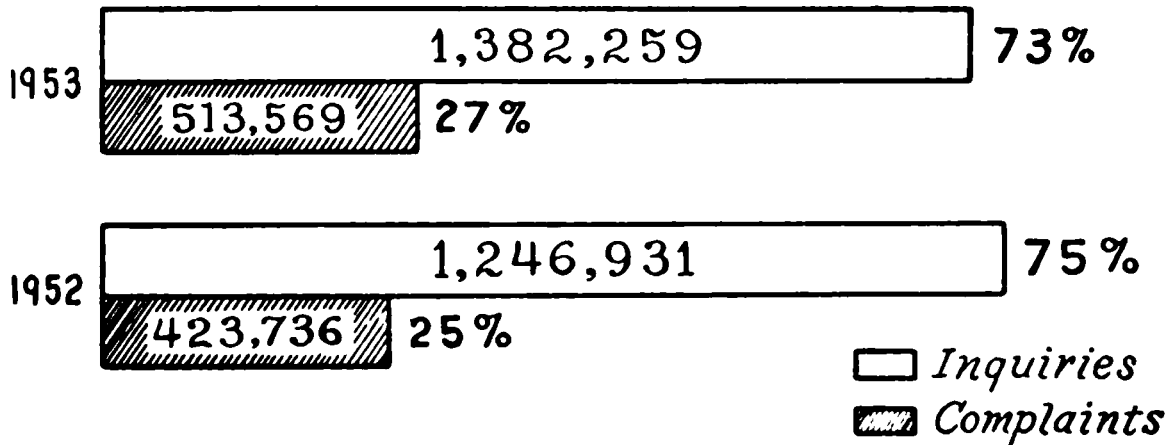
In 1953 the better business bureau performed 1,895,828 instances of service—1,382,259 or 73 percent were inquiries. The balance of 513,569 or 27 percent were complaints. Compared with 1952 approximately 136,000 more inquiries and 90,000 more complaints were handled. This represents nearly a quarter-million more instances of service—a 14-percent increase over 1952.

¹ May be had upon request.



The change during 1953 was a 2-percent increase in complaints and reflects the slight leveling off or adjustment in the economic picture. It indicates a tightening market; a more competitive attitude by business and a need for careful evaluation by business, not only of its inventory but its public relation; its sales plans, its blueprints for getting its story to the buying public.

Two percent of anything is not in itself very much but when it indicates criticism or dissatisfaction it is prudent to analyze the figures it represents. The following details of specific business classifications will show the changes which took place last year.



Each year, there has been a considerable increase in the total instances of service (appendix B). Despite this increase the percentage each category is of the total has remained fairly constant as indicated in table I. The increase from 34 to 51 percent in the merchandise category during the 5-year period is attributed to our increasing standard of living. In 1953 people continued to and to their material wealth while at the same time continued their savings and other investments as is evidenced in the fairly constant percentages in the financial field. This viewpoint is further strengthened when it is realized that the commercial category has also remained constant. The businesses in this group offer professional and other services as opposed to investments or merchandise. (See tables III and IV.)

TABLE I

Classifications	1949 (per- cent)	1950 (per- cent)	1951 (per- cent)	1952	Per- cent	1953	Per- cent
Financial.....	15	14	14	223,204	13	248,834	13
Commercial.....	21	18	21	333,829	20	385,069	20
Merchandise.....	34	41	47	821,769	49	963,626	51
Manufacturing.....	1	1	1	14,702	1	9,581	1
Wholesale.....	(1)	(1)	(1)	5,680	(1)	4,713	(1)
Solicitations.....	8	8	7	118,450	7	105,775	6
Schemes.....	3	2	2	32,244	2	42,775	2
Booklets.....	7	4	3	47,280	3	79,882	4
Miscellaneous I. and C.....	10	11	5	73,569	4	55,573	3
Total.....	100	100	100	1,670,667	100	1,895,828	100

¹ Less than 1 percent.

Note the sameness of pattern for the 5 years. Note too, in 1953, there were less instances of service concerning solicitations and more requests for booklets.

TABLE II.—*Instances of service (top 10)*

Classifications	Rank order				Instances of service	Percent of total
	1950	1951	1952	1953		
Home appliances.....	3	6	2	1	128,463	6.7
Construction.....	4	2	4	2	122,060	6.4
Insurance.....	2	4	3	3	115,320	6.1
Solicitations.....	1	1	1	4	105,775	5.6
Television.....	7	3	6	5	96,044	5.1
Automotive.....	5	5	5	6	91,668	4.8
Photographers.....	8	9	7	7	70,558	3.7
Furniture, rugs.....	9	8	9	8	69,322	3.6
Magazine subscriptions.....	6	7	8	9	57,057	3.0
Dry cleaners.....	10	10	10	10	43,874	2.3
Total.....					900,141	47.3
All others.....					995,687	52.7
Grand total.....					1,895,828	100.0

Once again the same 10 business classifications were responsible for almost 50 percent of all instances of service. Solicitations which ranked first in 1952 dropped to fourth place last year. This change does not necessarily indicate that there were less appeals made for funds but that there were many more problems concerning home appliances, construction, and insurance.

Ever since World War II we have been building; primarily residential dwellings. Consequently each year has seen an increase in the problems relating to all phases of construction, home improvement and maintenance. Furnishing private dwellings consumes a large portion of earnings and a major part of this expenditure goes for various home appliances—refrigerators, freezers, air conditioners, washing and ironing machines, etc. There are also smaller appliances ranging from vacuum and sewing machines on down to mixers and fans. (Not all the increase in instances of service concerning appliances is related to new homes. There were replacements and the purchases by nonhome owners as well.)

Actually, home appliances, television, and furniture combined accounted for 293,829 instances of service—or 16 percent of the total.

These data reflect continued spending power—power which did not stop at material wealth but which extended into the general field of investments, such as insurance. Traffic was heavy in this field: from 5.6 percent of the total in 1952 to 6.1 percent in 1953. The record shows a greater number of people registered complaints about some phase of the insurance industry than they did in 1952.

It's interesting to note that the top 10 accounted for 60 percent of all complaints and 44 percent of all inquiries. In other words, it is these business classifications which caused the greatest general concern—of a critical nature.

TABLE III.—*Financial category (13 percent of the total)*

Classifications	Percent	Total	Inquiries	Complaints
Banks.....	(¹)	2,094	1,784	310
Building and loan and savings and loan.....	2	5,206	4,727	479
Business opportunities.....	4	10,707	9,783	924
Auto financing.....	6	14,747	9,837	4,910
Security investments.....	7	17,802	16,637	1,165
Loan, discount and finance.....	8	19,395	16,016	3,379
Miscellaneous.....	8	20,144	17,096	3,048
Real estate.....	18	43,419	34,491	5,928
Insurance.....	47	115,320	94,341	20,979
Total.....	100	248,834	204,712	44,122

¹ Less than 1 percent.

Comparing the above data with 1952 a number of significant changes took place. Insurance instances of service jumped from 42 to 47 percent of the financial total, an actual increase of 21,761 calls. Real estate took a 2-percent gain. It is also significant that of all insurance instances of service 82 percent were inquiries, in contrast with 93 percent in 1952. Further analysis shows that complaints involving life insurance jumped from 4 percent in 1952 to 35 percent in 1953. From 9 to 14 percent for casualty and surety and from 7 percent in the accident and health field.

The ratio of inquiries to complaints in the financial category changed with a drop in inquiries and a corresponding increase in complaints. In 1952 complaints of a financial nature were 11 percent of the total financial instances of service and 17 percent in 1953.

This 6 percent increase was due to insurance, real estate, and auto financing. The latter field showed an 11-percent increase in complaints over 1952.

TABLE IV.—Commercial category (20 percent of the total)

Classifications	Percent	Total	Inquiries	Complaints
Public utilities.....	(1)	2,507	1,667	840
Railroads.....	(1)	2,897	2,334	563
Airlines.....	1	3,883	3,186	697
Moving and storage.....	4	16,811	11,670	5,141
Other personal services.....	5	20,714	15,629	5,085
Organizations.....	6	21,905	19,744	2,161
Advertising.....	7	26,392	21,556	4,836
Professional services.....	7	26,872	19,818	7,054
Employment.....	8	29,782	24,496	5,286
Education.....	11	42,085	37,686	4,399
Dry cleaners.....	12	43,874	19,344	24,530
Photographers.....	18	70,558	45,555	25,003
Miscellaneous.....	20	76,789	65,030	11,759
Total.....	100	385,069	287,715	97,354

¹Less than 1 percent.

The various businesses in the commercial category were the cause of 20 percent of all instances of service. This was the same as for 1952. The ratio of inquiries to complaints for this group also was the same during the past 2 years (75 to 25 percent). And no great changes took place within the various classifications. More contacts were made with the bureaus about photographers and employment and less concerning dry cleaners, ad media and professional and personal services. However, dry cleaners are still the cause of more complaints than inquiries. There were also relatively less complaints concerning photographers in 1953.

The fact there was an improvement in the dry-cleaning and photographic fields reflects the increased efforts bureaus have exerted in attempts to not only assist segments of these industries in self-regulatory processes but in exposing the fraudulent and noncooperative elements therein. Nevertheless considerable work must yet be done for despite the slightly improved picture last year these two classifications ran fifth and sixth in number of complaints.

TABLE V.—Merchandise category (49 percent of the total)

Classifications	Percent	Total	Inquiries	Complaints
Office supplies and equipment.....	(1)	3,137	2,292	845
Fuel.....	(1)	4,301	2,793	1,508
Photo supplies, sales and service.....	(1)	5,309	3,291	2,018
Furs.....	1	9,493	6,416	3,077
Radio and music, sales and service.....	1	10,668	5,935	4,733
Men's apparel.....	1	12,282	6,696	5,586
Hardware.....	1	12,415	7,313	5,102
Pest control.....	1	14,379	12,055	2,324
Agriculture.....	2	15,856	11,243	4,613
Food stores.....	2	16,183	12,179	4,004
Vending machines.....	2	16,411	14,200	2,211
Department stores.....	2	16,597	9,024	7,573
New-car dealers.....	2	20,908	13,213	7,695
Upholstery.....	2	21,380	12,442	8,938
Jewelry.....	2	21,731	12,043	9,688
Book subscriptions.....	3	25,246	18,634	6,612
Auto equipment and service.....	3	27,739	15,334	12,405
Heating equipment and service.....	3	28,282	19,868	8,414
Direct selling.....	3	32,158	23,491	8,667
Women's apparel.....	3	33,504	16,085	17,419
Used-car dealers.....	4	43,021	23,540	19,481
Magazine subscriptions.....	6	57,057	42,949	14,108
Furniture, rugs.....	7	69,322	30,897	38,425
Television.....	10	96,044	49,521	46,523
Miscellaneous.....	10	99,680	68,728	30,952
Construction.....	13	122,060	85,651	36,409
Home appliances.....	14	128,463	83,996	44,467
Total.....	100	963,626	609,829	353,797

¹Less than 1 percent.

Almost 1 million instances of service alone were performed by the bureaus in the merchandise field. Slightly more complaints were registered and these were about TV, furniture and rugs, book and magazine subscriptions, women's and men's apparel, home appliances, and construction. For the first time complaints exceeds inquiries concerning women's apparel and furniture and rugs. 52 percent of the instances of service concerning women's apparel were complaints and 56 percent of the services in the furniture and rug field were complaints. The latter percentage was 6 percent higher than in 1952. However, there were fewer complaints involving vending machines, upholstery, heating equipment, and service.

TABLE VI.—Other categories (17 percent of the total)

Classifications	Percent	Total	Inquiries	Complaints
Wholesale.....	(1)	4,713	4,134	579
Manufacturing.....	1	9,581	8,350	1,231
Schemes.....	2	42,775	39,373	3,402
Miscellaneous.....	3	55,573	47,636	7,937
Requests for booklets.....	4	79,882	79,882	.....
Solicitations.....	6	105,775	100,628	5,147

¹ Less than 1 percent.

Requests for booklets jumped from 47,280 to 79,882, a 66 percent increase, on the other hand not as many requests for information about solicitations were handled. This classification has long been the cause of most contacts with the bureaus. Quite likely the various exposés by the bureaus, the press and authorities were strong warnings to business and the public that not all seemingly legitimate appeals are honest. Undoubtedly, as a result, some people refused to recognize any charitable appeals and therefore had no need to check with the bureaus.

SECTION II.—TRUTH IN ADVERTISING

For proper evaluation of the following table and comments thereto, it is essential to recognize that the figures do not represent total activity in this phase of bureau operations. The figures are based upon about 50 percent of the bureaus. Nevertheless the percentages expressed conform to the pattern established over the past few years and would therefore seem to indicate general accuracy.

Again in 1953 the better business bureaus studied hundreds of thousands of advertisements. From these, 17,507 appeared questionable (less than in 1952). Of these, 7,419 necessitated some direct action by the bureaus, with only 157, or slightly less than 1 percent resulting in referral to authorities. This is an improvement over 1952 when 3 percent of all questionable advertising resulted in such referral. The improvement can be traced, in part, to special emphasis being placed on bait advertising by all bureaus. The bureaus began, during the latter part of 1952, to intensify its efforts to show the fallacy of bait advertising.

This does not mean all bait advertising has been eliminated. It signifies a growing recognition of the problem on the part of business and media generally and a willingness to find a satisfactory solution.

TABLE VII

	Number of ads shopped					Ads requiring action	
	Total	Papers	Magazines	Radio	TV	By bureaus	By authorities
Financial.....	379	365	5	7	2	227	18
Commercial.....	1,461	1,407	8	41	5	1,362	21
Merchandise.....	15,480	14,669	23	607	181	5,739	115
Manufacturing.....	7	7	.....	.....	.....	4	1
Wholesale.....	10	10	.....	.....	.....	7	.....
Solicitations.....	5	4	.....	1	.....	5	.....
Schemes.....	43	37	.....	3	3	32	2
Miscellaneous.....	122	113	1	8	.....	43	.....
Total.....	17,507	16,612	37	667	191	7,419	157

The heaviest volume of questionable advertising occurred in the following seven classifications.

TABLE VIII

	<i>Questionable advertisements</i>
1. Women's apparel.....	2, 150
2. Home appliances.....	1, 992
3. Furniture, rugs.....	1, 458
4. Television.....	1, 326
5. Automotive.....	1, 166
6. Jewelry.....	1, 036
7. Men's apparel.....	864
Total (or 57 percent).....	9, 992

Outside of this group are certain types of businesses which do not do the same volume of advertising (or business) but are the cause of a much higher percentage of misleading and/or fraudulent type of sales message.

TABLE IX

	Total ques- tionable advertising	Action taken	
		Bureau	Authorities
Dry cleaners.....	40	34	
Photographers.....	61	37	1
Life insurance.....	10	7	1
Security, investments.....	49	31	6
Building and loans and savings and loans.....	13	10	
Loan, discount and finance.....	14	9	1
Moving, storage.....	17	11	
Professional services.....	77	47	5
Airlines.....	11	7	1
Garden shops.....	93	84	2
Employment.....	690	687	3
Vending machines.....	243	151	4
Total.....	1, 318	1, 115	24

The most flagrant abuse in the above table is the employment field. This includes employment agencies, help wanted ads and offers of homework. It is in the latter field that almost 100 percent of the cases required action. Out of 690 ads questioned—every single one needed correction. In every classification listed above well over 60 percent of the advertising necessitated action of some sort.

Of the 157 local advertisements which had to be brought to the attention of various authorities 45 percent were placed by 6 lines of business.

TABLE X

	<i>Cases referred to authorities</i>
Upholstery.....	17
Television.....	11
Automotive.....	14
Jewelry.....	10
Home appliances.....	9
Women's apparel.....	9
Total (45 percent of 157).....	70

No other type of business had more than seven ads which had to be referred to some authority.

SECTION III.—PUBLICITY AND EDUCATION

TABLE XI

Number of bulletins issued.....	1, 937
Circulation of bulletins.....	3, 253, 144
Number of billboards used.....	250
Number of car cards used.....	6, 870
Fact booklets issued.....	187, 328
Other booklets issued.....	1, 598, 873
Number of better business bureau advertisements.....	931
Number of news stories, articles.....	4, 418
Number of speaking engagements.....	3, 544
Number of posters distributed.....	386, 029
Number of radio spots used.....	9, 513
Number of radio programs.....	1, 327
Number of television shows.....	140
Retail Guides issued.....	1, 515
Other types of publicity.....	267, 329
Trade, business conferences.....	777

The above data reveals a tremendous production schedule during the past year. With the exception of Fact booklets and better business bureau ads, all the others show increases. Naturally with the increasing instances of service the bureaus stepped up their efforts to produce self-servicing literature. Without information of this nature there would unquestionably have been more demands upon the bureaus for assistance.

Although there was a drop in the number of Fact booklets issued by local bureaus the figure of 187,328 does not include bulk distribution by the Boston bureau to certain industries.

The jump from 200,000 to over a million and a half in distribution of various booklets was a result of pressing problems in the home freezer, termite control, nursery stock, color TV, moving-storage, and funerals and interments businesses. A booklet or leaflet was designed for each subject.

CONCLUSION

The preceding report clearly demonstrates the high degree to which the public and business uses the better business bureaus. It indicates also the extent to which business now uses the better business bureaus to promote better understanding between buyer and seller.

The bureaus are supported by 70,000 business firms who believe in the principles of the better business bureaus and subscribe \$3 million to help eliminate the bad practices of the minority which, unchallenged, undermine general acceptance of business by the public.

This study shows how busy the bureaus are in administering this program. Just handling inquiries and complaints alone meant 6,000 daily calls for assistance—an average of about 60 calls per day per bureau. Total man-hours involved was tremendous. Money saved for both business and the public ran into many millions of dollars.

Furthermore, the need for truthful and informative advertising is receiving increased attention and, through the bureaus, business is continually attempting to raise its standards of practice in the public interest.

This report is witness to progress and should serve as a guide to greater achievements in 1954.

APPENDIX A

Individual bureau instances of service, 1953

	Total	Inquiries	Complaints		Total	Inquiries	Complaints
Akron.....	28,117	23,756	4,361	New York.....	117,099	63,289	53,810
Albuquerque.....	8,933	6,450	2,483	Norristown.....	542	320	222
Amarillo.....	4,703	4,112	591	Oakland.....	28,455	23,428	5,027
Atlanta.....	27,769	23,974	3,795	Oklahoma City.....	21,215	17,932	3,283
Austin.....	5,151	4,403	748	Omaha.....	29,904	27,685	2,219
Bakersfield.....	3,373	2,693	680	Ottawa.....	12,000	9,000	3,000
Baltimore.....	20,467	13,671	6,796	Peoria.....	18,746	14,248	4,498
Baton Rouge.....	6,125	4,900	1,225	Philadelphia.....	19,370	9,639	9,731
Binghamton.....	706	443	263	Phoenix.....	27,500	25,000	2,500
Boston.....	67,406	54,284	13,122	Pittsburgh.....	36,407	18,623	17,784
Bridgeport.....	7,400	4,300	3,100	Portland, Maine.....	3,609	3,452	157
Buffalo.....	28,065	12,709	15,356	Portland, Oreg.....	36,422	28,471	7,951
Charlotte.....	6,020	2,218	3,802	Providence.....	10,665	8,813	1,852
Chicago.....	137,710	88,165	49,545	Quebec.....	1,776	1,527	249
Cincinnati.....	24,310	13,882	10,428	Reno.....	1,562	1,201	361
Cleveland.....	62,532	42,596	19,936	Roanoke.....	4,002	3,130	872
Columbus.....	13,936	10,378	3,558	Rochester.....	18,799	13,668	5,131
Corpus Christi.....	3,929	3,042	887	Sacramento.....	15,937	14,797	1,140
Dallas.....	14,132	10,868	3,264	St. Louis.....	51,938	45,967	5,971
Dayton.....	20,042	18,396	1,646	San Antonio.....	24,000	20,000	4,000
Denver.....	34,000	22,000	12,000	San Diego.....	42,276	31,609	10,667
Des Moines.....	26,872	23,429	3,443	San Francisco.....	45,468	29,100	16,368
Detroit.....	36,009	20,430	15,579	San Jose.....	7,505	5,073	2,432
Elkhart.....	4,924	3,831	1,093	Santa Ana.....	115	85	30
Fort Wayne.....	5,907	4,785	1,122	Santa Barbara.....	4,400	3,500	900
Fort Worth.....	18,884	15,426	3,458	Schenectady.....	3,576	2,738	838
Fresno.....	8,800	7,800	1,000	Scranton.....	9,095	7,333	1,762
Grand Rapids.....	8,011	6,432	1,579	Seattle.....	33,700	25,200	8,500
Halifax.....	10,799	7,593	3,206	Shreveport.....	6,853	6,325	528
Hamilton.....	7,866	7,825	41	South Bend.....	6,850	5,000	1,850
Hartford.....	10,120	6,776	3,344	Spokane.....	6,900	5,200	1,700
Honolulu.....				Springfield, Mass.....	9,100	6,000	3,100
Houston.....	26,411	20,324	6,087	Springfield, Mo.....	3,584	2,984	600
Indianapolis.....	32,959	27,107	5,852	Stockton.....	135	103	32
Kansas City.....	37,890	30,600	7,290	Syracuse.....	10,800	9,000	1,800
Lima.....	3,450	2,450	1,000	Tampa.....	5,016	2,573	2,443
Lincoln.....	9,281	7,572	1,709	Terre Haute.....	2,137	1,640	497
Long Beach.....	32,500	24,000	8,500	Toledo.....	21,320	13,796	7,524
Los Angeles.....	53,774	39,134	14,640	Toronto.....	42,316	34,145	8,171
Louisville.....	11,443	8,580	2,863	Tucson.....	4,328	3,684	644
Lubbock.....	500	362	138	Tulsa.....	9,924	8,614	1,310
Marion.....	835	772	63	Utica.....	8,900	6,500	2,400
Memphis.....	8,961	6,905	2,056	Vallejo.....	1,651	1,033	618
Miami Beach.....	9,097	7,305	1,792	Vancouver.....	11,459	8,512	2,947
Milwaukee.....	33,454	24,980	8,474	Washington.....	25,620	20,416	5,204
Minneapolis.....	21,793	17,105	4,688	Wheeling.....	127	72	55
Montreal.....	22,886	19,963	2,923	Wichita.....	23,874	17,769	6,105
National.....	24,045	20,324	3,721	Winnipeg.....	7,488	5,581	1,907
New Orleans.....	26,000	19,500	6,500	Worcester.....	8,164	5,864	2,300

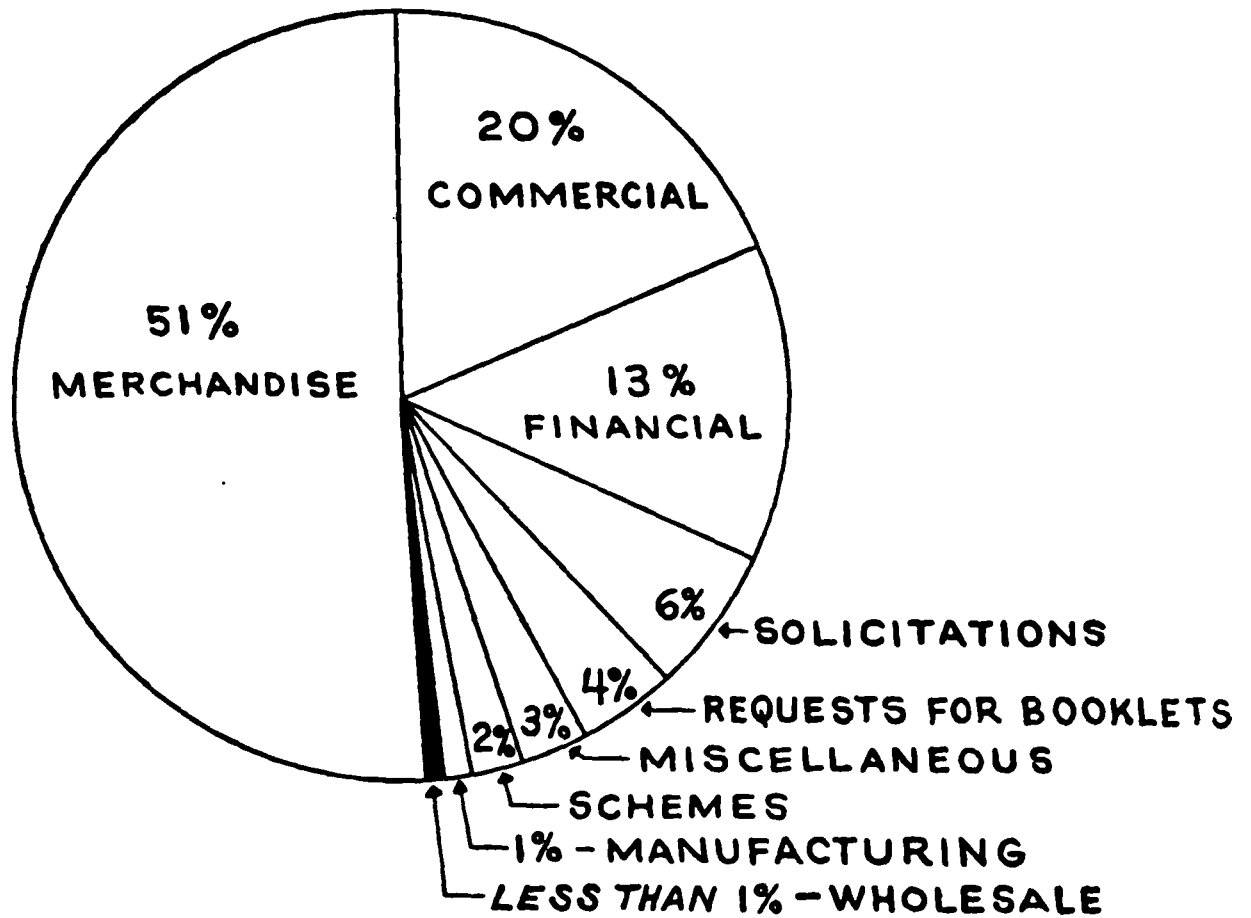
APPENDIX B

Instances of service, 1949-53

	1949	1950	1951	1952	1953	Total	Percent
Merchandise.....	347,107	479,970	667,444	821,769	963,626	3,289,916	46
Commercial.....	206,161	212,984	293,607	333,829	385,069	1,431,650	20
Financial.....	155,064	161,109	196,215	223,204	248,834	984,426	13
Solicitations.....	78,100	96,567	93,082	118,450	105,775	491,974	7
Requests for booklets.....	75,524	53,069	53,469	47,280	79,882	309,224	4
Schemes.....	27,112	29,083	32,643	32,244	42,775	163,857	2
Manufacturing.....	9,330	10,766	11,393	14,702	9,581	55,772	(¹)
Wholesale.....	6,007	3,850	3,763	5,680	4,713	24,013	(¹)
Miscellaneous.....	106,493	125,894	70,612	73,509	55,573	432,081	6
Total.....	1,010,898	1,173,292	1,432,228	1,670,667	1,895,828	7,182,913	100

¹ Less than 1 percent.

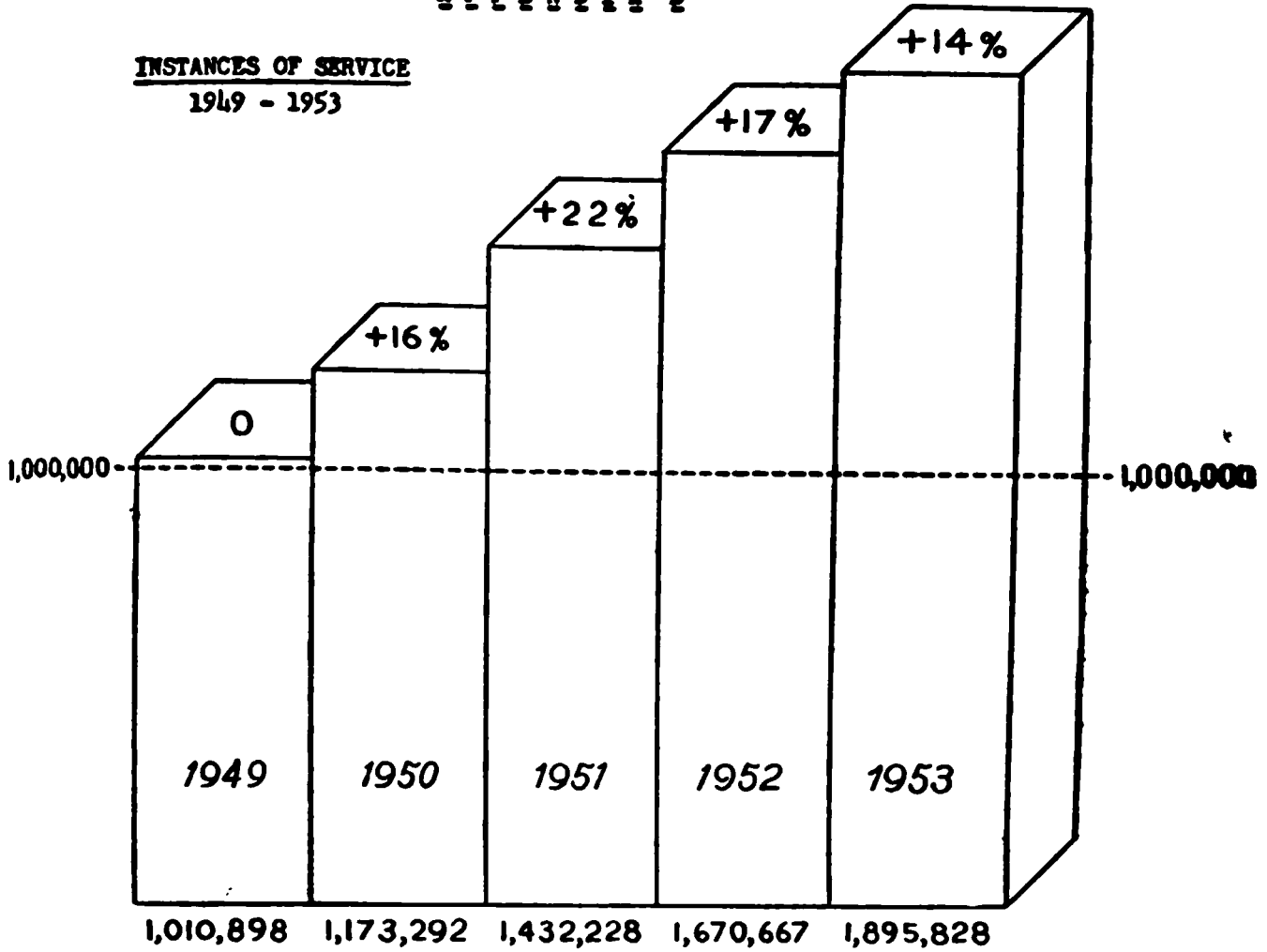
APPENDIX C

TOTAL INSTANCES OF SERVICE BY MAJOR CATEGORIES

The percentages in the above pie chart represent nearly 2 million business transactions (proposed or actual) about which the bureaus were called upon to furnish information for intelligent guidance or to investigate and secure satisfactory adjustments.

The figures do not include the behind-the-scenes story of the work involved in processing each inquiry and complaint. Nor do they reflect the many services performed for business by direct action. The handling of inquiries and complaints is but a part of overall bureau work.

APPENDIX D



Since 1949 (the first year of recording on a standard basis) there has been a steady increase in the workload of the better business bureaus. In this period of time instances of service alone have increased 90 percent; from 1 million to nearly 2 million.

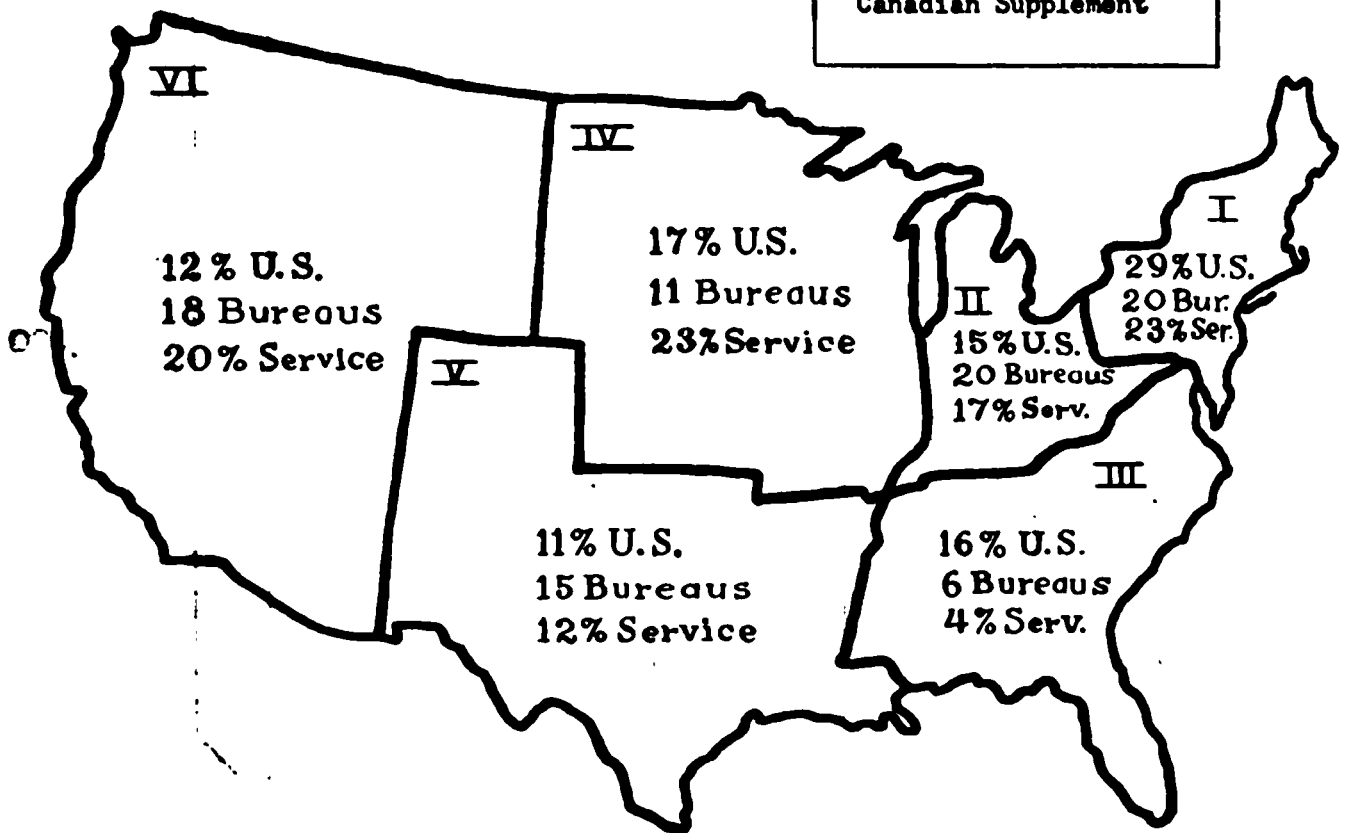
This increase has been due to several factors; growth in the number of bureaus, increased public awareness of and confidence in the bureaus and general business conditions. Despite this increase the percentage of work performed in each of the major categories (see appendix C) conforms with general market conditions.

This demonstrates the better business bureaus, as agencies of business, are accurately and daily informed of the public's attitude toward business generally and specifically. The bureau figures further suggest that they provide what may be a significant measure of consumer intention.

APPENDIX E

Comparison of Bureau Services
with U.S. Population

VII CANADA

See
Canadian Supplement

The above map shows the relationship existing in each bureau district between the population and instances of service performed. Although for the country as a whole, the major areas are reasonably well serviced, there are certain differences and proper evaluation must be on a district basis.

In the two districts—I and III—where the percentage of instances of service is less than the population percentage there are not enough bureaus. In those districts where, percentagewise, service exceeds population (IV and VI) a single reason appears to stand out; in the case of district VI a high concentration of bureaus in practically one State. In the case of district IV nearly every major population center has a BBB, resulting in a high degree of public knowledge of the bureaus.

Summary of Better Business Bureau services for 1953

Type of business	Instances of service			Number of ads shopped			Ads requiring action—		
	Total	Inquiries	Complaints	Papers (1)	Magazines	Radio	TV	By bureau	By author- cles
FINANCIAL									
1. Banks.....	2,094	1,784	310	2				1	
2. Loan, discount and finance.....	19,395	16,016	3,379	11		3		9	1
3. Building and loan and savings and loan associations.....	5,206	4,727	479	13				10	
4. Auto financing.....	14,747	9,837	4,910	52	3		1	42	1
5. Security and investments.....	17,802	16,637	1,165	47	2			31	6
6. Real estate.....	43,419	34,491	8,928	91				28	8
7. Business opportunities.....	10,707	9,783	924	116		1		88	
8. Insurance, life.....	42,236	28,095	14,141	10				7	1
9. Insurance, casualty and surety.....	26,632	22,956	3,676	7			1		1
10. Insurance, health, accident, and medical.....	46,452	43,290	3,162	2		1		1	
11. Miscellaneous.....	20,144	17,096	3,048	14		2		10	
Total, financial.....	248,831	204,712	44,122	365	5	7	2	227	18
COMMERCIAL									
12. Advertising media.....	26,392	21,556	4,836	443	4	30	5	439	4
13. Airlines.....	3,883	3,186	697	10		1		7	1
14. Education.....	42,085	37,686	4,399	50	1	7		36	5
15. Employment.....	29,782	24,496	5,286	622				687	3
16. Dry cleaners.....	43,874	19,344	24,530	37	2	1		34	
17. Moving and storage.....	16,811	11,670	5,141	17				11	
18. Other personal services.....	20,714	15,629	5,085	48				30	2
19. Organizations.....	21,905	19,744	2,161	14				13	
20. Photographers.....	70,558	45,555	25,003	59	1	1		37	1
21. Professional services.....	26,872	19,818	7,054	76		1		47	5
22. Public utilities.....	2,507	1,667	840	2				2	
23. Railroads.....	2,897	2,334	563						
24. Miscellaneous.....	76,789	65,030	11,759	29				19	
Total commercial.....	385,069	287,715	97,354	1,407	8	41	5	1,362	21
MERCHANDISE									
25. Agriculture.....	15,856	11,243	4,613	84	2	3	4	84	2
26. Pest control.....	14,379	12,055	2,324	15	1			18	
27. Auto equipment and service.....	27,739	15,334	12,405	166		2	3	116	
28. New-car dealers.....	20,908	13,213	7,695	263		5	4	175	7
29. Used-car dealers.....	43,021	23,540	19,481	697		16	16	350	7
30. Construction (home).....	122,000	85,651	36,409	261	1	2	7	156	4
31. Department stores.....	16,697	9,024	7,573	1,351	2	19	16	497	7
32. Direct selling.....	32,158	23,491	9,667	23	1	1		8	1
33. Book subscriptions.....	25,246	18,634	5,612	8				6	

Summary of Better Business Bureau services for 1953—Continued

Type of business	Instances of service			Number of ads shopped			Ads requiring action—		
	Total	Inquiries	Complaints	Papers	Magazines	Radio	TV	By bureau	By authorities
MERCHANDISE—continued									
34. Magazine subscriptions.....	57,057	42,949	14,108	17				12	
35. Food stores.....	16,183	12,179	4,004	392		8	3	181	3
36. Fuel.....	4,301	2,793	1,508	24				10	
37. Furniture-rugs.....	69,322	30,897	38,425	1,417		36	5	582	7
38. Furs.....	9,493	6,416	3,077	408		45	5	260	2
39. Men's apparel.....	12,282	6,696	5,586	834	1	27	2	208	4
40. Office supplies and equipment.....	3,137	2,292	845	55				24	1
41. Hardware.....	12,415	7,313	5,102	361	1	16		41	
42. Heating equipment and service.....	28,282	19,868	8,414	190		2	2	80	4
43. Home appliances.....	128,463	83,996	44,467	1,861	3	81	47	830	9
44. Jewelry.....	21,731	12,043	9,688	829	2	192	13	451	10
45. Photo supplies, sales and service.....	5,309	3,291	2,018	37		3		17	1
46. Radio and music, sales and service.....	10,668	5,935	4,733	69	1	3		31	
47. Television, sales and service.....	96,044	49,521	46,523	1,207	7	72	40	488	11
48. Upholstery.....	21,380	12,442	8,938	143		2	2	72	17
49. Vending machines.....	16,411	14,200	2,211	141		2		151	4
50. Women's apparel.....	33,504	16,085	17,419	2,121	1	24	4	508	9
51. Miscellaneous.....	99,680	68,728	30,952	1,595		46	14	373	5
Total merchandise.....	963,626	609,829	353,797	14,669	23	607	181	5,739	115
52. Manufacturing.....	9,581	8,350	1,231	7				4	1
53. Wholesale.....	4,713	4,134	579	10				7	
54. Solicitations.....	105,775	100,628	5,147	4	1			5	
55. Schemes.....	42,775	39,373	3,402	37	3	3		32	2
56. Requests for booklets.....	79,882	79,882							
57. Miscellaneous.....	55,573	47,636	7,937	113	1	8		43	
Grand total.....	1,896,828	1,382,206	513,622	16,612	37	667	191	7,419	157

Source: 1953 Annual Report on Better Business Bureau Statistics compiled by the Association of Better Business Bureaus, Inc., Chrysler Bldg., New York 17, N. Y.

Publicity and education—Telling the better business bureau story

Number of bulletins issued.....	1, 937
Circulation of bulletins.....	3, 253, 144
Number of billboards used.....	250
Number of car cards used.....	6, 870
Number of fact booklets issued.....	187, 328
Number of other booklets issued.....	1, 593, 873
Number of better business bureau advertisements.....	931
Number of news stories, articles.....	4, 418
Number of speaking engagements.....	3, 544
Number of posters distributed.....	386, 029
Number of radio spots used.....	9, 513
Number of radio programs.....	1, 327
Number of television shows.....	140
Retail Guides issued.....	1, 515
Other types of publicity.....	267, 329
Trade, business conferences.....	777

Mr. NYBORG. Out of 58 main business categories recorded by the better business bureaus which involve something in excess of 2 million contacts with the public, almost 3 million contacts with the public each year, the inquiries and complaints. In 1953 in the home-improvement field the instances of requests to the better business bureaus by members of the public totaled 122,000.

The CHAIRMAN. That was on FHA complaints?

Mr. NYBORG. That was on home-improvement complaints or inquiries most of which as shown in the records of the individual bureaus had something to do with financing and FHA guaranteed loans.

The CHAIRMAN. What year was that? Is that one year?

Mr. NYBORG. That was for the year 1953.

The CHAIRMAN. What has it been running in previous years?

Mr. NYBORG. Perhaps the easiest way to say that is that the total number of complaints or inquiries to the bureaus regarding the home-improvement field places that category of business in the top four requiring attention by better business bureaus. Since 1949 through 1953 the general increase of volume to the bureaus rose about 100 percent, whereas the increased public requests to the bureaus on the home-improvement field increased threefold.

In other words, something in excess of 300 percent.

The CHAIRMAN. You say there has been an increase since 1949 of complaints on this matter of title I or FHA-guaranteed loans?

Mr. NYBORG. Yes; that is correct.

The CHAIRMAN. Can you account for that in any way?

Mr. NYBORG. I think I can account for some of it, Mr. Chairman. In the material I just gave to the reporter there is a chart which shows that starting in 1949 the total number of complaints regarding home-improvement activities was far in excess of the complaints against any other category of business.

The CHAIRMAN. That was in 1949?

Mr. NYBORG. 1949.

The CHAIRMAN. You say that the complaints against home-repairs and home-improvement people in the year 1949 was greater than all other complaints?

Mr. NYBORG. Percentagewise. It was greater than any other category and placed in the top four. Now, as we move down to 1952 and 1953, the complaints began to fall off but there were more inquiries but still the percentage of complaints exceeded the percentage of com-

plaints against the other categories of business. There seems to be a significant change in 1953 when for the first time in the last quarter of 1953 the number of inquiries from the public regarding home-improvement activities exceeded the total number of complaints. I think the significance of that may be the various investigations, exposés and inquiries and additional educational material that was being given to the public and the fact that more of them were asking for information about these various companies of questionable repute before they did business with them and the fact that after they had done business with them there were not so many complaints because they had taken the precaution of protecting themselves.

The CHAIRMAN. Evidently the investigations have had a good result.

Mr. NYBORG. I believe the investigations have had a good result and are bearing favorable developments for the public. If I may I would like to move over, Mr. Chairman, to outline the various types of schemes used as represented in the files of the better business bureaus. The nature of the propositions and the schemes cover almost every conceivable type of sales approach which the innocent, the inexperienced, and the gullible are unable to assess properly or are unable to resist despite their better judgment. In general, these problems include the following, as reflected in the better business bureau files. Model home schemes. They cover almost every category of home improvement such as covering roofs, siding, brick veneer, shingles, patios, porches, painting, and other similar improvements. The scheme appeals to the ego of the homeowner as well as holding out the lure of possible revenue from bonuses resulting from the home being used as a model. I think it is not necessary for me to describe that scheme in any further detail. I am sure the committee has heard all of the details on it. In the repair of roofs and shingle sidings and chimneys, these are often sold on a scare technique basis. In the proposed examination of repairs, minor repairs of shingles seemed to be called for. After the contract is entered into it develops certain major repairs are called for because the salesman or the engineer who comes along says the roof is in worse condition than the first examination indicated. Then chimneys that are said to need repairs with one or two bricks turn out to be major repair jobs because through the scare appeal the customer is told there is a danger of the roof collapsing and danger to the property as well as to the family. Then in the sale of home requiring contracts, where an inspector—and I put the word “inspector” in quotes because usually the inspector in these instances is nothing more than a salesman of a contractor who is trying to sell a job—

Senator MAYBANK. Wouldn't you have an inspector in New York City inspecting those installations if the people wanted the inspection?

Mr. NYBORG. I would say they do have that.

Senator MAYBANK. Don't they use the New York inspectors?

Mr. NYBORG. In this instance they do not use a New York inspector. What they use in this instance is a salesman.

Senator MAYBANK. But they could, and they are ignorant and don't know how to do it; is that right?

Mr. NYBORG. That is exactly right. That is true, Mr. Senator, throughout the country. That is not just New York.

Senator MAYBANK. I wasn't criticizing New York electrical inspectors. I just wanted to bring out what you were saying, that the people taken advantage of in these scare plans would be persons not

aware of their benefits from the municipal government itself in getting a plumbing or electrical inspector. So it would be the poorer class of people they would pick on it.

Mr. NYBORG. Not necessarily only the poorer class of people. There are a lot of other people, Mr. Senator, who don't know that they can go to their local authorities and have inspections made.

The CHAIRMAN. Do you have any jurisdiction other than New York?

Mr. NYBORG. My information covers 93 cities of the country, Mr. Senator.

The CHAIRMAN. Where you have offices?

Mr. NYBORG. Where we have offices.

The CHAIRMAN. You are president of the national association?

Mr. NYBORG. I am president of the Association of Better Business Bureaus to which all of the better business bureaus belong.

The CHAIRMAN. Have you had good cooperation out of the FHA?

Mr. NYBORG. We have had good cooperation in a number of communities out of FHA, and I have some specific instances here.

The CHAIRMAN. In every instance where you get a complaint, do you turn it over to the FHA officials?

Mr. NYBORG. No. In the first instance, when the complaint comes in to the better business bureau it may not, as a result of the information given by the complaint, necessarily involve a question relating to FHA. Their complaint is usually that the workmanship is shoddy, that the materials are shoddy, and they are trying to find someone to make good on the contract itself.

The CHAIRMAN. Can any high official in FHA testify that in 1949, 1950, 1951, 1952, and 1953 he didn't know of a lot of cases of flim-flamming the public?

Mr. NYBORG. Let me put it this way. I think the FHA representatives and officials in the communities in which there are better business bureaus knew through the bulletins of the better business bureaus that there were many complaints and a mounting number of complaints in this field. Our records show that 5 years ago public complaint and criticism in this home-improvement area were increasing and that information was made available in many localities to the FHA officials.

The CHAIRMAN. Do you think the FHA officials over the past number of years have paid as much attention to this problem as they should?

Mr. NYBORG. In some communities they have, Mr. Senator, in San Francisco, for example, the records of the better business bureau there show that they work closely with the FHA officials.

In Los Angeles the same situation is true. The same is true of Dallas and Houston and Worcester, Mass.

The CHAIRMAN. Mr. Jackson, do you have any information on that?

Mr. JACKSON. Mr. Chairman, I have information only with respect to New York City, which is where I operate.

The CHAIRMAN. Have they cooperated with you in New York City?

Mr. JACKSON. I have not felt that we have had the degree of cooperation which might be expected.

The CHAIRMAN. In other words you haven't had the cooperation that you think you were entitled to?

Mr. JACKSON. That is right.

The CHAIRMAN. Mr. Hoffman, you are in New Jersey?

Mr. HOFFMAN. No, we are the National Better Business Bureau.

The CHAIRMAN. Have FHA officials cooperated with you?

Mr. HOFFMAN. In some instances yes and in some instances no.

The CHAIRMAN. Do you have any instances where they haven't?

Mr. HOFFMAN. We have been disappointed in the degree of cooperation we have received in several instances, yes.

In other cases we have felt that adequate attention was being given to the problem that we had raised.

The CHAIRMAN. Have you got any specific instances?

Senator MAYBANK. Mr. Chairman, I suggest we put the 93 cities in the record that you represent, Mr. Nyborg. Are the cities in your statement?

Mr. NYBORG: No.

The CHAIRMAN. Without objection the 93 cities will go in the record. (The information referred to follows:)

MEMBERSHIP ROSTER—ASSOCIATION OF BETTER BUSINESS BUREAUS, INC.

CODE LETTERS

The code letters placed next to each bureau's name indicates the manner in which those bureaus desire to have inquiries and complaints handled by other bureaus:

Letter "D"—Write direct to firm and send copies of all letters to bureau concerned.

Letter "B"—Write to bureau concerned.

Bureau	Code
Akron 8, Ohio (district II)..... Mr. John L. O'Brien, president, Better Business Bureau of Akron, Inc., 5 East Buchtel Bldg. Telephone: Jefferson 6159-0971.	B
Albuquerque, N. Mex. (district VI)..... Mr. Harry H. Luttbeg, manager, Better Business Bureau of New Mexico, Inc., 262 Korber Bldg., Post Office Box 1687. Telephone: 2-5001.	B
Amarillo, Tex. (district V)..... Mr. Tristram Coffin, Jr., manager, Better Business Bureau of Amarillo, Inc., 320 Blackburn Bldg. Telephone: 4-3735.	D
Atlanta 3, Ga. (district III)..... Mr. James W. Stephens, manager, Better Business Bureau of Atlanta, 301 Peters Bldg., Peachtree St. Telephone; Lamar 8636.	B
Austin 1, Tex. (district V)..... Mr. H. A. Bergquist, manager, Better Business Bureau of Austin, 502 Nalle Bldg. Telephone: 2-0651.	B
Bakersfield, Calif. ¹ (district VI)..... Mr. Harold E. Wadman, manager, better business division, Bakersfield Chamber of Commerce, 1701 Chester Ave. Telephone: 9-9834.	—
Baltimore 1, Md. (district I)..... Mr. Edwin M. Lockard, general manager, Better Business Bureau of Baltimore, Inc., 200 West Saratoga St. Telephone: Mulberry 5-6986.	D
Baton Rouge, La. (district V)..... Mr. J. B. Myers, manager, Baton Rouge Better Business Bureau, Inc., 305 Roumain Bldg. Telephone: 3-0583, 4-1551, 4-1552.	
Binghamton, N. Y. ¹ (district I)..... Mr. Heath D. Andrews, manager, Binghamton Chamber of Commerce, 66 Chenango St. Telephone: 44331.	B
Boston 11, Mass. (district I)..... Mr. Kenneth Backman, general manager, Boston Better Business Bureau, Inc., 52 Chauncy St. Telephone: Liberty 2-3038.	D
Bridgeport, Conn. (district I)..... Mr. William L. Hawkins, general manager, Better Business Bureau of Bridgeport, Stratfield Hotel.	
Buffalo 2, N. Y. (district I)..... Mr. Harold W. Webber, manager, Buffalo Better Business Bureau, Inc., the Edwards Bldg., 155 Franklin St. Telephone: Mohawk 4905.	D
Charlotte 2, N. C. (district III)..... Mr. Clarence A. Griffin, manager, Charlotte-Piedmont Better Business Bureau, Inc., 208 Wilder Bldg. Telephone: 5-7746.	D

¹ Indicates associate member.

Bureau	Code
Chicago 4, Ill. Mr. Kenneth Barnard, president, Chicago Better Business Bureau, 14 East Jackson Blvd. Telephone: Webster 9-4171.	D
Cincinnati 2, Ohio (district II) Mr. George C. Young, president, Cincinnati Better Business Bureau, Inc., 144 West 4th St. Telephone: Garfield 3-015.	B
Cleveland 16, Ohio (district II) Mr. Marshall A. Mott, president, Cleveland Better Business Bureau, Inc., 345 Hanna Bldg. Telephone: Cherry 1-4476.	B, ¹ D ²
Columbus 15, Ohio (district II) Mr. Homer E. Frye, president, Columbus Better Business Bureau, Inc., 198 South High St. Telephone: Adams 9058.	D
Corpus Christi, Tex. (district V) Mr. H. O. Schlenk, manager, Better Business Bureau of Corpus Christi, Inc., 509 Law- rence St. Telephone: 2-8411.	B
Dallas 1, Tex. (district V) Mr. G. Duffield Smith, executive vice president, Better Business Bureau of Dallas, Inc., 2022 Bryan St. Telephone: Prospect X-8891.	D
Dayton 2, Ohio (district II) Miss Hazel L. Nolan, manager, Dayton Better Business Bureau, Inc., 8 North Jefferson St. Telephone: HE 4621.	B
Denver 2, Colo. (district VI) Mr. W. Dan Bell, manager, Denver Area Better Business Bureau, 1632 Welton St. Telephone: Cherry 4443.	B
Des Moines 9, Iowa (district IV) Mr. Lowell P. Nicholas, manager, Better Business Bureau of Des Moines, Inc., 246 Insur- ance Exchange Bldg. Telephone: 3-8137.	D
Detroit 26, Mich. (district II) Mr. H. I. McEldowney, manager, Better Business Bureau of Detroit, Inc., 600 Wood ward Ave. Telephone: Woodward 2-7566.	D
Elkhart, Ind. (district II) Mr. Roy F. Jones, manager, Better Business Bureau of Elkhart, 424½ South Main St. Telephone: 3-4545.	B
El Paso, Tex. Mr. Robert W. Hampton, Jr., manager, El Paso Better Business Bureau, 801 Bassett Tower, El Paso, Tex. Telephone: 2-4639.	
Fort Wayne 2, Ind. (district II) Mr. C. Lane Breidenstein, manager, Fort Wayne Better Business Bureau, Inc., 222 West Wayne St. Telephone: Anthony 5254 and 5255.	
Fort Worth 2, Tex. (district V) Mr. Edgar Deen, manager, Better Business Bureau of Fort Worth, Inc., 402 Burk Burnett Bldg. Telephone: Fannin 5219.	B
Fresno, Calif. (district VI) Mr. Guy W. Wolf, manager, Better Business Bureau of Fresno County, 501 Mason Bldg.	
Grand Rapids 2, Mich. (district II) Mr. Alfred H. Rypstra, manager, Better Business Bureau of Grand Rapids, Inc., 20-33 Pearl St. N.W. Telephone: 97221.	
Halifax, Nova Scotia, Canada (district VII) Mr. N. M. Lee Rolfe, Better Business Bureau, Maritimes, Inc., Queen Bldg.	B
Hamilton, Ohio ¹ (district II) Mr. Donald L. Mitchell, secretary, better business division, Hamilton Merchants Asso- ciation, 803 First National Bank Bldg. Telephone: Hamilton 31.	D
Hartford 3, Conn. (district I) Mr. F. Preston Leavitt, general manager, Hartford Better Business Bureau, Inc., 190 Trumbull St. Telephone: Chapel 9-5884.	D
Honolulu 2, T. H. (district VI) Mr. Donald Billam-Walker, manager, Better Business Bureau of Honolulu, Inc., Post Office Box 3078, 813 Alakea. Telephone: Honolulu 62155.	
Houston 2, Tex. (district V) Mr. C. E. Buehner, executive vice president, Better Business Bureau of Houston, 817 Main St. Telephone: Blackstone 0364.	
Indianapolis 4, Ind. (district II) Mr. Phillip L. Bayt, manager, Indianapolis Better Business Bureau, 707 Lemcke Bldg. Telephone: Market 6446 and 6447.	D
Kansas City 6, Mo. (district IV) Mr. George M. Husser, manager, Better Business Bureau, 1025 Grand Ave., suite 226. Telephone: Harrison 7800.	B
Lima, Ohio ¹ (district II) Mr. L. W. Mannon, manager, Better Business Bureau, Inc., First Lima Bldg., 205 West Market St. Telephone: 3-7610.	D
Lincoln 8, Nebr. (district IV) Mr. Richard V. Koupal, manager, Better Business Bureau of Lincoln, Inc., 315 Con- tinental Bldg. Telephone: 2-3329.	
Long Beach 2, Calif. (district VI) Mr. M. E. Ridenour, manager, Better Business Bureau of Long Beach, Ltd., 1214 Heart- well Bldg. Telephone: 672-49.	D
Los Angeles 14, Calif. (district VI) Mr. Robert J. Bauer, president, Better Business Bureau of Los Angeles, 1010 Lincoln Bldg., 742 South Hill St. Telephone: Trinity 6305.	D

¹ Indicates associate member.² Inquiries.³ Complaints.

Bureau	Code
Louisville 2, Ky. (district II) Mr. Leo A. Meagher, managing director, Better Business Bureau of Louisville, 303 Speed Bldg., 4th and Guthrie Sts. Telephone: Clay 6546.	D
Lubbock, Tex. (district V) Mr. Don Schriever, secretary, better business committee, Lubbock Chamber of Commerce. Telephone: 3-4666.	
Marion, Ohio (district II) Mr. Hugh E. Webster, secretary, better business division, Marion Chamber of Commerce, 136 E. Center St.	
Memphis, Tenn. (district III) Mr. George V. Morse, Jr., manager, Better Business Bureau of Memphis, Inc., 439-32 Falls Bldg. Telephone: 37-9570.	D
Miami Beach 39, Fla. (district III) Mr. Norman K. Schwarz, manager, Better Business Bureau of Miami Beach, 1134 Lincoln Rd. Miami Beach 5-7436.	
Milwaukee 3, Wis. (district IV) Mr. Richard Jordan, manager, Better Business Bureau of Milwaukee, 712 North 6th St. Telephone: Broadway 6-8000.	D
Minneapolis 5, Minn. (district IV) Mr. C. W. Shirk, manager, Better Business Bureau of Minneapolis, North American Life and Casualty Bldg., 1750 Hennepin Ave. Telephone: Bridgeport 6723.	D
Montreal 2, Quebec, Canada (district VII) Mr. Claude A. Root, manager, Better Business Bureau of Montreal, Inc., 660 St. Catherine St. West. Telephone: University 6-6661.	B
New Haven, Conn. Mr. Walter J. Coleman, manager, Better Business Bureau of New Haven, Inc., 152 Temple St., New Haven 6, Conn. Telephone: Main 4-2200.	
New Orleans 16, La. (district V) Mr. James W. Barr, manager, Better Business Bureau of New Orleans, 611 Audubon Bldg. Telephone: Canal 0308.	D
New York 17, N. Y. (district VIII) Mr. Kenneth B. Willson, president, National Better Business Bureau, Inc., 913 Chrysler Bldg. Telephone: Murray Hill 6-3535.	
New York 7, N. Y. (district I) Mr. Hugh R. Jackson, president, Better Business Bureau of New York City, Inc., 280 Broadway. Telephone: Digby 9-0470.	D
Norristown, Pa. (district I) Mr. Erich H. Sander, manager, better business division, Norristown Chamber of Commerce, 36 Current Arcade. Telephone: Norristown 6178.	
Oakland 12, Calif. (district VI) Mr. B. Charles Wansley, manager, Better Business Bureau of Metropolitan Oakland, 1440 Broadway. Telephone: Glencourt 2-3030.	D
Oklahoma City 2, Okla. (district V) Mr. C. N. Kemery, general manager, Better Business Bureau of Oklahoma City, Inc., 301 Hig tower Bldg. Telephone: RE 6-6581.	B
Omaha 2, Nebr. (district IV) Mr. John J. Henry, general manager, Better Business Bureau of Omaha, Inc., Redick Tower, 15th and Harney. Telephone: Webster 3033.	B
Ottawa, Ontario, Canada (district VII) Mr. George S. Piers, manager, Better Business Bureau of Ottawa and Hull, Inc., 186 Bank St. Telephone: 3-1191.	B
Peoria 2, Ill. (district IV) Mr. Clarence N. Bolton, manager, Better Business Bureau of Peoria, Inc., Lehmann Bldg. Telephone: 3-5194.	B
Philadelphia 2, Pa. (district I) Mr. Verner S. Gaggin, general manager, Better Business Bureau of Philadelphia, Inc., 1417 Sansom St. Telephone: Rittenhouse 6-9820.	D
Phoenix, Ariz. (district VI) Mr. Harold E. Roush, manager, Better Business Bureau of Maricopa County, Inc., 834 North Central Ave. Telephone: Alpine 2-1265 (public), 2-7633 (private).	D
Pittsburgh 22, Pa. (district I) Mr. G. H. Dennison, manager, Better Business Bureau of Pittsburgh, Inc., 232 Oliver Bldg. Telephone: Atlantic 1-1126.	D
Portland 3, Maine (district I) Mr. Donald P. Libby, manager, Portland Better Business Bureau, 142 Free St. Telephone: Portland 3-8121.	B
Portland 5, Oreg. (district VI) Mr. Lyle L. Janz, general manager, Portland Better Business Bureau, Inc., 511 Park Bldg. Telephone: Atwater 6503.	
Providence 3, R. I. (district I) Mr. William C. A. Willman, manager, Better Business Bureau of Providence, 248 Weybosset St. Telephone: Gaspee 8390 and 8391.	
Quebec, Canada (district VII) Mr. J. Tessier, manager, Better Business Bureau of Quebec, Inc., 71 St. Peter St. Telephone: 3-2555.	B
Reno, Nev. (district VI) Mr. Tate Williams, manager, Nevada Retail Merchants Association, better business division, 307 Byington Bldg. Telephone: 2-4026.	D
Roanoke 11, Va. (district III) Mr. Frank J. Sherertz, manager, Better Business Bureau of Roanoke, Inc., 1216 Colonial Amerl. an Bank Bldg. Telephone: 43181.	D
Rochester 4, N. Y. (district I) Mr. Harry C. Reynolds, manager, Better Business Bureau of Rochester, 727 Sibley Tower Bldg. Telephone: Baker 2840.	

∆ indicates associate member.

Bureau	Code
Sacramento 14, Calif. (district VI) Mr. William Fritz, manager, Better Business Bureau of Sacramento, Suite 306, Forum Bldg. Telephone: GI 3-9028.	
St. Louis 1, Mo. (district IV) Mr. H. W. Riehl, president, Better Business Bureau of St. Louis, Inc., Board of Education Bldg., 911 Locust St. Telephone: Central 1-2834.	D
San Antonio 5, Tex. (district V) Mr. T. J. Turner, manager, Better Business Bureau of San Antonio, 612 Commerce Bldg.	
San Diego 1, Calif. (district VI) Mr. Beecher Dixon, manager, Better Business Bureau of San Diego, Ltd., 438 Spreckles Bldg. Telephone: Belmont 3-6521.	D
San Francisco 8, Calif. (district VI) Mrs. Muriel Tavetkoff, general manager, Better Business Bureau of San Francisco, Ltd., 414 Mason St., 500 Native Sons Bldg. Telephone: Sutter 1-3822-3825-3826.	
San Jose 20, Calif. (district VI) Mr. Wes Strouse, manager, Better Business Bureau of San Jose, Ltd., 347 Porter Bldg. Telephone: Cypress 3-1581.	B
Santa Ana, Calif. (district VI) Mr. Phil M. Brown, manager, better business division, Business Men's Association, 514 1/2 North Main St. Telephone: 4000.	
Santa Barbara, Calif. (district VI) Mr. Harry D. Power, manager, Better Business Bureau of Santa Barbara, Inc., 14 East Carrillo St. Telephone: 2-3344.	B
Schenectady 5, N. Y. (district D) Mr. Eugene Taylor Wilkins, secretary, Better Business Bureau of Schenectady, Inc., 246 State St. Telephone: Schenectady 4-9181.	B
Scranton 3, Pa. (district D) Mr. Jerome K. Miller, manager, Scranton Better Business Bureau, 404 Chamber of Commerce Bldg. Telephone: Scranton 2-9129.	
Seattle 1, Wash. (district VI) Mr. Frank J. Zorlin, manager, Better Business Standards Association, room 718-719 Joseph Vance Bldg., 3d Ave. and Union St. Telephone: Elliott 0411.	
Shreveport 24, La. (district V) Mr. R. A. Booth, manager, Better Business Bureau of Shreveport, 509 First National Bank Bldg. Telephone: 3-8352.	B
South Bend 1, Ind. (district II) Mr. James P. Leedy, manager, Better Business Bureau of South Bend, 107 North Main St. Telephone: 4-3111.	D
Spokane 8, Wash. (district VI) Mrs. Marie M. Ferrell, manager, Better Business Bureau of Spokane, Inc., 218 Columbia Bldg. Telephone: RI 1155.	D
Springfield 3, Mass. (district I) Mr. William C. Webb, manager, Springfield Better Business Bureau, 1275 Main St. Telephone: 4-3114, 4-3115.	
Springfield, Mo. (district IV) Mr. Leo F. Busch, manager, Better Business Bureau of Springfield, 300 Landers Bldg. Telephone: 1106.	B
Stamford, Conn. Mr. Arthur G. Norman, executive director, Better Business Bureau of Stamford, Inc., 417 Main St. Telephone: 4-6131.	
Stockton 5, Calif. (district VI) Mr. Jack Brown, manager, Better Business Bureau of Stockton, Inc., 322 East Weber Ave. Telephone: 6-6851.	B
Syracuse 2, N. Y. (district I) Mr. John S. Pencergast, manager, Better Business Bureau of Syracuse, Inc., 351 South Warren St. Telephone: 2-1343.	B
Tampa 1, Fla. (district III) Mr. J. J. Cruise, manager, Tampa Area Better Business Bureau, Inc., 319 Morgan St. Telephone: 2-3719.	
Terre Haute, Ind. (district II) Mrs. Pearl York Gibson, chairman, better business division, Terre Haute Chamber of Commerce, 629 Cherry St. Telephone: Crawford 2391.	
Toledo 4, Ohio (district II) Mr. Chester A. Wing, manager, Toledo Better Business Bureau, 412 Commerce Bldg. Telephone: Main 6276.	D
Toronto 1, Ontario, Canada (district VII) Mr. A. R. Haskell, manager, Toronto Better Business Bureau, 372 Bay St. Telephone: Empire 3-3285.	
Tucson, Ariz. (district VI) Mr. Norman R. Horwitz, executive director, Tucson Better Business Bureau, Santa Rita Hotel. Telephone: Tucson 4-2356.	
Tulsa 3, Okla. (district V) Mr. Tom Herrick, manager, Better Business Bureau of Tulsa, Inc., suite 208-A, Daniel Bldg. Telephone: 3-1194.	
Utica 2, N. Y. (district I) Mr. Reginald Wooldridge, manager, Better Business Bureau of Utica, 8 Elizabeth St., Telephone: 4-3151.	D
Vallejo, Calif. (district VI) Mr. Lovell B. Rhonehouse, Jr., manager, Better Business Division, Vallejo Chamber of Commerce, 315 Maryland St., Vallejo, Calif.	

¹ Indicates associate member.

Bureau	Code
Vancouver, British Columbia, Canada (district VII) Mr. W. L. Tomperton, general manager, Better Business Bureau of Vancouver, 789 West Pender St. Telephone: Pacific 2920.	B
Washington 4, D. C. Mr. Leland S. McCarthy, director, Better Business Bureau of Washington, D. C., 438 Evening Star Bldg. Telephone: National 8-2727.	
Wheeling, W. Va. (district II) Mr. F. Leslie Boly, manager, Better Business Division, Ohio Valley Board of Trade, room 308, Board of Trade Bldg. Telephone: Wheeling 495.	
Wichita 2, Kans. (district IV) Mr. Ralph S. Hinman, manager, Better Business Bureau of Wichita, 300 Miller Theater Bldg. Telephone: Forest 3-1247.	B
Winnipeg, Manitoba, Canada (district VII) Mr. Cecil A. Edson, manager, Winnipeg Better Business Bureau, 438 Main St. Telephone: 9470.	B
Worcester 8, Mass. (district I) Mrs. Josephine H. Pelree, manager, Better Business Bureau of Worcester, 32 Franklin St. Telephone: Worcester 3-2924.	B

50690—1378

OFFICERS AND GOVERNORS, 1953-54

John R. Buckley, Chairman; William G. Paul, vice chairman; Victor H. Nyborg, president; F. Preston Leavitt, secretary; Hugh R. Jackson, treasurer.

District I

Mr. Norman C. Kal, vice chairman (1954), Kal, Ehrlich & Merrick, 314 Evening Star Building, Washington 4, D. C.

Mr. Ralph W. Hardy (1955), vice president, National Association of Radio & Television Broadcasters, 1771 N Street NW., Washington 6, D. C.

Mr. F. Preston Leavitt, general manager (1954), Hartford Better Business Bureau, 190 Trumbull Street, Hartford 3, Conn.

Mr. Hugh R. Jackson, president (1955), Better Business Bureau of New York City, 280 Broadway, New York 7, N. W.

District II

Mr. Evans F. Stearns, vice president (1954), Stearns & Foster Co., Lockland, Cincinnati 15, Ohio.

Mr. David C. Corbin, president (1955), City Chevrolet Co., 333 East Market Street, Akron 4, Ohio.

Mr. Leo A. Meagher, managing director (1954), Better Business Bureau of Louisville, 303 Speed Building, Fourth & Guthrie, Louisville 2, Ky.

Mr. H. I. McEldowney, general manager (1955), Better Business Bureau of Detroit, Inc., 600 Woodward Avenue, Detroit 26, Mich.

District III

Mr. Garnett Carter, vice president (1955), Fulton National Bank, Atlanta, Ga.

Mr. George V. Morse, Jr., (1955), Memphis Better Business Bureau, 430-32 Falls Building, Memphis, Tenn.

District IV

Mr. Perry W. Snyder, vice president (1954), Powers Dry Goods Co., Inc., Fifth and Nicollette Avenue, Minneapolis, Minn.

Mr. Ellis I. Levitt, president (1954), State Finance Co., State Finance Building, 207 Ninth Street, Des Moines 8, Iowa.

Mr. Harry W. Riehl, president (1954), Better Business Bureau of St. Louis, Inc., Board of Education Building, 911 Locust Street, St. Louis 1, Mo.

Mr. Richard Jordan, general manager (1955), Better Business Bureau of Milwaukee, Inc., 712 North Sixth Street, Milwaukee 3, Wis.

District V

Mr. Ernest L. Stucker, vice president (1955), National Bank of Tulsa, Tulsa, Okla.

Mr. William S. Henson, president (1955), William S. Henson, Inc., 1725 North St. Paul Street, Dallas, Tex.

Mr. G. Duffield Smith, executive vice president (1955), Better Business Bureau of Dallas, Inc., 2022 Bryan Street, Dallas 1, Tex.

Mr. James Barr, manager (1955), Better Business Bureau of New Orleans, Inc., 611 Audubon Building, New Orleans 16, La.

District VI

Mr. William G. Paul, president (1954), Los Angeles Stock Exchange, 618 South Spring Street, Los Angeles, Calif.

Mr. Edward W. Cummings (1955), business relations director, Mytinger & Caselberry, Long Beach, Calif.

Mrs. Muriel Tsvetkoff, general manager (1954), Better Business Bureau of San Francisco, 414 Mason Street, San Francisco 8, Calif.

Mr. Lyle L. Janz, general manager (1955), Portland Better Business Bureau, 511 Park Building, Portland 5, Oreg.

District VII

Mr. Alex C. Morris, vice president (1954), Canadian Oil Companies, Ltd., 204 Richmond Street West, Toronto, Ontario, Canada.

Mr. W. L. Templeton, general manager (1954), Better Business Bureau of Vancouver, 789 West Pender Street, Vancouver, British Columbia, Canada.

District VIII

Mr. John R. Buckley, publisher (1954), Good Housekeeping, 8th Avenue and 57th Street, New York 19, N. Y.

Mr. Kenneth B. Willson, president (1954), National Better Business Bureau, 913 Chrysler Building, New York, N. Y.

Governor-at-Large

Mr. Victor H. Nyborg, president, Association of Better Business Bureaus, Inc., 723 Chrysler Building, New York 17, N. Y.

Ex officio and honorary life member

Mr. John N. Garver, vice president, Manufacturers & Traders Trust Co., Buffalo 5, N. Y.

Mr. HOFFMAN. In January 1954, at the suggestion of the Better Business Bureau, the FHA wrote to all its field offices urging them to establish closer cooperation with the Better Business Bureaus in those communities where the viewpoints of wiping out some of the malpractices which have plagued the industry. We had gotten together previously with the FHA to discuss some of these problems. However, our volume of complaint at the National Better Business Bureau in connection with mastic paints reached such a volume in 1952 that early in 1952 we wrote to Washington to the Federal Housing Administration. I can quote here the reply of Mr. Arthur J. Frents, Assistant Commissioner, dated May 22, 1952.

We have your letter of May 15, 1952, addressed to the Commissioner relating to mastic coatings about which you state a number of inquiries and complaints have been received.

We wish to explain the Federal Housing Administration does not, in any way, approve, endorse, or pass on the merits or desirability of any product used in making home improvements. Under title I of the National Housing Act, the authority of this administration is limited to the insurance of approved lending institutions against losses resulting from loans made by them for the purpose of financing certain eligible improvements, one of which is painting.

There are a number of new exterior plastic and mastic coating materials being marketed today. We have no technical information regarding the products and most of these new coatings have not been on the market long enough to warrant conclusions as to their performance. Although laboratory tests have been cited to support their claims as to performance, we do not believe the tests constitute experimental data.

Furthermore, we understand that formulas for the different coatings vary widely and we have observed that some of the products are manufactured by well-established companies while others are produced by hastily organized companies having only scant and makeshift plant facilities. In view of this rather broad character divergence, it would hardly be equitable to make any generalization as to the merits of all of these new coatings, other than to say that some are undoubtedly better than others.

While our experience with these new materials has been limited we have received some complaints. The service complaints involved chipping, cracking,

peeling, and discoloration. However, the majority of the difficulty experienced has been with questionable selling practices, guaranties, and advertising. We are advised that one of the most important factors in merchandising these products is proper preparation of the structure and application. The National Paint, Varnish, and Lacquer Association, 1500 Rhode Island Ave. NW., Washington, D. C., has done some technical research in this field. You may wish to communicate with that organization.

The CHAIRMAN. Who wrote that letter?

Mr. HOFFMAN. Arthur J. Frents, Assistant Commissioner, Title I.

The CHAIRMAN. Here in Washington?

Mr. HOFFMAN. Yes.

The CHAIRMAN. He is the Assistant Commissioner?

Mr. HOFFMAN. Yes.

The CHAIRMAN. What is the date of the letter?

Mr. HOFFMAN. May 22, 1952.

Mr. SIMON. Did he say in the first part that their only function was to guarantee the lending institutions, and they had no concern over the kind of work or selling practices?

Mr. HOFFMAN (reading):

The FHA does not in any way approve or pass on the merits of any product—and so forth.

The CHAIRMAN. In other words, he was really saying he didn't care.

Mr. SIMON. I wouldn't say that in justice. That was the law. He told you to go to the Lacquer and Varnish Association. I never heard of this man before. He had five people on the whole deal.

The CHAIRMAN. He has been a witness before this committee in the last 2 months. He was the Assistant Director of title I.

Senator MAYBANK. Under Hollyday?

The CHAIRMAN. He has been there a long time. You may proceed.

Mr. NYBORG. Mr. Chairman, on the question of the cooperation of FHA officials throughout the country, as I mentioned previously, they have cooperated well in a great many cities with better business bureaus, leading agencies, and contractors in efforts to bring about a better situation with regard to the dissatisfaction in this home improvement field.

Unfortunately, not all of the FHA offices or their executives and all lending agencies or all contractors have shown that same high purpose.

The St. Louis Better Business Bureau, for example—and I refer you to a bulletin published by that bureau on June 15 of this year—comments on the lack of interest in the problem which the committee is now studying until public furor made it necessary to do so.

This bulletin states in part:

We have documentary proof that the FHA instead of showing zeal and protecting the gullible and trusting innocents by aggressive action to secure evidence and convictions under Federal law and to recover from culprits who obtain funds under false completion certificates, these top officials in Washington urged their employees and the United States Department of Justice through its United States attorneys to hound, and, if necessary, sue in Federal court to collect on the notes as "innocent" holders of negotiable paper.

That is the end of the quotation from the bulletin of the Better Business Bureau of St. Louis, dated June 15, 1954. That bulletin also refers to the fact that the public has no protection against being defrauded or harmed by poor workmanship, inferior materials, and so forth.

Senator MAYBANK. What do you think about what the other gentlemen said about the only way you can do this thing properly is to have the banks themselves have some interest in it? Would you agree with that or not?

Mr. NYBORG. It is my feeling, and I think I speak for all of the better business bureaus on this, Senator, that the further strengthening of such interest and cooperation on the part of FHA and others will go far in helping to eliminate many of the problems.

Senator MAYBANK. I agree on that.

Mr. NYBORG. The one specific recommendation which I would like to suggest—and it deals with the handling of the completion certificates—is that I think——

Senator MAYBANK. To get back to the banks, millions of banks and about a hundred inspectors.

Mr. NYBORG. I believe most of the trouble results from the signing of the completion certificates and that would be eliminated if the lending agencies were required to ask the homeowner on presentation of the certificate by the contactor whether the work actually has been completed and completed satisfactorily. I think if this procedure were followed prior to the filing of the certificate for an FHA guaranty on the loan, there would be less likelihood of homeowners being faced with the responsibility of repaying loans before the work was completed.

Senator MAYBANK. What does the average bank get out of these loans, do you know?

The CHAIRMAN. The interest is 9.6.

Senator MAYBANK. It is 18 months, isn't it?

The CHAIRMAN. They pay about 1 percent of that for insurance.

Senator MAYBANK. Isn't it about 18 months?

The CHAIRMAN. The loans go up to 36 months.

Senator MAYBANK. But it is averaging about 18 months.

The CHAIRMAN. You may proceed, Mr. Nyborg.

Mr. NYBORG. I am almost through with my statement. I would like to make this comment. Many of the lending agencies, banks, and building and loan associations and other agencies who have worked closely with the FHA and better business bureaus and the contractors to set up a method of checking the responsibility of the contractor or before proceeding with the certification of these loans have done a great deal of good. I think with that procedure, if it were required in the administrative procedures of FHA under the regulations, that that would do a great deal of good also.

The CHAIRMAN. Mr. Hoffman, what has been your experience?

Mr. HOFFMAN. In connection with the Senator's question, might I read a letter from the Atlanta Better Business Bureau that I think will shed some light on it. This is dated February 5, 1954:

Subject: FHA Cooperation from the Atlanta Better Business Bureau.

I am happy to report that this bureau, in cooperation with the FHA, instituted a program last fall which has practically killed the model-home scheme in this area. In late summer of 1953 the Atlanta Better Business Bureau called a meeting of local FHA officials and all financing institutions who handled FHA title I paper. At this meeting the bureau prepared case histories on several of the most flagrant users of the model-home scheme in connection with title I and conventional mortgage loans. We outlined a plan whereby, with the cooperation of the financing institutions and FHA, we would make available on a confidential

basis certain information from our files regarding various roofing and siding contractors.

It was mutually agreed that the Bureau, financing agencies and FHA would interchange information and that the Bureau would act as a clearinghouse to keep all interested parties informed on various roofing and siding contractors whose practices are not considered in the best interest of the public.

As a result of the agreement, the financing institutions agreed that they would reject any title I FHA paper submitted to them by any dealer or applicator whose past history indicated unethical tactics.

In other words, any roofing or siding contractors in the Atlanta area who seeks FHA title I approval by financing institutions must first clear through this office and the the FHA.

Senator MAYBANK. That is what I say. The bankers did it. They said they weren't going to lend any money if the better business bureau and themselves were not satisfied that the man was all right.

Mr. HOFFMAN. If their background shows questionable practices as indicated by better business bureau files, the bank would not give them the money.

Senator MAYBANK. Of course, you can't make the banks in other cities do it. Could you get cooperation in the other cities like that?

Mr. HOFFMAN. In my statement I have some comments to make on our relationships in the New Jersey and New York area with the FHA and we also have some recommendations, as did Mr. Jackson and Mr. Nyborg, in connection with this local problem.

In addition, we have some actual cases, if the committee wants to hear them, of companies that we have worked with in trying to stamp out some objectionable practices.

The CHAIRMAN. We are interested in that, yes.

Mr. HOFFMAN. Let me say that I personally in the last 3 years have handled over 1,000 inquiries and complaints from the public, and we have done a great deal of work in the field of all types of siding and insulating and simulated brick and stone, but in particular mastic paints. That has formed the largest group of our complaint situation. Some mastic paint manufacturers and dealers have indicated in advertising that the premises need never be painted again, that the product was indestructible, that it made walls waterproof, termite proof, and other uncorroborated claims. Such advertising created liberal FHA financing, easy FHA terms, FHA approved and so on, which tended to lend an air of integrity to the advertising.

Consumers responding to this found themselves in an untenable situation as trickery started almost immediately. So-called suedeshoe, itinerant salesmen called on the victims in response to leads supplied by the contractor, the old familiar model home racket being worked for all it was worth. I will not go into that.

I think we all know what that model home consists of. I have a bulletin here that we issued as early as 1937 on the model home scheme.

After considerable high pressure, the homeowner might sign a contract with the belief that his specially priced home improvement would cost virtually nothing because of its use for advertising purposes. At this point, additional chicanery has frequently taken place to obtain the victim's signature on FHA completion certificates. Various subterfuges have been used to conceal the nature of what the homeowner was signing. The complaints have been received alleging salesmen have added or altered provisions in the contract after it has been signed. Frequently no copy of the contract was given

to the homeowners. The materials to be used on the job were subject to misrepresentation. The salesmen promised verbally that a given well-known product would be used, whereas the homeowner found that an entirely different product was utilized. The salesmen have been known to pull several hundred from their pockets and hand it over to the homeowner as advance payment for bonuses or accept such as downpayment. The prices charged were high.

In some instances home improvements have been sold as part of a scheme whereby the homeowner could consolidate his debts. The price of the improvement was upped considerably, and the difference between the actual amount of the FHA loan was used to pay off other obligations; or the price of the contract would be increased to give the victim a little extra money.

The salesmen themselves, using a variety of names and aliases seem to be floaters attaching themselves first to one racket and then another, depending upon what was popular at the moment. They might be selling freezer food plans, water conditioners, home fire-alarm systems, demonstrating vacuum cleaners, promoting home improvements, in all cases using dishonest methods to sell merchandise generally recognized as having a legitimate place in consumer markets.

Once the salesman high-pressured the signature on the contract and had tricked the victim into signing FHA completion certificates, in several cases forgery has been alleged on these completion certificates. The paper was rushed to a lending institution for immediate discounting. As soon as the money was received through FHA financing, the salesman's commission was paid out and the contract was then often awarded to a subcontractor who would make the highest bid for it.

To the homeowner's amazement, the elaborate work contracted for is sometimes started and finished within hours of signing the contract. Frequently no advance preparation of any kind was done on the premises. The workmanship being inferior and incomplete.

With some of the manufacturers that I have been discussing this with, we particularly have voluminous records on the Renuity Corp. of New York City, located at 424 West 42d Street. They operated under nine other trade styles with products that they sell.

The CHAIRMAN. All at the same address?

Mr. HOFFMAN. All at 424 West 42d Street. The principals of that company are B. J. Hardy—he is one. We have indication in our files that he was indicted for mail fraud in Miami back about 1940. That indictment, however, was not processed inasmuch as he had departed from the State.

It was their practice to issue a registration certificate which simply stated that an application had been done, nothing more. This was misrepresented as a guaranty. Another company known as Krylon of Philadelphia issued what they termed an "insurance policy."

The CHAIRMAN. Will you yield a moment, please? I think we will recess now, if you don't mind, until 1:45, at which time we are going to finish with Mr. Hoffman, and then we are going to hear other witnesses.

I would like to know if these people are present. As I call your names will you please rise?

Francis H. Clarke, of White Plains, N. Y.

Robert Blackburn, of New York.

Hugh Collins, of New York.

Arthur Waugh, of New York.

Anthony D'Acquila, of Flushing, N. Y.

Abner Roberts, of Brooklyn.

We will come back here at 1:45 and finish with Mr. Hoffman and then these people whose names I just called will be witnesses.

They are people who have come in here to testify to experiences they have had with title I loans and FHA-insured mortgages under title I. We will come back at 1:45.

I might say that we certainly apologize to you gentlemen and we ask your indulgence. We are going to ask that Mr. Bertram Bonner and Mr. Banks come back at 10 o'clock tomorrow morning at which time we will get to them.

Has anyone anything to say?

This is a very fair committee notwithstanding the fifth amendment witnesses who complain to the contrary.

We will recess now until 1:45 at which time we will hear the individual experiences of these people in dealing with these title I loans and also, Mr. Hoffman, we may have some more questions from you and Mr. Nyborg and Mr. Jackson.

(Whereupon, at 12:30 p. m., the hearing recessed to reconvene at 1:45 p. m., the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Mr. Hoffman and Mr. Jackson, will you come up here and sit at this table? I think we may want to ask you some questions when we get some of these concrete examples of what happened.

Our first witness will be Mr. Robert Blackburn of New York.

Mr. Blackburn, will you please come forward.

Will you be sworn, Mr. Blackburn? You are Robert Blackburn?

Mr. BLACKBURN. Robert C. Blackburn.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF ROBERT C. BLACKBURN, SOUTH OZONE PARK, NEW YORK, N. Y.

Mr. BLACKBURN. I do.

The CHAIRMAN. You may be seated. Will you give the reporter your full name and address, please.

Mr. BLACKBURN. My name is Robert C. Blackburn. My address, 119-39 146th Street, South Ozone Park, New York City.

Mr. SIMON. Give your address again, Mr. Blackburn.

Mr. BLACKBURN. 119-39 146th Street, South Ozone Park, New York.

The CHAIRMAN. Have you had some experiences with FHA-insured loans under title I?

Mr. BLACKBURN. If title I means home improvements, I have.

The CHAIRMAN. Suppose you tell the committee what happened to you with respect to a title I loan?

Mr. BLACKBURN. Well, I will begin from the very beginning. Two men approached me and told me that they were a brand new outfit and they were from New Jersey and were just beginning to start operating in New York City.

Mr. SIMON. Mr. Blackburn, was this in February 1953?

Mr. BLACKBURN. February 11 is the exact date, 1953.

They came by and they said that this new product that they had, which was called Brixite—it is an insulating material used to cover the outside of homes.

The CHAIRMAN. You own your own home?

Mr. BLACKBURN. Yes, I do.

The CHAIRMAN. Where do you work?

Mr. BLACKBURN. United Nations.

The CHAIRMAN. You work for the United Nations?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. You own your own home?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. How long have you owned your home?

Mr. BLACKBURN. Since October 1951.

The CHAIRMAN. Since October 1951?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. BLACKBURN. Well, after they came in, they told me that they had selected my home as a home to use as a model and that the material would be put on my home and that they would take pictures of my house before the insulation was put on and after it was put on, to show to their other clients. Well, after the work was done, nobody came. I'll add that in, now.

Then, he also told me that for every deal that he made within a 3-mile radius of my house, that I would get \$50, a \$50 check from him for each deal that was completed through my recommendation.

Well, as time went on, nothing happened, after I went through with the deal.

He also told me that I had nothing to worry about because this was an FHA loan and that everything was on the up and up.

The CHAIRMAN. It was an FHA loan?

Mr. BLACKBURN. That's right. It was an FHA loan.

The CHAIRMAN. Did they say the Federal Government was behind the product or anything of that sort?

Mr. BLACKBURN. Other than he just stated that it was an FHA loan.

The CHAIRMAN. And you knew what he meant by an FHA loan?

Mr. BLACKBURN. Yes, I know it meant the Federal Housing Authority or commission.

Now, since I bought my house under the Veterans' Administration and they had made a thorough investigation of the property and what not, I assumed that he was on the up and up, since he said it was an FHA loan because I figured that the FHA made the same investigation that the Veterans' Administration made whenever the deal was completed. That was the main reason—

The CHAIRMAN. You thought that the FHA would investigate the deal before they made the loan?

Mr. BLACKBURN. That's right; before they actually went through with the loan.

The CHAIRMAN. You say when you bought your house in October 1951, you bought it through FHA?

Mr. BLACKBURN. No, sir; it was approved by the Veterans' Administration.

The CHAIRMAN. And they did approve the loan and appraised the the house?

Mr. BLACKBURN. That's right, sir.

The CHAIRMAN. Therefore, you thought in this instance that FHA likewise would appraise it and approve it, and you thought then that you were being protected by FHA; is that correct?

Mr. BLACKBURN. Yes, sir.

Well, after the job was completed, they came by, the very next day it was completed, and had me sign a completion certificate. Well, I told them at the time, I said, "Well, should the completion certificate be signed today, shouldn't someone inspect the work?" He said, "Since we are under FHA we don't need anybody else to come out. We inspect the work and it is O. K."

So, I signed the completion certificate.

A few weeks after the work was done in some places it began to come apart. Well, I repeatedly called them on the phone and tried to get them to come out to rectify their work, but they wouldn't have any part of it. So, to have some proof that I had tried to get in touch with them, I sent them a registered letter with a return receipt requested.

The CHAIRMAN. To the FHA?

Mr. BLACKBURN. No, to the people who did the work. I sent them a letter requesting that they come out and repair the job, but they wouldn't accept the letter. I still have the letter and I also have the carbon copy of the letter enclosed.

The CHAIRMAN. Do you have that with you?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. May we see it, please?

Mr. BLACKBURN. This is a carbon copy of the letter I wrote them and this is the letter that I sent them that they refused to accept.

The CHAIRMAN. Do you know why they refused to accept this registered letter?

Mr. BLACKBURN. Well, I can't be positive, but I have my own reasons as to why they didn't accept it.

The CHAIRMAN. How much was the loan originally?

Mr. BLACKBURN. \$1,400.

The CHAIRMAN. Have you since paid the entire \$1,400?

Mr. BLACKBURN. No, sir.

The CHAIRMAN. How much have you paid?

Mr. BLACKBURN. Not to be exact, I think I have paid approximately 14 or 15 payments.

The CHAIRMAN. How much are the monthly payments?

Mr. BLACKBURN. \$44.73.

The CHAIRMAN. Are the payments behind at the moment?

Mr. BLACKBURN. No, sir.

The CHAIRMAN. You are carrying them up to date?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. Who are you making the payments to?

Mr. BLACKBURN. To the Rosslyn Bank, the Rosslyn Bank of Rosslyn, N. Y.

The CHAIRMAN. The sale was made by Approved Home Developers, Inc.?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. And financed by the Rosslyn Bank, in Rosslyn, Long Island, N. Y.?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. And it is for \$1,400?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. And the payments are \$44.73 a month?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. And, you are making the payments?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. Did you get value received?

Mr. BLACKBURN. I don't think so, sir.

The CHAIRMAN. Have they paid you any commissions for sales that they have paid in the neighborhood?

Mr. BLACKBURN. No, sir.

The CHAIRMAN. Any at all?

Mr. BLACKBURN. None at all.

The CHAIRMAN. Have they been back to see you?

Mr. BLACKBURN. No. I have tried to get them to come back.

The CHAIRMAN. Did they put siding on your house?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. Was it a new house in 1951?

Mr. BLACKBURN. No, sir.

The CHAIRMAN. It was an old house?

Mr. BLACKBURN. Yes, sir. I think I have a picture here that will show you the condition of the house before the siding was put on.

The CHAIRMAN. Is this before?

Mr. BLACKBURN. That is before, and here is the picture that was taken after the siding was put on.

The CHAIRMAN. Do you have any objection if we make these a part of the record?

Mr. BLACKBURN. No, sir.

The CHAIRMAN. Without objection, we will make the pictures "before" and "after" a part of the record.

Is this the same thing?

Mr. BLACKBURN. It looks like it from here.

The CHAIRMAN. Then, we will put this into the files.

I presume you want this certified letter back, do you not?

Mr. BLACKBURN. Well, at present I don't see much use for it.

The CHAIRMAN. Do you have any objection if we keep it?

Mr. BLACKBURN. No, sir.

The CHAIRMAN. Without objection it will be made a part of the files and without objection the letter you wrote to these people, Approved Home Developers, Inc., together with the other exhibits here, will be made a part of the record.

Mr. BLACKBURN. No objection, sir.

(The documents referred to follow:)

SOUTH OZONE PARK, N. Y., *May 14, 1953.*LONG ISLAND DAILY PRESS,
Jamaica, N. Y.

GENTLEMEN: If the following is worthy of your investigation for any news value and as a warning for other subscribers to your paper, you have my permission to use. Would appreciate it if you can tell me whether or not I have legal recourse against said parties from the sales talk I am about to give you that was given to me.

Two salesmen approached me from the Approved Home Developers, of 69-12 Austin Street in Forest Hills, N. Y. with the following:

I am Mr. Donner and the other man here is Mr. J. Walters. Mr. Walters is the son of the inventor and owner of this new type shingle for the home. We have selected your home to be used in an advertising campaign and with your permission we would like to get you to agree to it. If you let us use your home, we will give you a \$50 bonus for every home that is used. Also since you are good enough to let us use your home we will give you a 20-percent discount of the regular price. We will take pictures of your home before and after the job is done and we will give you pictures of the job. Mr. Walters' father was supposed to have invented the shingle used and he was just beginning to take over this territory for his father as his father was getting old. The shingle used was the material known as Brixite. The bonus would cover an area within a 3-mile radius of my house. A few days after my house was completed they approached 2 homeowners within a mile of my house and offered them the same proposition, this time using 2 different men as owner-salesman team. These 2 people were friends of mine, but this the 2 did not know. I can get these two people to verify what I have told you. They also will give you any extra money that you need to pay off any small bills that you might have and add that to cost of doing job. The whole story is fraudulent. The two are only salesmen and the material used is used by many home improvers on the island. There are no pictures of the house. I have pictures that I have taken myself and can prove to you that as far as appearances are concerned there is very little.

Would appreciate any information given this matter. Thanking you in advance, I remain

Yours truly,

ROBERT C. BLACKBURN.

LONG ISLAND DAILY PRESS,
Jamaica, N. Y., June 8, 1953.

Mr. ROBERT C. BLACKBURN,
South Ozone Park, N. Y.

DEAR MR. BLACKBURN: Since receiving your letter of May 14, regarding the Approved Home Developers, I have discussed your case with the Better Business Bureau in Manhattan and Queens Assistant District Attorney James P. McGrattan.

The Better Business Bureau reports they have had many complaints against the same company—apparently similar in nature to your complaint—and they suggested you file your complaint with them. However, they promised no action immediately but rather hoped to build up a larger file against the company before taking steps to correct the situation.

On the other hand, Mr. McGrattan suggested you go to the complaint bureau at the district attorney's office at the county courthouse in Long Island City and discuss the matter with one of the assistant district attorneys there. He said they might attempt to obtain some settlement for you or they might, if the circumstances warrant, start criminal proceedings against the company.

I would advise you to go to D. A.'s complaint bureau. Tell whoever you see there that you wrote to me and I talked to Mr. McGrattan and advised you to go to the district attorney.

Sincerely yours,

FREDERICK J. WELSH.

THE BETTER BUSINESS BUREAU OF NEW YORK CITY, INC.,
New York, N. Y., July 1, 1953.

Re Approved Home Developers, Inc.,
69-12 Austin Street, Forest Hills, N. Y.

Mr. ROBERT C. BLACKBURN,
South Ozone Park, N. Y.

DEAR SIR: We presented the matter of your complaint to the subject on two occasions without receiving a reply. Apparently, Approved Home Developers has no intention of cooperating with this bureau on your complaint or others which we have received recently.

We are making this complaint a matter of file record in our office. As you probably know, the information in our files is available to the public on request without charge.

Very truly yours,

THE BETTER BUSINESS BUREAU OF NEW YORK CITY, INC.,
EMMETT DEAN, *Manager*,
Financial and Commercial Department.

SOUTH OZONE PARK 20, N. Y., June 15, 1953.

APPROVED HOME DEVELOPERS, INC.,
Forest Hills, N. Y.

GENTLEMEN: As per contract and guaranty on work done on my house, I am reporting the following that needs rectifying:

Replace all brackets on drain pipes and put some back in place securely at joints as same were removed by your workmen in covering house and not replaced properly.

Nail siding to house in places both front and back where it is beginning to drop down from house.

Replace post for fence on side of house where it was removed by your workmen to apply siding on lower part of house.

I hope this is given your immediate attention.

Yours truly,

ROBERT C. BLACKBURN.

APPROVED HOME DEVELOPERS, INC.,
Forest Hills, N. Y., February 11, 1953.

This agreement, between Robert and Gussie Blackburn of 119-39 146th Street, South Zone Park, hereinafter called the owner, and S. H. Walters, hereinafter called the contractor, witnesseth, contractor agrees to furnish all labor and material necessary as follows: Renail loose boards. Calk and seal all openings. Use lath where necessary—use aluminum trim around all windows and door-frames. Cover lower half of house with first-grade bauxite ribbon-stone. Cover upper half with first-grade bauxite paint and enamel.

All work to be done in a workmanlike manner with labor covered by compensation insurance on the premises located at 119-39 146th Street, for total cash price of \$1,400 or the deferred payment plan of 36 monthly installments of \$41.22 per month.

Deposit given to contractor—none.

Owner agrees to pay on delivery of material—none.

Owner agrees to pay on completion of work—none.

First payment to be made 60 days from date of contract.

This contract shall become binding upon written acceptance hereof by the contractor or by an authorized agent of the contractor and the homeowner.

The assignee shall be held responsible only for that which is expressly written on the original agreement.

The purchaser agrees to pay 30 percent of the contract price as liquidated damages if this contract is canceled.

In witness whereof, I (we) have hereunto signed my (our) name this 11th day of February 1953.

ROBERT C. BLACKBURN [L. S.],
Property owner.
GUSSIE M. BLACKBURN [L. S.],
Husband or Wife.

Application accepted by S. H. Walters, contractor, and assigned to Approved Home Developers, Inc., 69-12 Austin Street, Forest Hills, N. Y.

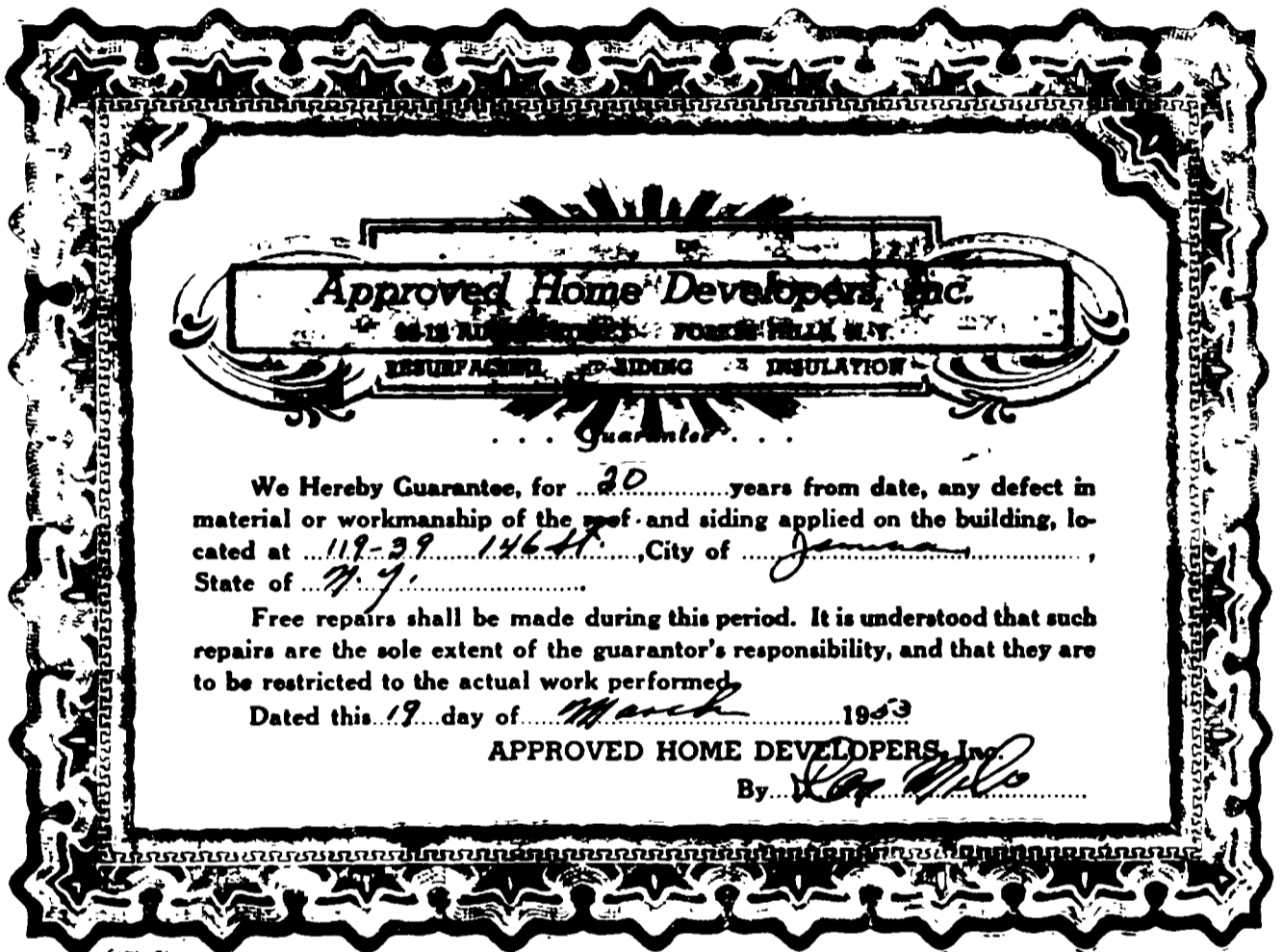
Homeowners—ask for copy of contract. Check your duplicate with original copy.

The CHAIRMAN. We will put photostat copies in and return the original to you.

Mr. BLACKBURN. I also have here a 20-year guaranty on workmanship and materials that was given.

The CHAIRMAN. Without objection, we will make this part of the record.

(The document referred to follows:)



The CHAIRMAN. Have you talked to any officials about this matter?

Mr. BLACKBURN. No, sir; only the investigator I talked to last Friday.

The CHAIRMAN. Is Approved Home Developers still in business?

Mr. BLACKBURN. Yes, sir.

The CHAIRMAN. Did they promise to give you a commission?

Mr. BLACKBURN. Within a 3-mile radius, to my knowledge.

The CHAIRMAN. You say they haven't paid you 1 dime?

Mr. BLACKBURN. Not 1 dime.

The CHAIRMAN. Do you know whether or not they have made sales within that 3-mile area?

Mr. BLACKBURN. That I couldn't be sure of, sir.

The CHAIRMAN. You have no way of knowing?

Mr. BLACKBURN. They have several houses that had siding put on of the same type that I have on my house—whether they did the job I cannot truthfully say.

The CHAIRMAN. Do you know of anyone else who has been handled the same way you have, by this firm or any other firm?

Mr. BLACKBURN. No, sir. They did approach two friends of mine. That is how I began to suspect that they were not operating as they should, because they approached two other friends of mine. One fellow was about six blocks from my house and they offered him the same deal and another fellow about a mile or less from my house happened to work with me and they offered him the same deal. Since he had promised me a 3-mile radius, 3 miles is a long way from my house in any direction.

The CHAIRMAN. I would like to ask Mr. Jackson and Mr. Hoffman if they know of their own accord if this is a fair sample or a pattern of what happens on these kind of deals.

Mr. JACKSON. Yes, Mr. Chairman. I can report that we have had a substantial number of complaints about Approved Home Developers, in which this same pattern of model home schemes, bonuses and unsatisfactory performance was involved.

As a matter of fact, I had one case that I would be glad to submit for the record, where there are allegations of forgery of the completion certificate on the part of the principal of this company, by a complainant, and we are advised that one of the principals has been picked up for investigation on forgery charges in New York.

The CHAIRMAN. Does anyone know whether or not this firm is still permitted to make FHA loans, or sell on the basis that FHA will guarantee the mortgages?

Mr. JACKSON. We understand the company is still operating and as far as we know it is not on the precautionary list which prohibits their securing FHA insured loans.

I might add, Mr. Chairman, that we communicated with the FHA in sending them copies of some of the complaints, although not all that we received about this company.

The CHAIRMAN. Well, thank you very much.

Mr. Hoffman, do you believe this is the general pattern?

Mr. HOFFMAN. Yes; we have the same pattern in our files, of deception. We have complaints that FHA forms were used in their solicitation and that they claimed approval by the FHA. I have a summary here of our contacts with the FHA in that connection if the Senator wants to hear it.

The CHAIRMAN. How's that?

Mr. HOFFMAN. I have a summary here of our relationship with the FHA in that connection.

The CHAIRMAN. With this particular concern?

Mr. HOFFMAN. With Approved Home Developers, yes.

The CHAIRMAN. Do you have something that FHA said to you about it?

Mr. HOFFMAN. Well, or failed to say.

The CHAIRMAN. Give it to us.

Mr. HOFFMAN. In February 1953, we convinced the FHA of a complaint of a Long Island resident. A month later we were advised by telephone that the matter was being investigated. Again, in May 1953, we protested the activities of Approved Home Developers to the FHA. The director of the FHA, New York office, told us shortly thereafter that Mr. Eisenberg, the principal, had denied the charges made by our complaints. We supplied a file summary for the use of the FHA in June 1953. In October 1953, we supplied additional material to FHA.

In November 1953, we asked the FHA if there had been any developments in their investigation as complaints were still being received alleging unsatisfactory workmanship and failure to complete contracts.

In November 1953, the New York FHA office advised the matter will be referred to the Long Island office for attention. Having heard nothing further, we wrote in May 1954, to the Long Island office of FHA, advising complaints were still being received. We still have had no reply, although we are informed by the FBI that in June 1954, four other principals including Eisenberg were arrested by the New York Police Department. Eisenberg was at one time associated with Pioneer Home Improvement Co. of New York-New Jersey.

The CHAIRMAN. Thank you very much, and thank you, Mr. Blackburn. We appreciate very much your coming down.

Our next witness will be Mr. Hugh T. Collins of New York City. Mr. Collins.

TESTIMONY OF HUGH T. COLLINS, ROOSEVELT, LONG ISLAND, N. Y.

The CHAIRMAN. Mr. Collins, will you be sworn, please.

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. COLLINS. I do.

The CHAIRMAN. Thank you, sir.

Will you be seated, please?

Will you give the reporter your name and your full address, please?

Mr. COLLINS. Hugh T. Collins, 11 West Greenwich Avenue, Roosevelt, Long Island, N. Y.

The CHAIRMAN. Do you own your own home?

Mr. COLLINS. Yes, sir, I do. I came back from the Philippine Islands in 1951, and in April of 1952, I bought this place in Roosevelt.

The CHAIRMAN. Is it under a VA loan?

Mr. COLLINS. No, it is a VA—it is not. I am a third owner. The original owner was a veteran and the loan is still a four-person loan.

The CHAIRMAN. And, you bought it in 1951?

Mr. COLLINS. I bought it in 1952, on April 25.

The CHAIRMAN. In 1952?

Mr. COLLINS. That's right.

The CHAIRMAN. Have you had any contact with any dealer or lender in respect to any FHA title I loans?

Mr. COLLINS. Yes, sir, I have.

The CHAIRMAN. Will you give us your experience, please?

Mr. COLLINS. On or about June 20, a Mr.——

The CHAIRMAN. June 20th of what year?

Mr. COLLINS. Of 1952.

The CHAIRMAN, June 20, 1952?

Mr. COLLINS. That's correct, sir.

A Mr. Green approached my wife with a proposition of painting the house with a product called RE-NU-IT. She told him he would have to talk it over with me. He made an appointment for a Mr. Chase, of Approved Home Developers, to come to see me about spraying the house.

The CHAIRMAN. Is it the same Approved Home Developers that the previous witness testified about?

Mr. COLLINS. I would think so. They are from Forest Hills.

The CHAIRMAN. And, what is their address?

Mr. COLLINS. 69-12 Austin Street, Forest Hills, N. Y.

They approached my wife and made an appointment to see me and on June 23, a Mr. Chase came out to see me and he made several demonstrations in our kitchen showing what the product would do. It was supposed to weatherproof, fireproof, insulate, beautify the residence.

The painting that was on the house had to be removed. They were supposed to sandblast the paint and they were supposed to spray the new product on, under pressure, guaranteed for 10 years. After talking with him some length of time that evening, my wife and I signed a contract, a loan application, and the note.

The CHAIRMAN. What did it cost you?

Mr. COLLINS. 1,040.

The CHAIRMAN. How much down?

Mr. COLLINS. There was no down payment.

The CHAIRMAN. How much did you pay each month?

Mr. COLLINS. \$33.22.

The CHAIRMAN. Who was the banker?

Mr. COLLINS. Franklin National Bank, Franklin Square, Long Island.

The CHAIRMAN. You did make the purchase?

Mr. COLLINS. I did make the purchase.

The CHAIRMAN. And you did sign the contract?

Mr. COLLINS. I signed the contract.

The CHAIRMAN. And they did then come out and do what?

Mr. COLLINS. Prior to the time they came out and put the job on, I did some investigation on my own. On the particular evening that they were there, they told us they were from this reputable bank, the Franklin National Bank, that they had the backing of FHA.

The CHAIRMAN. Did they say they were representing the Franklin National Bank, rather than the Approved Home Developers?

Mr. COLLINS. They were representing Approved Home Developers.

The CHAIRMAN. They told you they were representing the bank?

Mr. COLLINS. But, they told me that the Franklin National Bank was supplying the loan under the FHA title I loan, and that is the main reason that I went into it, because FHA, I figured, was backing it, and the Franklin National Bank was backing it.

I called the bank the following morning after I went to work and asked the bank—I told them that I had applied for a loan, and I asked them about Approved Home Developers, whether or not they were reliable. They stated that they were a reliable concern, that they had approved them to the FHA, and that they had done quite a number of jobs with them.

The CHAIRMAN. Now, this was over the telephone?

Mr. COLLINS. A conversation over the telephone.

The CHAIRMAN. Do you recall the official you were talking to?

Mr. COLLINS. A Miss Irons.

The CHAIRMAN. At the Franklin National Bank?

Mr. COLLINS. At the Franklin National Bank, in the department that takes care of the FHA title I property-improvement loans.

This was on the day immediately after they came out and renegotiated the contract.

Now, if I may go into this just a minute, the same situation applied as the previous witness has stated. They played the proposition that they would use the house as a model, that they would give us \$50 for every job that they got in the particular area—they never gave any specified radius at this particular time.

The CHAIRMAN. Have they since paid you any commissions?

Mr. COLLINS. No, definitely not.

The CHAIRMAN. Do you know whether any jobs have been installed near your home?

Mr. COLLINS. I don't believe there had been, not to my knowledge.

The CHAIRMAN. Have they been back to see you since?

Mr. COLLINS. They have not.

Now, to continue from where I was, there, on June 30, I called the bank, again. I had checked with the Better Business Bureau, I checked with Dun and Bradstreet, and I checked with some people who stated they had work done by this company, and that they were not reliable. I reported back to the bank on June 30. I called them and told them what I had found out and told them I did not want to go through with the loan, that I would rather cancel the whole thing. And, they assured me at that particular time that if I went through with it that unless the job was done satisfactorily and unless I signed the completion certificate that I had every hold in the world over Approved Home Developers, to make them do the job to my satisfaction.

The CHAIRMAN. Do you remember who you were talking to at the bank at that time?

Mr. COLLINS. I called Miss Irons the second time, specifically, on June 30. They came over on July 1 and did the job. "They" meaning Approved Home Developers. They sent a subcontractor over and instead of sandblasting the paint off the house they scraped it. They put the job on and they did not trim the windows, they did not paint the shutters—in other words, they halfway did the job and that afternoon they presented my wife with a completion certificate to be signed. Well, I had cautioned my wife above everything else not to sign the completion certificate and she called me at the office and told me that they were there at that particular moment and that they had presented her with a completion certificate to sign and asked me what to do about it, and I told her emphatically not to sign the completion certificate. She told the workmen this and the workmen, one of them said to the other, "We'll take care of this at the office."

That afternoon, my wife called the Approved Home Developers and told them they had not put on the trim and that they had not painted the shutters and put them back up, and asked them when they were coming out to do that. And, they told her that they had a separate crew to do this work and it would be out the following morning. The following morning, Mr. Chase called and said that that was not written into the contract, this trim part, and that they would not do it.

All right. I called, then, a Mr. Donner myself and they said they would take care of it, that they would do the job, but inasmuch as the east end of the house was already blistering and peeling, he said to let the material dry for a period of 60 days so they would be absolutely sure that all the blistering and peeling that was going to take place

would take place, and that in 60 days they would go ahead and fix the job as it should be done.

Well, I agreed to this and then several times after that 60 days had expired, I called them and asked them when they were coming back. Well, at that particular time the weather was too hot. One time I remember they had their crew in Jersey and could not get back out to do the job, and they were very diplomatic, very tactful, every time I approached them, and put me off.

Finally, on October 27, I wrote them a letter summarizing everything that had transpired and asking them to complete the job, immediately.

I sent this letter by registered mail, return receipt requested, special delivery, and the letter was returned to me 2 weeks later, unclaimed.

I immediately went to the bank, showed them the letter—that is Miss Irons, and asked the bank what they were going to do about it. They told me I should not have signed the completion certificate. I informed the bank that I had never signed the completion certificate and neither had my wife.

The CHAIRMAN. I hold in my hand a photostatic copy of the completion certificate with supposedly Esther Collins' signature on it.

Mr. COLLINS. Yes, sir. That is a forgery.

The CHAIRMAN. That is a forgery?

Mr. COLLINS. Absolutely.

The CHAIRMAN. Do you know who forged her name?

Mr. COLLINS. I do not.

The CHAIRMAN. But, it is a forgery?

Mr. COLLINS. It is an absolute forgery.

The CHAIRMAN. Without objection, we will place the FHA title I completion certificate in the record, which the witness claims was a forgery, together with some other documents that have to do with this whole matter.

(The documents referred to follow :)

FD-2
Rev. April 1950

Form Approved
Budget Bureau No. 43-0281

FHA TITLE I COMPLETION CERTIFICATE
(Work Done or Materials Delivered)

TO: The Franklin National Bank of Franklin Square, New York

In accordance with my (our) Credit Application dated
loan pursuant to the provisions of Title I of the National Housing Act.

6/23/52

CHECK HERE IF LOAN IS TO PAY FOR COST OF MATERIALS AND INSTALLATION

I (We) hereby certify that all articles and materials have been furnished and installed and the work satisfactorily completed as precisely indicated in my (our) Credit Application.

CHECK HERE IF LOAN COVERS ONLY THE PURCHASE OF MATERIALS

I (We) hereby acknowledge receipt in satisfactory condition of the materials described in my (our) Credit Application and that no portion of the proceeds of my (our) loan will be used to pay the cost of installing the materials delivered.

NOTICE TO BORROWER

Dealer will present this Certificate to you for signature AFTER the work or the materials have been satisfactorily completed or delivered. DO NOT SIGN this Certificate until you are satisfied that the dealer has carried out his obligations to you. The selection of a dealer, the acceptance of materials used and work performed is YOUR responsibility. Neither the FHA nor the financial institution guarantees the material or workmanship or insures the work performed.

BORROWER SIGN HERE

on 7/3/52

(Signature)

READ BEFORE SIGNING

Esther Collins
(Signature)

READ BEFORE SIGNING

For the purpose of inducing the payment of proceeds of this loan and the insurance financed by the FHA the undersigned certifies and warrants that the above work or material constitutes the entire consideration for which this loan is made; that a copy of the contract or sales agreement has been delivered to the borrower and the above financial institution, that this work was satisfactorily completed or materials delivered, that the above certificate was signed by the borrower after work completion or delivery and that the signatures herein and on the note are genuine.

DEALER SIGN HERE

on 7/3/52

Approved Home Developers, Inc.
(Name of Dealer)

Leo Eisenberg
(Signature)

WARNING: Any person who knowingly makes a false statement or a misrepresentation in this certificate shall be subject to a fine of not more than \$4,000 or to imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

11 WEST GREENWICH AVENUE,
Roosevelt, Long Island, N. Y., October 27, 1952.

APPROVED HOME DEVELOPERS, INC.,
69-12 Austin Street,
Forest Hills, N. Y.

DEAR SIR: A satisfactory workmanlike job was not done when Re-Nu-It, a waterproof textured finish, was applied to the outside walls of our home at 11 West Greenwich Avenue, Roosevelt, Long Island, N. Y., on July 1, 1952, by your company and/or corporation.

You were immediately informed of this fact, and at your suggestion we waited 60 days in order to allow the applied Re-Nu-It to thoroughly dry and set to determine whether or not any further blistering and cracking of the Re-Nu-It would occur. To this 60-day drying period we readily agreed.

At the end of this 60-day period, you were again notified of the unsatisfactory condition of the Re-Nu-It and asked to take action to satisfactorily complete the job. At this time, the first week in September, you were of the opinion that the weather was too hot for the completion of the job. You suggested that we wait an additional month or until October 3, 1952, before the job was completed. To this we agreed.

On Tuesday, October 21, 1952, you were again notified of the fact that this job had not been completed in a satisfactory and workmanlike manner and you promised immediate action. You stated that an inspector would be sent out before the weekend and that the job would be completed the week of October 26, 1952. The inspector has not yet arrived.

I do not want to offend you by appearing too insistent, and yet I cannot overlook the fact that you are not standing behind your contact and your guaranty.

If I owed you the money for this job and it was this long past due, you would certainly want the account paid at once. Please give me a square deal, too. Complete this job now.

Very truly yours,

HUGH T. COLLINS.

Roosevelt, Long Island, N. Y., September 3, 1952.

FRANKLIN NATIONAL BANK,
Long Island, N. Y.

DEAR SIR: I was on vacation during the month of August and upon my return on Saturday, August 30, the enclosed past-due notice was in my accumulated mail.

If you will please note, the amount past due is \$33.22 which, I believe, is correct. However, the amount in the account book is cut for \$32.22. I am, therefore, returning the account book to you for correction. I am also enclosing my check for \$33.22 for the August payment.

Sincerely yours,

HUGH T. COLLINS.

Registration N. C' 14296

RE-NU-IT

Ten Year Registration Certificate

This Certifies that RE-NU-IT a waterproof textured finish was applied to the property

OWNED BY HUGH THOMAS COLLINS.

LOCATED AT: 11 GREENWICH AVE. ROOSEVELT, N. Y.

and being produced on a chemical base formulation that incorporated the two indestructible protective and insulating minerals ASBESTOS and MICA; has been manufactured in accordance with our high quality standards of production and includes the special features of:

1. BEAUTIFYING 2. RESURFACING 3. RESTORING 4. PROTECTING

THIS INSTALLATION IS REGISTERED FOR A PERIOD OF TEN YEARS UNDER THE SERIAL NUMBER INDICATED ON THIS CERTIFICATE.

DATE OF APPLICATION JUNE 20, 1952...

APPLIED BY APPROVED HOME DEL. INC.

ADDRESS 64-12 AUSTIN AVE FOREST HILLS.

RE-NU-IT CORPORATION

DISTRIBUTOR



Mr. COLLINS. After my appearance at the bank I went over to the district attorney's office in Nassau County. The bank said they could do nothing about it, and would do nothing about it on that particular night, and they told me it was entirely between Approved Home Developers and myself. I told them, I stated on that particular night, that my present feeling was that I was not to pay them another cent, so far as payment was concerned. I had made three payments up to that time for a total of \$99.66.

The CHAIRMAN. Did you state where you worked?

Mr. COLLINS. I work with the United States Information Agency.

The CHAIRMAN. In New York City?

Mr. COLLINS. I was at that time working in New York City. Since then I have been transferred to Washington.

To continue from there, I went over to the district attorney's office and gave him the complaint. They investigated and stated that they felt it was a forgery, they knew that I knew it was a forgery, and that they would send detectives out immediately to pick up Mr. Eisenberg and the group responsible, but that if it came to a jury trial and the verdict went against me I was opening myself wide open to libel. I had my attorney with me and he advised against sending out after them, at that time. He advised me to let the bank go ahead and sue me. The bank stated that they would. The bank sued on the 21st of May.

The CHAIRMAN. What year?

Mr. COLLINS. 1953, in the district court of the county of Nassau, State of New York.

The CHAIRMAN. The bank? Which bank?

Mr. COLLINS. The Franklin National Bank, Franklin Square.

The CHAIRMAN. Franklin National Bank sued you?

Mr. COLLINS. They sued my wife and I, on May 21, 1953, in Mineola, in the district court. The verdict was returned in our favor. That is, my wife's and mine.

The bank immediately appealed, and that appeal is still standing at this particular date.

Later, my attorney received a copy of—

The CHAIRMAN. You had to bear the expense of all this litigation, did you not?

Mr. COLLINS. Yes, sir; I did.

The CHAIRMAN. How much did it cost you?

Mr. COLLINS. My attorneys' fees were \$250, secretarial fees \$10, plus the numerous days that I lost from work, on annual leave, and then plus the embarrassment of going through the whole trial and proceedings, and so on.

The CHAIRMAN. This is the same bank that assured you that these people were reputable and that you could go ahead and do business with them, with a degree of certainty that they would be honest with you?

Mr. COLLINS. That's correct.

We received this letter on October 23, from the Franklin National Bank—at least my attorneys did—and it states—

We have instituted an action against Approved Home Developers for the recovery of the amount of the note of Hugh T. Collins and Esther Collins. The action has been set for trial in the Supreme Court, Nassau County, on November 9, 1953. It will be necessary for Mrs. Collins to appear on that date, or on any adjourned date to testify as she did on the trial of the above action and that her signature on the completion certificate was a forgery. We hope we can have your cooperation as well as the cooperation of your clients since the recovery of the sum due from Approved Homes will obviate the necessity of proceeding with the appeal.

My attorneys wrote back and stated that they had received the letter of October 22 and stated that we would cooperate to the fullest extent with them.

Well, this trial came up. The bank wanted a judgment against Approved Home Developers, and since that time, two detectives from Valley Stream, Long Island, N. Y.—I understand they were from the district attorney's office—have approached my wife and told her that there was a possibility that she would have to testify, again, due to the fact that Approved Home Developers had left the State of New York and were now operating in the State of Maryland and that they were going—that is the district attorney's office was going—to bring them back to New York on this forgery charge. That is standing of the case at the present moment.

The CHAIRMAN. I think you have made it clear as to exactly what happened and at the moment the suit is still pending?

Mr. COLLINS. The appeal by Franklin National Bank is still standing. Although they have already won a judgment against Approved Home Developers. And Approved Home Developers, where they made their mistake—that is the bank—they allowed Approved Home Developers the same amount of time to repay the bank that they would have allowed me, which was three years less 3 months.

The CHAIRMAN. Well, we thank you very much and appreciate your testimony. Thank you.

Just a minute. Of course, this case is about the same as the one we had before, is it not?

Mr. JACKSON. Mr. Chairman, I was going to ask whether with your permission I could be excused. I do have an obligation to return to New York.

The CHAIRMAN. You may.

Mr. JACKSON. I would like to leave for the record copies of certain correspondence, however, with respect to Approved Home Developers. Also, the Permastica Corp., the RE-NU-IT Corp., and Pioneer Home Improvement Co.

The CHAIRMAN. Without objection, we will accept the documents and they will be made a part of the record.

We thank you very much, Mr. Collins.
(The documents referred to follow:)

JANUARY 16, 1952.

Re Approved Home Developers, Inc., Forest Hills, Long Island.

Mrs. SONYA GUIDONI,
Jamaica, Long Island, N. Y.

DEAR MADAM: We are presenting the matter of your complaint to the subject but we doubt very much that it will bring any affirmative results. As soon as we hear we shall notify you of the result.

In the meantime we would suggest to you that you make a complaint to the district attorney, Queens County, Long Island, N. Y., and advise him of the fact that the district attorney in Babylon, Long Island, has a case pending. It may bring results.

Very truly yours,

THE BETTER BUSINESS BUREAU
OF NEW YORK CITY, INC.
EMMETT DEAN, *Manager,*
Financial and Commercial Division.

JANUARY 16, 1952.

APPROVED HOME DEVELOPERS, INC.,
Forest Hills, N. Y.

GENTLEMEN: Mrs. Sonya Guidoni, 153-28 119th Road, Jamaica 4, Long Island, N. Y., has written us about a contract she entered into with you on September 20, 1951, for the spraying of the exterior of her home with Re-Nu-It, together with certain repairs, for the sum of \$620.

Your representative used the "model house" scheme to effect the signing of the contract. Your representative said pictures were to be taken before and after the work was done and the sum of \$50 was to be paid for each contract secured as a result of showing prospective customers the work done on the house. In addition, in consideration of the advertising use of the pictures, the contract was to show a deposit of \$100 having been made although no such deposit was actually made. Also, a 15-year guarantee was to be issued upon completion of the work.

She said she signed the completion certificate before the work was completed and that numerous finishing touches which you promised have never been completed. She also stated that the promise of \$50 per sale, following the use of the pictures, proved entirely false. In addition, she added, where your contract showed a cost of \$720 she now finds that the normal charge for this work is \$400 or \$500.

She further added that the contractor is a Mr. Eisenberg but he signed the contract as a Mr. Walker. She is greatly concerned about your failure to complete the work. She appealed to us for assistance. Could we have your comments?

Very truly yours,

THE BETTER BUSINESS BUREAU
OF NEW YORK CITY, INC.,
EMMETT DEAN, *Manager,*
Financial and Commercial Division.

CRIBARI & SCAPOLITO,
Mount Vernon, N. Y., November 3, 1952.

BETTER BUSINESS BUREAU,
New York, N. Y.

GENTLEMEN: Some time ago the White Plains Civic and Business Federation warned against the activities of certain itinerant repairmen coming into Westchester County who beguiled homeowners into executing home repair contracts by the promise of paying bonuses and commissions for the privilege of using the homeowner's residence as a model after the repairs have been completed.

The White Plains Civic and Business Federation pointed out that the promoters of this scheme are itinerants who usually approach the homeowners with the yarn that they are just coming into the territory and would like to use their home as a model to demonstrate to others what kind of a job they can do. They offer \$50 or so as commission on every sale made in the area and a bonus for every customer the victim recommends. The homeowner is led to believe that because of the special price he is given and the commissions that will flow in, the cost of the job will be liquidated in short order. The homeowner learns to his sorrow that everyone is given the same sales talk and the stipulated price is generally higher than the prevailing price for such work and that the work is substandard and the commissions and bonuses are a myth.

We represent a client who has been fleeced in the above manner and we would appreciate any information that you may have concerning an outfit known as the Approved Home Developers, Inc., at 69-12 Austin Street, Forest Hills, N. Y. Our clients are in modest circumstances and any information or aid that you are in a position to give us will be greatly appreciated.

Yours very truly,

CRIBARI & SCAPOLITO,
By W. B. Solinger II,
WALTER B. SOLINGER II.

NOVEMBER 14, 1952.

Re Approved Home Developers, Inc.,
Forest Hills, N. Y.

WALTER B. SOLINGER II, Esq.,
Cribari & Scapolito,
Eastchester Savings Bank Building,
Mount Vernon, N. Y.

DEAR MR. SOLINGER: With reference to your letter of November 3, 1952, we have had several complaints against the subject organization and the products they apply to homes. One of these complainants stated that she received an oral guaranty of 20 years but never received the written guaranty. The product had begun to blister and peel. When we presented it the company said they would make the necessary adjustment. However, when we advised the complainant she in turn advised us several weeks later that nothing had been done.

We have had other complaints against the subject organization.

Replies to correspondence we presented to the subject were answered by Mr. A. Eisenberg, vice president.

It is possible that the attorney general, State of New York, may be interested in the practices of the subject organization. We do know they did interest themselves in another organization which was operating from New Jersey. They may have a similar interest in this promotion.

Very truly yours,

THE BETTER BUSINESS BUREAU,
OF NEW YORK CITY, INC.,
EMMETT DEAN, Manager,
Financial & Commercial Division.

APRIL 22, 1953.

Memorandum re Approved Home Developers, Inc.,
Forest Hills, Long Island, N. Y.

On April 17, 1953, Mr. H. T. Collins, 250 West 5th Street, Roosevelt, Long Island, N. Y., and an employee of the United States State Department, came to this office and stated that he purchased a home at 11 West Greenwich Avenue, Roosevelt, Long Island, following which Mr. Green of the subject called

on him on June 20, 1952, and interested Mr. Collins and his wife in a product called Re-Nu-It. He said Mr. Green used the model home scheme of approach in selling this product, stating that they would receive \$50 for each job done as a result of using their house as a demonstration model. Mr. Green also stated pictures would be taken before and after the job was done. Both Mr. and Mrs. Collins signed the contract, an FHA loan application for \$1,040, plus interest, and a note drawn on the Franklin National Bank, Franklin Square, Long Island, N. Y. He stated he did not sign a completion certificate that night.

The job was completed about July 1, 1952, but the trim was not done. He said he called Mr. Green and he was advised that the contract did not call for trim even though it was promised orally.

Two days later the mastic paint blistered and Mr. Collins got in touch with Mr. Chase of the subject corporation. Mr. Chase said he would take care of it. They then received the request for payments from the Franklin Square National Bank and made three payments. Mr. Collins then decided that he had never signed the completion certificate nor had his wife. He therefore went to the bank and examined the certificate. He claimed it was a forgery. Thereupon, he went to the district attorney and stated that it was a forgery. The district attorney advised him that he would take action against Approved Home Developers, Inc., but also advised him that if it were not a forgery he would be subject to a libel action.

Thereupon, Mr. Collins employed the services of Raphael P. Russakow, Esq., who advised no further payments. The Franklin National Square Bank brought him into court and tried to secure a summary judgment in Nassau County. Mr. Collins' attorney explained the circumstances and the judge asked the attorney to submit a brief and have it ready during the week of April 20, 1953. There the matter stands.

Mr. Collins advised us that he would keep us advised of the result of the action.

EMMETT DEAN,
Manager, Financial and Commercial Division.

JULY 1, 1953.

Re Approved Home Developers, Inc.
Forest Hills, N. Y.

Mr. ROBERT C. BLACKBURN,
South Ozone Park, N. Y.

Dear SIR: We presented the matter of your complaint to the subject on two occasions without receiving a reply. Apparently, Approved Home Developers has no intention of cooperating with this bureau on your complaint or others which we have received recently.

We are making this complaint a matter of file record in our office. As you probably know, the information in our files is available to the public on request without charge.

Very truly yours,

THE BETTER BUSINESS BUREAU
OF NEW YORK CITY, INC.
EMMETT DEAN,
Manager, Financial and Commercial Department.

BAISLEY PARK 4, LONG ISLAND, N. Y., June 18, 1953.

BETTER BUSINESS BUREAU OF NEW YORK,
New York, N. Y.

GENTLEMEN: I am writing to ask your advice in regard to a contract which I made with the Approved Home Development in October, 1951.

The clapboard of my house was finished with a process called Renuit by them. I was guaranteed for 15 years. It did not wear very well during the winter of 1952, and I notified them about it. They sent a Mr. Morgan out to look at it. He in turn sent the men back to fix it, but the repair job did not last. During the winter just passed (1953) the Renuit simply fell off the clapboard in large pieces into the driveway. That is the condition of the house today.

When spring came this year (1953), I began calling them to come out and look at it so as to make some decision about its repair. I made three appointments

with them and they have kept none. Each time I call to find out why, they tell me (1) the man I want to speak to is in California; (2) someone is dead and (3) last Saturday, June 13; the man with whom I made the appointment didn't even remember it.

This bill for the work is being paid for through an FHA loan at the Industrial Bank of Commerce. It is up to date on the payments.

I would appreciate it very much if you will take my case into consideration, and advise me what to do.

Yours very truly,

DOROTHY C. CLARKE.

Approved Home Development is located at Forest Hills, phone No. Boulevard 3-2801.

JUNE 22, 1953.

Re Complaint of Mrs. Dorothy C. Clarke, Baisley Park 4, Long Island, N. Y.

APPROVED HOME DEVELOPERS, INC.,

Forest Hills, N. Y.

GENTLEMEN: We are in receipt of a complaint from the above subject advising that in October 1951, she entered into contract with your company for work on the exterior of her home. The complainant writes that the clapboard of her house was finished with a process called Renuit, and that this work was guaranteed for 15 years.

Mrs. Clarke writes that during the past winter the Renuit fell off the clapboard, and that no adjustment has been made to date. According to the complainant payment for this work was made through an FHA loan from the Industrial Bank of Commerce.

May we please be advised of the disposition of this complaint?

Very truly yours,

THE BETTER BUSINESS BUREAU OF
NEW YORK CITY, INC.,
HERBERT MARKS,
Financial and Commercial Division.

JULY 21, 1952.

Re Pioneer Home Improvement Co., Newark 5, N. J.

Mrs. LEO PERRY.

Babylon, Long Island, N. Y.

Dear Mrs. PERRY: With reference to your letter of June 30, 1952, we do have substantial files on the subject organization. These files consist of complaints about representatives of this organization who in order to sell their jobs resort to the so-called model-home scheme. This is merely a scheme to induce prospective purchasers to enter into a contract for a roofing, siding, or paint job. To our knowledge the coupons which some of the organizations indulging in this kind of sales practice use have never been honored. Also to our knowledge contracts used by most companies state some place in the contract that the terms are not to be altered by any oral statement or any written statement on the contract.

We have presented complaints to the subject organization without satisfactory result either to this bureau or to the complainant. Apparently, as they are located outside the State of New York they have no intention of cooperating with this bureau in adjustments.

We would suggest to you that you make a complaint to the Federal Trade Commission, Washington 25, D. C. This Commission cannot secure the return of your money nor can it make an adjustment for you but it can institute action against the company as it is in interstate commerce. Your complaint will be a protection to other people in your own neighborhood.

Very truly yours,

THE BETTER BUSINESS BUREAU
OF NEW YORK CITY, INC.,
EMMETT DEAN,
Manager, Financial and Commercial Division.

JULY 30, 1952

Re Mrs. Leo Perry, Babylon, Long Island, N. Y.

PIONEER HOME IMPROVEMENT Co.,
Newark 5, New Jersey.

GENTLEMEN: We received a letter from the above who states she had her home painted by your organization some time ago. Her home was painted with Shingle-Seal a product of the Dewatex Manufacturing Co. The price of the job was \$650. She is making payments of \$21.31 per month for a period of 3 years. She states that the job is guaranteed for 10 years.

Mrs. Perry states that your representatives told her that the job would cost her nothing because her home would be used as a "model home." The agreement was that she would receive \$50 for each person who had their home painted after seeing the job done on her home. She was told that "before and after" pictures would be taken of her home and would be used as an advertisement. It was on these misrepresentations by your salesman that she permitted the job to be done. She states that to date she has not seen the pictures of her home nor has anyone ever come to her home to examine it. She has never received any money as a result of sales made to people seeing her home. She feels that the entire transaction was misrepresented to her. Furthermore, she states that the job was very poorly done and she feels that she was overcharged for the job.

Could we have your comments?

Very truly yours,

THE BETTER BUSINESS BUREAU
OF NEW YORK CITY, INC.
EDWIN F. HEINTZ.

Ho-Ho-Kus, N. J., October 18, 1952.

Mr. EMMETT DEAN,
New York City, N. Y.

DEAR MR. DEAN: I wish to acknowledge and thank you for your letter of October 8, 1952.

The information given was appreciated, but would like to ask a question. How can Mr. Al Hardy determine the product Re-nu-it was not used on our homes when he has never inspected but one job in this area?

Mrs. Alex M. Wilcox, of Ridgewood, N. J., talked with Mr. Hardy personally before her house was sprayed by the General Maintenance and at this time he did not deny they were using his product. He also made the statement the General Maintenance would be reliable for the spray job. It was certainly a different story when he was trying to sell his product, than at present.

It sounds as though this man has been working hand in hand with General Maintenance.

I plan to correspond with both the prosecuting attorney and the Federal Trade Commission regarding this matter.

It seems a guaranty means nothing these days. The manufacturer always has an out, when his product proves unsatisfactory to the customer.

There certainly is a need for public protection when a company practices such frauds.

Very truly yours,

Mrs. KENNETH F. YARRINGTON, Jr.

NOTE.—My reply was delayed as Mrs. Alex Wilcox was out of town and I wished to obtain permission to use her name.

HARTFORD BETTER BUSINESS BUREAU, INC.,
Hartford 3, Conn., November 24, 1952.

Re: Approved Home Developers, Inc., Forest Hills, N. Y.
NEW YORK CITY BETTER BUSINESS BUREAU, INC.

GENTLEMEN. We wonder if you have any information on the subject or can develop anything for us.

We have had two inquiries this week from persons involved in a typical model home scheme for mastic paint jobs. Another inquiry came in this morning from

the personnel manager of one of our large manufacturing members regarding a similar situation.

Any information you can give us will be appreciated.

Very truly yours,

NORA BRESNAN, *Bureau Representative.*

PELHAM MANOR, N. Y.,
March 4, 1954.

Mr. HUGH R. JACKSON,
*President, Better Business Bureau,
New York City.*

DEAR MR. JACKSON: It appears that we have been victimized in connection with an FHA title I loan for home improvement, and I am wondering if the Better Business Bureau can be of any help.

Last December 5, Mrs. Arthur and I jointly signed an agreement with Approved Home Developers Inc., 69-12 Austin Street, Forest Hills, covering a spray paint job on our house at 445 Wolf's Lane, Pelham Manor, plus window trim, plus supply and installation of two aluminum storm doors.

The agreement provided 60 monthly installments of \$35 per month, and we signed a note with the Prudential Savings Bank, Broadway and Vernon Avenue, Brooklyn.

The company delivered as agreed on the spray painting, did the trim including storm windows—except that the latter were left scattered around the yard to dry—but did not deliver the storm doors, which were represented verbally to us as worth \$165.

I was presented with an FHA completion certificate after the spray was applied, which I refused to sign. Another crew did the trim, and presented a completion certificate to Mrs. Arthur in my absence. She had just been returned that morning, December 21, from a hospital where she had undergone surgery. The head of the painting crew virtually forced his way into the house, despite her protests that she should be in bed, and insisted that the certificate covered only the trim portion of the job, pleading that he could not get his money before Christmas unless it was signed. Under this misrepresentation, she did so.

This completion certificate, dated December 14, was later presented to the bank, signed by Abe Eisenberg, vice president of the firm, and dated in his handwriting. The bank also was given a copy of the agreement which we signed, in which the \$35 figure agreed to as the amount of payments had been erased and \$36.36 substituted.

I talked subsequently with Mr. Eisenberg by telephone, and he said he had no knowledge that the work had not been completed, promising the doors quickly. This was on February 11. Meanwhile, a payment came due which we paid under protest.

I have also talked with J. N. Walters, the firm's agent who signed the original but who now claims he is no longer associated with Approved. He also promised, in the presence of William W. Skolnick, assistant vice president of the Prudential Bank, that the doors would be installed. To date no measurements have been taken.

We realize that the signing of the completion certificate was a mistake, but notwithstanding this the original agreement has not been fulfilled; it was altered by erasure after we had signed it; the completion certificate was obtained by misrepresentation; and the company has shown no inclination to act in good faith if, in fact, the filing of the certificate was an honest mistake. For example, registered letters addressed to Eisenberg and Walters at the company's address have been refused for weeks, and finally returned to us.

I will go to court if necessary, but before taking this step I wonder if there is any other solution. I will appreciate any suggestions you care to make.

Sincerely,

FRANKLIN K. ARTHUR, Jr.

MARCH 9, 1954.

APPROVED HOME DEVELOPERS, INC.,
Forest Hills, Long Island, N. Y.

GENTLEMEN: Mr. Franklin K. Arthur, Jr., 445 Wolf's Lane, Pelham Manor, N. Y., has written us about an agreement he signed with you on December 5, 1953, for a spray paint job on his home. It was specified that window trim

was to be included and that you were to supply and install two aluminum storm doors. The agreement provided that 60 monthly payments of \$35 per month were to be made to the Prudential Savings Bank, Broadway and Vernon Avenue, Brooklyn, N. Y., and a note was signed to that effect.

Mr. Arthur stated that you did the spray painting, did the window trim but you did not deliver two storm doors which were represented to them as being worth \$165. Mr. Arthur refused to sign a completion certificate. He did state that later Mrs. Arthur did so in his absence. He continued:

"She had just been returned that morning, December 21, from a hospital where she had undergone surgery. The head of the painting crew virtually forced his way into the house, despite her protests that she should be in bed, and insisted that the certificate covered only the trim portion of the job, pleading that he could not get his money before Christmas unless it was signed. Under this misrepresentation, she did so.

"This completion certificate, dated December 14, was later presented to the bank, signed by Abe Eisenberg, vice president of the firm, and dated in his handwriting. The bank also was given a copy of the agreement which we signed, in which the \$35 figure agreed to as the amount of payments had been erased and \$36.36 substituted.

"I talked subsequently with Mr. Eisenberg by telephone, and he said he had no knowledge that the work had not been completed, promising the doors quickly. This was on February 11. Meanwhile, a payment came due which we paid under protest."

He stated that he realized the signing of the completion certificate was a mistake but, nevertheless, that the original agreement has not been fulfilled. He continues:

"It was altered by erasure after we had signed it; the completion certificate was obtained by misrepresentation; and the company has shown no inclination to act in good faith if, in fact, the filing of the certificate was an honest mistake. For example, registered letters addressed to Eisenberg and Walters at the company's address have been refused for weeks, and finally returned to us."

We would appreciate receiving your comments.

Very truly yours,

THE BETTER BUSINESS BUREAU
OF NEW YORK CITY, INC.,
EMMETT DEAN, *Manager*,
Financial and Commercial Division.

MARCH 11, 1954.

Re Approved Home Developers, Inc.,
Forest Hills, Long Island, N. Y.

Mr. WILLIAM ADAM SCHULZ,
Director, Federal Housing Administration, New York, N. Y.

DEAR MR. SCHULZ: We are enclosing a copy of a letter we addressed to the subject organization on March 9, 1954, following the receipt of a complaint by Mr. Franklin K. Arthur, Jr., 445 Wolf's Lane, Pelham Manor, N. Y. We are sending this to you for your information and because Mr. Arthur alleges that a note he signed was altered by erasure after the signature had been appended.

Very truly yours,

THE BETTER BUSINESS BUREAU OF NEW YORK CITY, INC.,
EMMETT DEAN,
Manager, Financial and Commercial Division.

APRIL 12, 1954.

Re Approved Home Developers, Inc.

Mr. FRANKLIN K. ARTHUR, Jr.,
Pelham Manor, N. Y.

DEAR SIR: We presented the matter of your complaint to the subject on two occasions without receiving a reply. Our letters were not returned so we assume they were delivered. Apparently, the subject has no intention of cooperating with this Bureau on the matter of your complaint.

If your complaint has not been adjusted we would suggest that you consult your local prosecutor for further advice on this matter. We can advise you

that we will make the information in our files available to the prosecutor if he is interested.

We would also suggest that you make the complaint to the Attorney General, State of New York, 80 Centre Street, New York, N. Y. He will be interested in the practice of having a completion certificate signed before the work is done and also interested in the erasures which you mentioned.

Very truly yours,

THE BETTER BUSINESS BUREAU OF NEW YORK CITY, INC.,
EMMETT DEAN,

Manager, Financial and Commercial Division.

Mr. HOFFMAN. He mentioned the name Max Chase. That name is identified in our files on a number of cases in connection with the Pioneer Home Improvement Co. of Newark, N. J.

The CHAIRMAN. That is the one you talked about earlier, today, and also on yesterday?

Mr. HOFFMAN. It was mentioned only yesterday, I believe, by Mr. Nicol.

The CHAIRMAN. That was the Bergen County prosecutor who mentioned the same name.

Mr. HOFFMAN. Yes.

The CHAIRMAN. Our next witness will be Mr. Arthur Waugh, New York City.

TESTIMONY OF ARTHUR WAUGH, STATEN ISLAND, N. Y.

The CHAIRMAN. Mr. Waugh, will you please be sworn. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WAUGH. I do.

The CHAIRMAN. Thank you very much. You may be seated. Please give your full name and address to the reporter.

Mr. WAUGH. The name is Arthur Waugh, 82 Armstrong Avenue, Staten Island, N. Y.

The CHAIRMAN. Do you own your own home?

Mr. WAUGH. Yes, sir.

The CHAIRMAN. When did you buy it?

Mr. WAUGH. The houses which are concerned here were purchased about 1945.

The CHAIRMAN. And by whom are you employed?

Mr. WAUGH. The Board of Education, city of New York.

The CHAIRMAN. And you have had some experience with FHA title I projects, or loans?

Mr. WAUGH. Yes, sir.

The CHAIRMAN. Suppose you tell us what your experience has been.

Mr. WAUGH. I might proceed by reading a statement to Bruce Mettlic, who is counsel for myself and another person involved with the Pioneer Home Improvement Co. in which he says Bondstone Corp. is a successor to Pioneer Home Improvement Co., which company went bankrupt.

My experience with Bondstone Corp. of Staten Island of which Morton Brett is president. I kept an appointment with them the 4th of November, 1953, and met Mr. Brett and Mr. Miller, who is reputed to be the owner of the Bondstone Co. of Newark, the parent organization. I objected to the suede shoe pressure salesmanship with repre-

sentations that Bondstone had just opened up on Staten Island and needed good references. I had two very dilapidated houses which they claimed, with new sidings and roofs, would make a good reference for Bondstone and they would spend \$100 taking photographs of the completed job and offered me \$100 as a fee if I could induce people to bring business to them.

Mr. SIMON. That means you would get \$100 for each instance?

Mr. WAUGH. Yes; they guaranteed they would do the work, the siding and roofing, at cost, quoting the cost at \$2,150 to me. They guaranteed the workmanship and materials for 20 years. They said they had been advertising in local papers in Staten Island but had gotten no results whatever. They displayed material samples, they urged the fact that their price was absolutely cost and had to be accepted immediately or would not be obtainable. They made out a contract and then they discussed the terms of payment. The talking was done entirely by Mr. Miller. Mr. Brett was merely introduced as a new man in the field and he only signed the contract.

They described the FHA terms, handed me an FHA form to complete. I had had an experience with the Tower firm of New York a few years prior to that and refused to take FHA, although I was impressed by the fact that they claimed to be an approved FIAA unit, and of course I accepted their integrity because of that claim.

I told them I had money in the bank to pay for the job, that I also had collateral for use if I had to borrow from the bank and could do so at a lower rate than FHA. They did a great deal of collateral work, the items not being included in the contract. The reason they gave for not including the items to be done were that they had no space left on the form, which I have with me, and it was not necessary since theirs was a reputable firm and could be trusted. They also promised that the assistant district attorney of Staten Island, a Danny Cohan, who was their own attorney, the assistant district attorney, would evict a tenant in the property and make it possible to do certain improvements which were necessary.

Of course, my interest here is as a veteran and I am interested to know that the preceding witnesses, here, for the most part, are veterans. I am a national officer of the Regular Veterans Association, and present Commander of a Regular Veterans Association post, in New York.

I was completely ignorant of building costs, methods of drawing up contracts, and I accepted these men on their statements, largely, that they were approved FHA people.

I am absolutely confident that I signed a contract, only. I signed no supplementary papers whatever, and the FBI now is investigating a forged note which was subsequently presented to me for payment.

I thought I was dealing with a quasi-governmental unit and therefore I took a lot on faith.

On November 25, 1953, I was notified by the General Investment Co. of Newark, that they held my note for \$1,750 and the note would be due the 15th of January and they wanted me to see them about paying it. I told them I had signed no note. I went to Newark a few days later and talked to a Mr. Ben Baime and his assistant, Mr. Root. They allowed me to inspect the note which was at that time completely blank, had nothing on it but my name, no endorsement and a penciled notation. I compared the signature on the note with the signature on my copy of the contract to try to find out if the signatures were identi-

cal and found that they were almost identical—slight discrepancies in the signature, which I described.

The note, again, was completely blank, it had no endorsement, nothing on it but my own name.

The General Investment Co. claimed Mr. Brett was a man of highest integrity and under no circumstances would forge a note. They gave me Mr. Miller's office address. I went out to see Mr. Miller who conducted Bondstone of Newark, and was told that I could meet Mr. Miller only on appointment, the people were very evasive and would give me no information whatever. I then went to Mr. Hoffman of the Better Business Bureau and began investigating the type of job, workmanship and so on, I had received from these people.

Incidentally, the job was done during the latter part of November. The contract was signed on the 4th of November. The notation from the General Investment Co. about the note was the 25th of November. I saw the General Investment people in Newark, about the 8th of December.

Mr. Hoffman suggested the advisability of writing the FHA, which I did at that time, but up to the present time I have received no response whatever.

I was also placed in contact with lawyers who handled similar cases involving the Pioneer Home Improvement Co., and I have some material from them showing that their experiences are identical with mine.

I had 3 contractors survey these 2 houses here involved, also a third house, which I thought of having done, and in each instance, I was told the work would cost, including roofs, \$750, or without roof, a top price of \$1,000 to \$1,200. My contract was for \$2,150, for the same job, plus collateral work which was never done.

The Federal Housing, and Mr. John Hemme of Staten Island, both estimated a top price of \$1,200.

In talking with the General Investment Corp. of Newark, Mr. Root took my measurements of the buildings involved and told me they should not have cost me, for the materials used, more than \$1,200. Mr. Root was apparently an assistant to Mr. Ben Baime who apparently is president of the General Investment Corp.

Now the work done was very defective. The shingles were not nailed properly, there was no calking done, much of the work was unfinished, work that they promised to do such as nailing clapboards and repairing windows, et cetera, was not done, at all.

I retained attorneys and tried to get action on the matter of the forgery, but since Mr. Holen, the attorney for Mr. Brett, was the assistant district attorney on Staten Island, it seemed fruitless to try to get any action through the district attorney's office.

The Federal Housing people suggested I see Ted Webb of the FBI and Mr. Webb since has been doing considerable investigation and by his courtesy I have these documents returned to me for possible inspection.

The Bondstone people, shortly after I refused to pay this note, caused a mechanic's lien to be filed on the house in the sum of \$1,750, although their contract was for \$2,150, and no money had been paid to them, at all. The matter was settled for \$1,650, plus my \$100 attorney's fee in June, causing my savings account to be exhausted, and pretty much putting me back where I was a number of years ago.

The job was done so poorly that the estimated cost by two contractors of putting the work in proper condition was a minimum of \$500. The Bondstone people guaranteed the material used, the Brixite, to be fully fireproof. I find that its probable life is 5 years. However, the effect of application of the material allowing water seepage and so forth, I am told, the material can't possibly last more than 3 or 4 years, unless it is remedied. I was worried in this instance, not so much as to price, but as to procedure, because of experience with Tower Engineering Co. of the Bronx, N. Y. I signed a contract in February 1949 for the installation of heating systems in two houses in New York. My wife and I both signed a contract. We have no knowledge of signing a note and no knowledge of signing any completion certificate. The contract was signed in February 1949. In May 1949 the Industrial Bank of Commerce notified me that they held my note and the note was due in October. They wanted it paid at that time, and would I make arrangements for payment. I went in to see them telling them I had no recollection of having signed the note, and that we had no recollection of having seen any completion certificate. The work was to be financed by FHA, the note was discounted in May 1949 by the Industrial Bank of Commerce. The work actually was started, after a great deal of pressure was brought by me, on October 25, 1949, a number of months after the bank notified me that they had discounted the, to my way of thinking, forged note.

The work was actually completed in January 1950, after we had taken the matter to an attorney to force them to put the work in satisfactory condition. However, it was finally completed. It cost me in that case \$250 attorney's fees. We finally settled the matter for the contract price, in cash.

Mr. SIMON. You were caught twice, then, Mr. Waugh?

Mr. WAUGH. Yes, sir. That is why I am so absolutely confident that this note is a forgery. I signed no completion certificate and I did not sign that note because I was wary about signing papers.

Senator PAYNE. Do you have in your possession the other note, of 1949?

Mr. WAUGH. I have it in my possession, sir—in May 1953, I moved from the house to Manhattan, to Staten Island. We had 13 rooms furnished, there, and we moved into an 8-room already-furnished house and I am still looking for it in my house. I do have it and I will continue to search to try to find it. It is in my possession somewhere, but I do not have it with me, I am sorry to say.

Senator PAYNE. You mentioned, I believe, a letter that Mr. Cohan, who was an assistant district attorney, wrote you? Is that letter available?

Mr. WAUGH. Yes, sir.

Senator PAYNE. Will you read it?

Mr. WAUGH. The letter is addressed to the attorneys by him. It is dated January 20, 1954. It reads:

Your letter of January 14, addressed to Bondstone, Staten Island Corp., sent to Mr. Morton L. Brett has been turned over to me for reply.

My client informs me that the statement in your letter concludes that said note was a forgery and is false. As you know, my client is in business and such statements as set forth in your said letter can only be calculated to injure the reputation of my client in its business. Therefore, if Mr. Waugh persists in publishing such slanderous and libelous statements, I am instructed to inform you that both he and his agent shall be held accountable for same. This

will also inform you that a notice of mechanic's lien was filed and docketed in the Richmond County Clerk's Office on January 8, 1954—

That was before the note itself was actually due—

against the property located at 3537 Catherine Place, Staten Island, in the sum of \$2,150 for labor and materials furnished to said property, and that I have been instructed to commence action against Mr. Waugh for same.

I have the mechanic's lien, here. I am sorry. The sum is \$2,150. I thought it was \$1,750. The mechanic's lien was subsequently released when we paid the \$1,650 to this firm and we also received a general release from Dan Cohan.

Senator PAYNE. You paid \$400 cash?

Mr. WAUGH. No; I never paid the cash. I refused to do it.

Senator PAYNE. Did you sign the contract?

Mr. WAUGH. I signed the contract and only the contract. My copy is here.

Senator PAYNE. May I look at that a minute?

Mr. WAUGH. Here is also the forged note. This is FBI property.

Senator PAYNE. Are there any further questions? I believe that is all, then. Thank you, sir.

TESTIMONY OF ANTHONY D'AQUILA, FLUSHING, N. Y.

Senator PAYNE. Will you raise your right hand and be sworn.

Do you solemnly swear the testimony you will give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. D'AQUILA. I do.

Senator PAYNE. Will you give the reporter your name and address.

Mr. D'AQUILA. Anthony D'Aquila, 33-21, 146th Street, Flushing, Long Island.

I don't have any notes and I can't remember the dates very good. However, I will do my best.

One day I was painting—

Mr. SIMON. About when was this, Mr. D'Aquila?

Mr. D'AQUILA. Oh, say 3 years ago, approximately 1951, in September, the early part of September.

A fellow approached me and he told me about this new product that was out, about this Protexa-Wall, and they were looking for a home to display this product on. And he thought that my house was the ideal home to display it because it was a cedar-shingle home, and that is exactly what they were trying to display it on. That is, that is what it would display it best, on. And he also told me that my job would be at cost. And I was to receive \$50 for every job that was done in the vicinity of Long Island. There were only two homes to be done on Long Island. One was mine in Flushing and the other was in Patchogue, which is about 45 miles from Flushing. Therefore, he said if I was interested he would bring the district sales manager of this product over that evening. He told me also that the product was guaranteed for the period of 10 years. There were two insurance policies to go with the product. One was from the manufacturer of the product and the other one was the North American Indemnity Co. So I told him if the product was that good I was willing to listen to him.

About 7 o'clock that evening he came back and he came back with a fellow he introduced as Jack Lee.

He was the fast-talking salesman. He was supposed to have been the district manager for Protexa-Wall. He was the one that done all the explaining. He showed me a number of pictures of homes that they had done throughout Jersey and that they all had been approved by the FHA. He also showed me a policy with the seal of the North American Indemnity Co., that they were behind this wonderful product, as he called it, that I was to get one of those policies at the end—if the job was done and completed.

I was also to get another one from Prylon, who were the manufacturers of the product. Then he told me about how much they had tested it. The United States Testing Laboratory had tested it for a period of 10 years against the weather, against dust, stains, acid, and as insulation.

Well, it sounded good and he drew up a contract and I didn't see anything in the contract that he had told me about. I asked him how come he was using a regular contract instead of a special contract for this particular purpose, and he said, "Since there are only two homes that we are going to display, it doesn't pay for us to have a special contract printed, but whatever you want, we can put into the contract."

Well, I was particularly interested in getting some molding put on underneath the eaves and just above the foundation. I also asked him about the \$50 that I was to get and how I was to get the \$50. He told me that he would have seven salesmen working in the vicinity and every time one of his salesmen brought a client around, or a fish, as I would call it.

Mr. SIMON. He didn't use the word "fish" did he?

Mr. D'AQUILA. Well, I used it. I am sorry. They were to give me a card with the people's names so that I could go over and look—if they ever collected on them, if they ever done the work.

Well, he demonstrated how good this product was. He put it on a piece of paper and spilled some water on it and all that sort of thing. So the next day he come around and he said—a couple of young boys who were supposed to spray the product on—he told us the product was to go on anywhere from a 64th to a 32d thick. When these fellows started to spray, if it was a 3/1000 thick it was a lot. I immediately stopped them. I called this concern—his boss, rather, the one who I had the contract with, and told him that that wasn't what I had in my contract. And he said, "Well, let me talk to the fellow in charge," and he talked to him, and he said, "All right, we don't have the proper spraying equipment. Tomorrow we will go out with a proper spraying equipment."

The following day I tried to get in touch with this Jack Lee, who was supposed to be the district advertisement manager. Nobody knew who Jack Lee was. So finally a day later he called me and he asked me what was the matter and I told him. I told him it wasn't going on the way he had told me it would go on and that I wouldn't let them spray, regardless of who he come out there with.

He said, "Well, we have a contract." He says, "I don't care what you do. We have a contract."

Two days later or a day later he come out with a new crew of men. He didn't tell me, though, that he had gotten a different contractor to do his spraying. After they had started spraying he says, "Well,

this is a different outfit. These are the boys who can really do the job. It is a different outfit, so we have to sign a different contract." So we signed another contract, exactly the same as the old one, and tore the old one up. He left. That was the last time I have seen Jack Lee.

So 2 days after the—well, they hadn't finished. Two days after they had started to spray this particular part of the house, this material had started to stain. So I called Pioneer, then—that is the one who I had the contract with, and tried to get ahold of Jack Lee. "Oh, we don't know who Jack Lee is."

I told them, "He goes around flashing your contract and you don't know who he is?"

The girl said to me, "Wait a minute. Oh, yes. That must be the advertising man," she says.

Anyway, I called Protexa-Wall, then, since they were supposed to be guaranteeing the product and he said, "Well, we will send out a chemical engineer."

A fellow came out there. He admitted that the product was staining, that they should have put a coat of sealer on it before they sprayed it.

Well, they never finished the job. They did want to finish the back part of the house so I let them finish that. It is just as well.

I got ahold of this Brett. I understand he was vice president or whatever he was, of Pioneer, and he told me—I explained to him what was happening and he said, "Yes, I heard all about it." He says, "Well, we are going to fix it up."

I had heard nothing from him and I called him again and he said, "Give us 6 months and in the spring we will do it all over again."

A couple of months after this, it started to peel. About 2 weeks after, I get a note from a bank, the Jersey Loan & Investment Co.—mortgage investment company—saying that I owed them notes, that they had given Pioneer \$1,500 for the job and I was to pay them back in notes. Well, I wrote to them and I told them to return the notes to me—I sent them a registered letter—to return the notes to me because I didn't have any knowledge of ever signing a bank note. They sent me a paper and said, "We have your note and paper."

By that time I started talking to different people and different attorneys and they told me, "If a bank holds a note, you have to pay for it; that's all."

That is why I contacted Mr. Hoffman of the Better Business Bureau and he told me there were several other people in the same predicament with the same outfit. They had gotten quite a few complaints. He hold me about another fellow up in Dobbs Ferry who had the same trouble. He had an attorney downtown and I contacted him and he told me the same thing, that the bank had the note and I was to pay for it, as long as they held the note. I never remembered signing that note. I was very curious to see what it looked like. I got an attorney and I went over to this New Jersey Mortgage & Investment Co. to see that note. There was a fellow by name of Rude, I believe his name was, and he showed me the stub of the note. It had my name on it or at least it looked like my name. He said, "Well, that's your signature," he says. So I explained to him about the product, and he said to me, "We are not concerned about the product, we are concerned about this note."

Well, I told him, I said, "I don't intend to pay for it because I never got anything for my money."

He says to me, "If you don't want to pay for it, I will turn it over to our attorney now," which was Mr. Furst. I later found out he was the president of this banking concern. I told him I am not going to pay for it.

Later I spoke to several lawyers and they told me I couldn't do anything about it, so I paid for two notes. That is all I ever paid them.

Then I went to the district attorney's office and they told me, "Well, they are a Jersey outfit and we can't touch them." So I go over to Jersey and I spoke to one of the detectives over there in the district attorney's office and he said, "Well, you are in New York, they are in Jersey, you have a contract with them, you have a note, the bank has note, we really have no authority to touch them."

So I gave it to a lawyer. He told me, "Well, wait and see what happens. Let the bank sue you."

That is exactly what happened. Then they turned around and they sold it to the Frankin-Washington Trust Co. They sold the notes to Franklin-Washington Trust Co. They turned around and sued me and they got a judgment against me. We had a trial about it and the jury gave us the decision. Of course, they appealed it right there and then, but what became of it I don't know, because we haven't heard from them, but Mr. Furst did tell me right in the courtroom, he said, "D'Aquila, this case is going right up to the Supreme Court if it has to." He says, "This is one case that is going up to the top."

Why he is after me as one particular individual, I don't know. So I told him, I says, "I spent 2½ years in the frontlines, and I am going to spend 5 years, if necessary, fighting guys like you," or "thieves like you," which I intend to do.

There have been a dozen homes done in a radius of a mile of my home that I know of. One thing I will admit, mine is the only one that has peeled as bad as it has. The others haven't peeled as bad.

Mr. SIMON. Did you get the commission on any of the others?

Mr. D'AQUILA. No, I did not. I did not, on any of them. That is only what I know of, at least a dozen. God knows how many more are in Long Island.

Mr. SIMON. Do you know if any of those other people were told that their's was a model home, too?

Mr. D'AQUILA. They were all told because I spent an awful lot of time going around talking to these people trying to form a committee to get after these people but a lot of people say, "Well, they got the note. Pay for it."

The banks sort of scared them off and rather than go through all the procedures and spend the money it takes—I have already spent about \$475 just for attorneys' fees, and a lot of people feel, well, just let it go at that, just mark it up as a bad break, and that is what a lot of them have done.

I don't feel that way about it. I feel that those people don't belong in business and it is up to individuals like us to see that they don't stay in business. That is the reason I am so bitter against them. I was hoping that somebody, somewhere, would help us out, honestly.

I am on my vacation this week.

Mr. SIMON. Where do you work, Mr. D'Aquila?

Mr. D'AQUILA. Department of sanitation, city of New York.

If necessary, I will spend the rest of my vacation testifying against these kind of people.

I guess that is about all I do have to say against them.

I do hope that somebody will get in back of us and get after rats like them. That is what I have to call them.

Senator PAYNE. Well certainly I can tell you this, Mr. D'Aquila, I think you are to be congratulated for coming before the committee and giving us facts of that nature and I want to tell you secondly whether or not this committee will ever be in a position to be of any real help to those who have had these things happen to them, is something we can't tell. It may be impossible. But certainly this committee is going to do everything that it can to see to it that this sort of thing doesn't happen again.

Mr. D'AQUILA. Well, I certainly do hope that somebody, somewhere along the line, will do something about it. It is not only I, I am one of the fortunate who did come back, but the boys who did not come back, I don't think that that is the thing that they fought for.

Senator PAYNE. Any questions?

Thank you very much.

Mr. Abner Roberts.

TESTIMONY OF ABNER ROBERTS, BROOKLYN, N. Y.

Senator PAYNE. Would you raise your right hand, please, Mr. Roberts? Do you solemnly swear that the testimony you will give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. ROBERTS. I do.

Senator PAYNE. Will you state your name and address, please, for the benefit of the reporter?

Mr. ROBERTS. Abner Roberts, 116 Hancock Street, Brooklyn, N. Y.

Senator PAYNE. Will you be seated, please?

Do you want to proceed in your own way, Mr. Roberts, to tell your story on this? I presume that this also has to do with something happening on title I.

Mr. ROBERTS. Yes.

Senator PAYNE. Will you proceed in your own way?

Mr. ROBERTS. Well, in 1946, I bought a house in Brooklyn, which is 116 Hancock Street, Brooklyn. There were quite a few violations on it and I managed to get them off and it seemed to be going along pretty fair, with the different FHA's that I had gotten before. In fact I had gotten one for \$1,400 and then later on I got one for \$900. That went along and the work was done very well.

Then I wanted the house painted inside and out, and my 3 rooms made into 4, and we were in contact with a contractor named Schumacher. We came in contact with him by visiting some people in Jamaica. I saw some of his work, my wife and I, and we liked it. We asked questions about it and they said this Mr. Shumacher was the man that done the work. So we asked to see him and who he was, and maybe he could help us out.

In the meantime, he soon came over and introduced himself as contractor for this kind of work which we wanted, to decorate inside

and out, and to renovate our three-room apartment. We drew up a contract to that effect for \$1,500 from the FHA, which we got to go through after a couple of trials in different banks.

In the meantime, the Brevoort Bank, with which I was doing business, to buy the home from, they recommended me as a good payer and that is how it went through with his knowledge to get it.

We got the money. My wife had it in her name, you know, and she paid him approximately \$400 to start with. I think \$300 was the next payment, because he had begun work.

In the meantime, he had lingered along—he didn't seem to be doing so much work, then. I noticed every time I came home he was just sitting around, piddling, like. So I got worried, because the place was broken up in such a state that you couldn't hardly live in it. I wanted to know why it was held up so long.

Then in the next few days or a week or so, my wife told me "He said he wanted the rest of the money in order to complete the job, because he didn't have the money."

I said, "That seems funny." I said, "I don't think you should give it to him, because if you do, it is possible that he might walk out, and then we would be left with the bag to hold."

She was being influenced by the people we was visiting, she said. "He wouldn't dare to mess his name up that way as being a contractor, and then being recommended by such people like these was." I said, "Nevertheless it doesn't seem right for him to take all of the money." There was \$800 left. She insisted on it. I said, "No, I wouldn't do it. I wouldn't think of it."

A few days went on and she kept insisting. I said "Listen, if you do, you are on your own. I don't like it. I don't like the idea. If he takes the money, it is possible that you will have to go running after him," just like what happened.

So she let him have the rest. Then he began to work—piddle around like 2 or 3 hours here and there, and sometimes would have men there and he then would take them away. They would work an hour and then he would take them away to some other job.

Quite a few times I went to different other jobs to see him and he said he would be over the next day or the next week. Nobody ever came around. It just continued on like that. I said, "It looks like to me you want to make somebody angry. You shouldn't do that. What can I do? I paid you to do the work. It looks like you should do something. You don't have to rush yourself, but make some kind of show."

Then it seemed like he slacked off altogether. I could never see nobody. I kept following the jobs up different places that he was. Then he had done got the money and gone and now I can't do nothing with him.

She said, "I thought he would have done better." I said, "I told you not to let him have it. Now we have trouble. We have to start paying the notes." We had to start paying the notes as soon as we got the money.

In the meantime, I went to his home. A friend of mine and I went to his house and asked him, "Mr. Shumacher, are you going to finish the work or what are you going to do? Do I have to start a procedure with you? If I do, let me know, because something has to be done." I had a small baby and the place was filthy.

He said, "I will be over there."

I said, "I will look for you in a couple of days. If you don't make some showing, I will have to take some action so I can know what is going to be done."

He didn't come. So in the meantime, we go to a lawyer and have him to just write him a letter, you know, just to notify him that if he don't, this is what's going to happen, we are going to take procedures against him.

Then he sends a fellow—when he gets the letter, he sends a fellow to the house and takes up all the tools and everything and takes them out in 1 day. He said he wasn't going to do anything, then. I called him up and he said he wasn't going to do anything else because we was threatening him. I said, "We are not threatening you, I want to know what you are going to do."

He said, "I am not doing anything further. I am through." So he took everything away.

There was nothing I could do. I asked several people around about it. In the meantime, I had to pay this note and I kept on paying it. I never would stop paying that, because that was through the Brevoort Bank that recommended us and I didn't want to make my name bad, because I figured as far as making the loan was concerned, I still have a good reputation of paying the loan, now, and I didn't want to spoil it. So I paid the loan off.

I went to another lawyer. I didn't use this one any more. I went to another lawyer and I give him the contracts and the papers, even the key to the house and all like that. Even I had photostatic copies of the damage, the place, how it was left, what work was done and what wasn't. He said he would take it for a fee. He said he would take it for \$100 down and he would let me know what was the remains after it was finished. So he took the job. In a few moments or so after, he tells me that Shumacher is broke and he hasn't any money and that there is nothing that you can do with him because he hasn't got anything, so what should we do?

The work had to be done and I was doing the best I could to finish it up. Working the way I was, I had to work day and night. I would come home and do a little painting and redecorating and so forth.

In the meantime, something happened between me and the family and things went wrong. So I said, "What shall we do?"

He said, "There is nothing you can do; you owe me now \$300 more."

That is the attorney I had for the Schumacher case. He says, "I was thinking maybe you wasn't coming around and maybe I would have to sue you to get my money."

I said, "You don't have to do that, I always pay my debts, but what is the damage? I will try to keep in good faith with you, anyway, because I have to have somebody to help me."

He said, "It will cost \$300 more for what I have done for you." That was just to find out he was broke and that there was nothing the lawyer could do.

I think at that time I did have \$340 in the bank. I went to the bank and drew it out and I give him \$300. He give me a receipt from that and I didn't hear no more from Mr. North, any more concerning it, except he just told me from time to time that Shumacher was broke and he didn't have anything and that is the way it went. So I paid the loan and that is what happened. I finished the work myself, with

the help of others, and through working night and day and economizing in every way, I possibly could. There were several times when I didn't know where I was going to land, but God above blessed me to be here.

Senator PAYNE. In other words, it cost you about \$2,000 altogether, and then you still wound up having to do the work, yourself?

Mr. ROBERTS. That is right. I wish I could give you those contracts and everything, but Mr. North has them and about what happened between my wife and I, he wouldn't let me have those things until this was settled between her and I, and he said when it is he would turn those over to me.

Mr. SIMON. Where do you work, Mr. Roberts?

Mr. ROBERTS. Now, or at that time?

Mr. SIMON. At that time and now.

Mr. ROBERTS. I was working for Store Door Delivery.

Mr. SIMON. Where do you work now?

Mr. ROBERTS. For Pacific Sugar, Bronx Terminal Market.

Senator PAYNE. Thank you very much.

I could not be at the hearing this morning, but I wonder if counsel would advise me as to whether or not during the course of the testimony this morning it was brought out that any of these instances of where there were projects under section 608, that some pretty substantial windfall profits might have resulted? I note there are three cases, here, I think, that were heard this morning.

Mr. SIMON. There were two, Senator Payne. One was a section 608, the Glen Oaks project in which the windfall from mortgage and appreciation on the land was \$6 million, and a section 603 project, the Beth-Page Realty Co., in which there was a windfall of \$5,150,000.

Senator PAYNE. That is the William J. Levitt—

Mr. SIMON. That was Levittown, N. Y., and the testimony was that the insured mortgage was \$29,946,500, and that the total cost of the land and the buildings was a little more than \$5 million less than the amount of the mortgage. For income tax purposes, to avoid having to pay normal income taxes, on that \$5 million windfall they sold the entire corporation—that is, the stock in the corporation—to a charitable corporation, with \$2,000 in assets, and then the charity the same day declared a dividend of the \$5 million in the bank, and being a charity, it did not have to pay an income tax on the \$5 million and then the charity paid \$5,150,000, which was the money in the bank all the time, to the two Levitt brothers and by that means they got the windfall out of the corporation into their own pockets and only paid a long-term capital gain.

Senator PAYNE. Thank you very much.

The last witness that we have listed for today is Francis H. Clark. Is Mr. Clark here? Mr. Clark, will you be sworn?

Do you solemnly swear that the testimony you will give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. CLARK. I do.

Senator PAYNE. Will you state your name and address?

Mr. CLARK. Francis H. Clark, 134 Concord Avenue, White Plains, N. Y.

TESTIMONY OF FRANCIS H. CLARK, WHITE PLAINS, N. Y.

Senator PAYNE. You just proceed, Mr. Clark, in your own way.

Mr. CLARK. Sometime in March of this year, I received in the mail an ad from the Permastica Corp., soliciting inquiries about their product. I sent in an inquiry and many weeks later, I received another such ad—I think it was a duplicate of the first. I have a second one, here.

Their salesman called at my house in response to the inquiry and according to the date on the contract signed that night, it was March 31. His name is David Douglas Steel. He represented himself also to be an advertising manager, much as in one of the preceding cases, and that this was therefore a special promotional deal at cut rates.

He offered to extend the usual 10-year guaranty to 15 years and the guaranty was going to include not only materials and workmanship, but also the materials covered by Permastica. While he described his product flowingly, he undertook to calk all of my windows and doors also. I still did not sign the contract. At this time he made a model home offer very similar to some of those previously described, and I am afraid I signed the contract, at that time. I have a copy of the contract, here. The one thing I would like to mention about it is that it contains a 30 percent penalty clause if for any reason you do not go through with the contract, whether or not the contractor incurred any material expense.

The following day I was discussing this with one of my coworkers—the transaction, I mean.

Mr. SIMON. Where do you work, Mr. Clark?

Mr. CLARK. For Nuclear Development Associates in White Plains.

This person said he had heard rumors to the effect that some of these companies were not all they should be, so I immediately called my wife and asked her to get in touch with the White Plains and Yonkers Better Business Bureaus and/or the Chamber of Commerce. She did and none of these organizations had any information on Permastica, but the Yonkers people suggested we call the New York National Better Business Bureau. She did this and they apparently had quite a file on them and said they had a number of complaints, some on workmanship but principally on this sales method.

Mr. SIMON. Mr. Clark, could you talk into the microphone, they can't hear you in back.

Mr. CLARK. All right.

The people at the National Better Business Bureau suggested that whether or not we were stuck, it might be a public service to enter a complaint if the transaction should develop in such a way as to indicate a complaint was warranted. I think I should say at this point that I had no idea there were any FHA regulations permitting model home deals, at this time. I did not know that.

A few days after this, the guaranty arrived. It was for 10 years instead of 15 as promised and it guaranteed much less than promised, so I immediately mailed it back and said it was unsatisfactory.

A few days after this, some workmen for Permastica came to my house. I am not sure of the date, but I believe it was April 10. I sent them away. The following Monday—that was a Saturday—I telephoned Permastica to straighten out this guaranty business. I wanted to cancel the contract then but I didn't feel like paying the 30 percent

penalty. I let them know I checked with the better business bureau and got bad reports about them and I told them if I found anything in their work or in their representations that was in any way misrepresenting, I was going to register strong complaints wherever I could.

The work was ultimately done. It was apparently completed on the 23d or 24th of April. There is a little bit of doubt as to the date, and my wife signed the completion certificate.

A few days after this, we were discussing it at the table and she mentioned that down in the lower section where the dealer signs, there is a statement to the effect that no bonus arrangements or commission arrangements had been entered into. She told me she told me that the night we signed it, but I do not recall hearing it or I might not have been listening.

Let me backtrack a moment. As soon as I saw I was having trouble with the guaranty, I wrote to the bank which was financing this and it was the Rosslyn National Bank & Trust Co., and I told them that I was having some difficulty and they were under no circumstances to pay any money to this outfit until I released it. Now to return to where I was.

When I learned there was this statement in the completion certificate, I wrote the bank and requested a copy. I had been at work and did not examine the first one. The copy arrived—a photostat of it arrived from the bank and apparently not only the dealer but my wife too had signed the certification to the effect that there had been no commission arrangements and my wife said she read the dealer's section very carefully and just skimmed through the part she was supposed to sign.

That night I had her write an amendment to that certificate repudiating that portion of it, and I mailed that together with a covering letter to the Rosslyn bank. I was very much confused as to what should be done. I felt clearly something unethical had occurred and yet I had received a service from this company and I owed them money. I told the bank that what I thought would be best to do would be to hold the money, if they were still going to grant the loan, in escrow, until the FHA had been apprised of this and determined what should be done, and I said further that if the bank did not regard that as a feasible thing to do, then I would leave it up to their own judgment and experience as to what disposition should be made of the money.

Now that same night I wrote a letter to Senator Byrd telling him it was possible that I had a complaint in this FHA business and asked him with whom I should file complaints and he subsequently suggested Messrs. T. Coleman Andrews and Warren Olney of the Internal Revenue and Justice Departments, respectively, and I wrote another letter to the FHA's New York office in which I said I wanted to make a complaint. I outlined briefly what had happened and I asked them for instructions as to how to file a formal complaint.

On May 10, I received a phone call from Mr. Cooper who said he was the manager of the Yonkers office of Permastica. Well, we had had a discussion at great length—I will shortly go into some of the salient details of it; I would prefer to skip by it at this time—the discussion got so long I suggested we adjourn until the following day and the following day I invited Mr. Cooper and Mr. Steel to call on

me at my house and discuss the matter. We did and carried the conversation on further. Nothing came of it.

I would like to anticipate the conversation to this extent and say that one of the things that was said when they were asking why in Heaven's name I should be suspicious of Permastica—that is why I did not accept the premise that this was done entirely on the salesman's responsibility. I mentioned several things, one of which was that I was suspicious if they, a Westchester firm, were financing through a Long Island bank.

On the following day, May 13, I received a reply to my letter to the FHA. This letter was signed by Mr. Charles H. Herman—I have it here—and he lists himself as the title I representative. In effect, it says that if the case is as I stated it, I probably have a complaint and that it should be addressed to Mr. William Adams Shulz, director of the New York office of the FHA.

Now along with that letter—and I don't recall the enclosure: there is a notation of an enclosure on this—were these pieces of paper. The first is the original letter I sent to the FHA. The second one is on the letterhead of the Central National Bank of Yonkers. It is addressed to Mr. William Adams Shulz. I assumed when I read this, that this was a duplicate of a similar complaint and for some reason, the FHA was distributing it to me.

Now I don't think you want me to read all this. It is a complaint in many ways similar to mine. The last paragraph might be of interest. It says, and I am quoting—this is in re the Permastica Corp.:

This firm came to us very well recommended and we conducted a thorough investigation, the result of which is on file with this bank, and everything pointed to a favorable relationship. This is the first complaint that we have received and we will continue to accept paper from this dealer unless this procedure proves to be their pattern of financing.

It is signed Albert F. Lockwood, assistant vice president.

P. S.—As a result of an additional complaint we have received, we are severing relations with this dealer effective immediately.

Neither of the complaints mentioned here is mine. They are two separate ones.

When I was preparing my letter to your committee's investigator, I observed that this is—it seems to be a rag bond that is in several colors. It is clearly not a duplicate. This is an original. In some manner or other, it seems that the FHA file on Permastica was mailed to me and has been in my possession for 2 months without their knowing it.

Your investigator suggests that I emphasize the date of the Central National Bank letter, which preceded my letter of complaint. It was April 15, 1954. The date on my letter to the FHA was May 5, 1954.

On May 24, I wrote a letter which I would like to call my first formal complaint to the FHA. I would like to read this into the record. I don't know exactly what the extent is of the oath I took, but as far as I am concerned, I am swearing not only that I wrote this letter, but I will swear to the veracity of every statement in it. It is the usual letter addressed to Mr. William Adams Shulz, Director, Federal Housing Administration, New York:

DEAR SIR: I wish to enter a formal complaint about the Permastica Corp. of Yonkers which has been operating under title I. Some time in March I answered

a direct mail inquiry solicitation of that company. On March 31, their salesman, Mr. D. D. Steele called. He described the product in glowing terms, offered a 15-year guaranty on materials, work, and preservation of materials to which applied, and undertook to make the house a "display house." A display house is one to which salesmen bring prospects. If the prospects sign, the owner of the display house receives \$50. With these inducements, I contracted to pay \$50, FHA financed, for the application of permastica to the upper half of my house.

Within a few days, I had become suspicious of the transaction for the following reasons: (1) I began to hear rumors of unethical practices by companies in this field. (2) the company was financing through a bank some distance away—the Roslyn National Bank & Trust Co.—and (3) the guaranty arrived guaranteeing only the ingredients of permastica for only 10 years. I checked with the National Better Business Bureau in New York and learned there were a number of complaints on record against this company both for their workmanship and for sales methods. At this time I would have gladly canceled the contract, but there was a 30 percent penalty clause. I telephoned Permastica—I don't remember the date, but it was the first day that the FHA scandals broke in the New York Times—and spoke to Messrs. Cooper and Steele. I did not then realize that I had good legal grounds for canceling the contract and so I told them (1) that the guaranty was totally unacceptable (2) that I had had reports of them from BBB, and (3) that if I were to find anything about their product or sales methods misrepresented or illegal I would register strong protests with competent authorities. Mr. Cooper undertook to adjust the guaranty—which he did only partially.

The work was completed about April 24, and my wife, who was not a party to the contract, signed the completion certificate. A few days later I learned there was a "no commission" clause in the certificate, and this was my first inkling that something possibly illegal had occurred. I wrote the bank requesting a copy of the certificate. They obliged. The "no commissions" clause had been signed by both my wife and by Permastica. My wife re-read it and agreed that in view of the salesman's promises she should not have signed it. She submitted an amendment to the Roslyn Bank repudiating the clause.

I wrote the bank suggesting the money be held in escrow pending settlement of the matter. I also wrote the FHA summarizing the events.

On May 10 I received a telephone call from Mr. Cooper. I cannot be sure of the order in which the following things were said, but they were all said. He said he had word of my complaint to the FHA and that he did not consider it "decent" to go direct to them. I made clear to him that I was not complaining about the work, but the display house sales promises. He said there was nothing about that in writing and that it was my word against the salesman's. I said I would submit an affidavit. I said the certificate could not be signed as it stood without making a false statement. He said it was just a statement that the work was done; so it was all right to sign it. He said also if I did not sign it I would disqualify the FHA loan and have to pay cash. I said I would not sign, that no action of mine disqualified the loan, and that I would pay over 36 months as contracted. He said I would have to pay cash or negotiate another loan because the company did not carry accounts. I said I would do neither and let the company worry about it. He asked me what I hoped to get out of my complaint. I told him I thought I had been stuck and that I did not think I would get anything, but that I hoped I might spare my neighbors a similar experience. He said he was sure I had something better to do with my time than to make trouble for people. He said that since I had a long term guaranty from Permastica it was in my interest that the company remain "financially responsible." I replied, "You mean I should shut up and let you go merrily on your way to make sure you're still in business during the life of my guaranty?" He then said if there were a hearing that turned out unfavorably for Permastica the only thing that would happen would be that the FHA would require the discharge of Mr. Steele. At this point I suggested we adjourn the conversation to another day.

On the following day, I suggested that Messrs. Cooper and Steele continue the talk at my house May 12. They came as appointed. I related to Mr. Cooper the promises Mr. Steele had made on the night of the signing of the contract, explicitly detailing the display house offer. I then asked Mr. Steele if he wished to contradict anything I had said, and he said that he did not. Mr. Cooper again disclaimed company responsibility for Mr. Steele's promises. He again urged me to sign the completion certificate unaltered. I refused. He

offered to recall the FHA applications and attempt to negotiate an uninsured loan. I told him whatever he did would be on his own responsibility, that I would not necessarily undertake any further commitments. I said this because I did not wish to do anything to prejudice the investigation which I had determined to request. He again asked what I hoped to get out of all this and I replied as before. He again asserted that all I could hope to accomplish was Mr. Steele's discharge, and I said that I had no wish for that to happen. Mr. Steele made a personal appeal for consideration. This was the main substance of the conversation. I have had no further contact with the Permastica people.

On the following day I received a reply from FIIA. Among other things, there was an enclosure which was a copy of a letter from the Central National Bank of Yonkers stating that it had severed business relations with Permastica on account of the receipt of complaints of a nature similar to mine.

In view of my own experience with Permastica, and in view of what I have subsequently learned about them, I believe they are a company which has deliberately preyed upon a gullible public and which has abused and misused the privileges granted them under FIIA legislation. I therefore request that your office investigate the activities of Permastica insofar as those activities come under your proper surveillance, giving particular scrutiny to the following points:

(1) My own experience with Permastica, their display house, and the certificate of completion.

(2) The cases of other homeowners who have had complaints about Permastica. The Central National Bank of Yonkers and the National Better Business Bureau in New York both have such cases on record, and the latter has assured me that they will be happy to cooperate with you.

(3) Mr. Cooper's attempts, on two separate occasions, to persuade me to sign the completion certificate after he was aware of its impropriety.

(4) Mr. Cooper's May 10 attempt to persuade me to drop this complaint by saying it was in my interest that the company remain "financially responsible."

(5) The 30-percent penalty clause in the contract. I question whether the FIIA should sanction such a clause in contracts which it finances. The penalty can be levied when the contractor has performed no tangible service and has incurred negligible expense. I can assure you that had that clause not been there this whole mess involving me would never have occurred.

I wish to emphasize that my complaint is not directed at Mr. Steele, and I sincerely hope that he will suffer no personal injury solely by reason of any wrong he may have done me. I have a very strong suspicion, however, that the Permastica Corp. has been engaging in reprehensible business practices with management responsibility. If your findings should confirm my suspicions, I sincerely hope that you will exercise the full authority of your office to restrain such behavior in the future, and that if any criminal offenses are uncovered they will be brought to the attention of the competent prosecutor.

Signed by me, with copies to the National Better Business Bureau, to Mr. Warren Olney, Assistant Attorney General.

A few days later, I got a letter from Roslyn National Bank & Trust Co., informing me that my loan had been awarded under the FHA title I program. I was very much surprised at this because I was quite sure the amendment my wife submitted to the certificate of completion should have disqualified this loan with FHA insurance. I therefore sent the following much shorter letter to Mr. William Adams Shulz. Let me say at this point that the letter I just read, dated May 24, has not ever been acknowledged by anyone in Mr. Shulz' office.

I now read the second letter I wrote to Mr. Shulz.

DEAR SIR: On May 24, I wrote a complaint to you regarding my dealings with the Permastica Corp. I suggest that reference be made to that letter. In today's mail I received a letter from the Roslyn National Bank & Trust Co. which I think necessitates my writing you again. Let me first quote you verbatim a statement my wife sent the bank on May 5, 1954.

"To the Roslyn National Bank & Trust Co.: On the 23d or 24th of April 1954, I signed an FHA completion certificate relating to certain work done on the premises of 134 Concord Avenue, White Plains, N. Y., by the Permastica Corp. Ap-

parently at the time I did not read it carefully. I have since reread the certificate, and I repudiate that portion of it that says "nor has it been represented to me (us) that I (we) will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction."

"I direct the officials of the Roslyn Bank & Trust Co. to cause this letter to be attached to the original of said completion certificate wherever that may be. Very truly yours," signed Elsie Tomkinson Clark.

The letter that I received from the bank today, dated May 27 and signed by E. J. Smith, Sr., said in part, "The facilities of our loan department were made available to you through an FHA title I loan * * * note dated May 24, 1954."

In view of the above letters, and particularly the dates involved, I cannot help but feel that someone has been guilty of gross negligence or of arrogant disregard of the law. I therefore request that you also investigate the following:

1. Whether the bank filed my wife's supplementary statement as directed;
2. If not, what conversations took place between the bank and Mr. Cooper of Permastica, especially in the period May 12-May 24;
3. If filed, who in the FHA granted the insurance and why?

Signed by me with copies to the National Better Business Bureau and Mr. Warren Olney.

Senator PAYNE. Thank you very much.

Mr. Hoffman, do you have anything further?

Mr. HOFFMAN. I think some of the comments in our files might be pertinent in view of the letters from the FHA. I will read a one-paragraph summary of my statement.

Permastica Corp. in Brooklyn is identified in our files in connection with the model home approach. Our files date back to 1951 but complaints were greatest during 1952 and 1953. Products of the Re-Nu-It Corp. are featured, apparently.

Senator PAYNE. Let me ask at that point, did your bureau, dating back in 1951, call these complaints to the attention of the FHA Administrator in New York?

Mr. HOFFMAN. Not at that time. I will mention that, here.

Senator PAYNE. Fine.

Mr. HOFFMAN. In February 1952, Mr. Martin Smith of Permastica, told us that his firm did use a bonus plan to sell their products. We asked for the names of a substantial number of homeowners who had received bonuses, and received no further communication from the concern.

In June 1953, I notified the New York FHA office concerning deceptive practices of the firm. Following up this letter in September and also in October 1953, since we had no reply. Shortly thereafter, Permastica told the FHA they were eager to continue FHA financing and FHA then told the National Better Business Bureau that a decision in the matter had been reserved. The New York Better Business Bureau also has complaints against this company. Our most recent complaint was March 19, 1954.

Senator PAYNE. Is there anything further?

Mr. HOFFMAN. That is all.

Mr. SIMON. Mr. Hoffman, you are going to present your full statement for the record?

Mr. HOFFMAN. Yes, sir.

STATEMENT OF J. R. HOFFMAN, REPRESENTATIVE, NATIONAL BETTER BUSINESS BUREAU, INC., NEW YORK, N. Y.

Mr. HOFFMAN. The National Better Business Bureau is a nonprofit corporation which legitimate business established in 1911 to protect itself and the public from that which is unfair, misleading, or fraudulent in the field of national advertising and selling; to increase public confidence in business by striving for better consumer satisfaction through accurate representation of products and services; and to assist in consumer education, promoting a better understanding of business by the public through the publication and distribution of factual information.

In pursuance of these objectives, the bureau undertakes to furnish members of the public, at their request and without charge, with factual information about companies or individuals with whom they contemplate entering into business transactions. The bureau also accepts complaints from the public. It endeavors to secure the adjustment of complaints which, upon investigation, are justified or, if the evidence indicates that some law has been violated, refers the facts to the appropriate law-enforcement agency.

For many years, the bureau has been aware that deceptive practices have been utilized in connection with FHA title I financing. As far back as 1937, the bureau issued a press release warning the public about malpractices in the home modernization field. A copy of the release is attached to this statement and marked "Exhibit A." Most of the contractors in home repair and maintenance work are reputable businessmen and are themselves opposed to the practices of the few who exploit gullible and inexperienced homeowners. However, unscrupulous contractors in the home improvement field have been sufficiently numerous to create a major problem as far as better business bureaus are concerned. I have been in charge of this phase of the national bureau's work for the past 3 years, during which time I have personally handled well over 1,000 inquiries and complaints from the public. Some of the products involved are roofing materials and compounds, various types of siding and insulating, simulated brick and stone, storm doors and windows, and, in particular, mastic paints. Homeowners in many communities have been subjected to an assortment of misleading advertising claims for these products but my discussion will deal primarily with mastic paints, a textured coating for exterior walls.

Some mastic paint manufacturers and dealers indicate in advertising that the premises need never be painted again, that the product is indestructible, that it makes walls waterproof, fireproof, termiteproof, and other uncorroborated claims interspersed with such statements as "Liberal FHA financing," "Easy FHA terms," "FHA approved," et cetera, to lend an air of integrity to this advertising. Consumers who respond frequently find themselves on a merry-go-round that they are unable to stop. The trickery starts immediately. So-called "suede-shoe" itinerant salesmen have called on the victim either in response to leads supplied by the contractor or mastics manufacturer from advertising, or from canvassing a particular neighborhood. This old familiar "model home" racket is worked for all it's worth. Explaining that a demonstration house is needed in the area to sell

other homeowners the miraculous new product, it is emphasized that the victim's home has been selected. Verbally he is promised a commission on every sale made in the area and a bonus for every customer he recommends. In other cases, it is represented that a "special factory price" is being offered to help introduce the product, and the salesman bears a card reading "Advertising manager" or "Area director" to reinforce the impression that this is a special deal being given to only one homeowner in the neighborhood.

After much high pressure, the homeowner may sign a contract with the belief that his "specially priced" home improvement will cost virtually nothing because of its use for advertising purposes. At this point, additional chicanery has frequently taken place to obtain the victim's signature on the FHA completion certificate in advance. Various subterfuges to conceal the nature of what the homeowner is signing have been used. Complaints have also been received alleging that salesmen have added or altered provisions in the contract after it has been signed.

Frequently, no copy of the document is given to the homeowner. The materials to be used on the job are also the subject of misrepresentation, the salesman promising verbally that a given well-known product will be used whereas when the homeowner eventually sees the contract he has signed, it will provide for another and unknown product.

Salesmen have been known to pull several hundred dollars from their pockets and hand it to the homeowner as "advance payment for bonuses" or accept it as downpayment. The exorbitant prices charged more than compensate for such ostensible generosity.

In some instances, home improvements have been sold as part of a scheme whereby the homeowner can "consolidate his debts," i. e., the price of the improvement is upped considerably and the difference between the actual amount and the amount of the FHA loan is to be used to pay off other obligations. Or the price of the contract will be increased to give the victim "a little extra money."

The salesmen themselves, using a variety of names and aliases, seem to be floaters attaching themselves to first one racket, then another. Depending on what is popular at the moment, they may be selling freezer food plans, water conditioners, home fire alarm systems, demonstrating vacuum cleaners or promoting home improvements but, in all cases, using tricky and dishonest methods to sell merchandise generally recognized as having a legitimate place in consumer markets.

Once the salesman has high-pressured a signature on a contract, and tricked the victim into signing a completion certificate—in several cases forgery has been alleged on the completion certificate—the paper is rushed to a lending institution for immediate discounting. As soon as the money is received through FHA financing, the salesman's commission is paid out and the contract is often awarded to a subcontractor who will make the highest bid for it.

To the homeowner's amazement, the elaborate work contracted for is sometimes started and finished within hours of signing the contract. Frequently, no advance preparation of any kind is done on the premises, and the workmanship is inferior and incomplete. Promises made orally—such as caulking, painting of trim, replacement of broken shingles, et cetera—do not materialize.

In the selling process, the homeowner has been further thrown off his guard by long-term guaranties—often 10 to 20 years—issued by mastic manufacturers. These impressive appearing documents, if read carefully, disclose that they offer little or no redress if the application proves unsatisfactory. One or two stipulate that where product failure can be demonstrated, an amount of replacement material will be furnished to the homeowner for his use in patching the premises up as best he can, but the onus of proving that the product is at fault, is on the homeowner. The manufacturer often takes the position that the application by the contractor was improper, and the contractor blames the product. The homeowner is caught in the middle with little or no recourse.

One manufacturer, the R-Nu-It Corp., New York, issued a "registration" certificate, which stated no more than that an application had been done. This was misrepresented as a guaranty. Later Krylon of Philadelphia issued an "insurance policy" supposed to protect the homeowner against product failure but which, it is understood, merely insured against damage to the property and individuals during the application process, with no provisions of any kind protecting the homeowner against product failure over a period of years.

Some mastic manufacturers, including such companies as the Re-Nu-It Corp. of New York City, Carbozite Protective Coatings, Long Island City, Krylon Co., of Philadelphia, Old Quaker Paint Co., of Los Angeles, Chempro Sales Co., of Bloomfield, N. J., have a consistent record of selling to contractors guilty of flagrant abuses. One of the above, Re-Nu-It Corp. has consistently contended that they had no legal or ethical obligation in connection with complaints registered against fly-by-night and unethical concerns selling their product, but "as a good-will gesture only" would supply a quantity of material to the homeowner to be applied to cracking, peeling, chipping, or blistering surfaces by hand. The company's literature emphasizes that the product must be applied by trained personnel, utilizing heavy-pressure spray equipment. Although NBBB has on several occasions protested to Re-Nu-It that their product was consistently in the hands of the worst type of contractor and salesman, no interest in taking remedial action has been demonstrated.

The following trade styles and products are also subsidiaries of or related to the Re-Nu-It Corp.:

Colorthru Chemicals
 Colorthru
 Barrymore Corp.
 Sana Gene Chemical Corp.
 Nu Side Corp.
 Evercrete Corp.
 Stopzit
 Shingle-Seal
 Dewatex Manufacturing Corp.

The bureau also has files on many questionable contractors in the metropolitan New York area. It must be realized, of course, that NBBB frequently learns of contractors' activities only through complaints filed with us—we do not hear from many satisfied homeowners who have dealt with reliable contractors.

One of the worst offenders in our records is the Pioneer Home Improvement Co. of Newark, N. J. This company operated extensively

throughout the metropolitan area. Complaints against deceptive sales practices began in 1950, reaching their peak in 1952. Products involved were usually mastics made by Re-Nu-It Corp., Carbozite Protective Coatings, and Krylon. There is indication that schooling was offered by Pioneer to "suede shoe" salesmen in the most efficient ways to deceive homeowners, stressing the model home and bonus racket. Certain salesmen, using a variety of names, apparently learned their techniques working for Pioneer, then later formed their own companies to get in on more of the easy money.

Financing was usually done, initially, by the General Investment Corp. of Newark—later by the New Jersey Mortgage & Investment Co., also of Newark. Both of these institutions appear to have been aware of the deception and shoddy workmanship identified with Pioneer's operations.

Complaints became so alarming during the spring 1952 season that NBBB took the situation up with the financing agency, New Jersey Mortgage & Investment Co., William Furst, president. The latter clearly admitted that they had received many complaints involving improper workmanship, contracts not completed, deception by salesmen, et cetera, but continued to accept Pioneer's contracts, taking them to the Franklin Washington Trust Co., located in the same building, for FHA financing. The letterhead of New Jersey Mortgage & Investment Co. notes "Approved mortgages under the National Housing Act," and bears the FHA seal. And the many suits brought by Franklin Washington Trust Co. and New Jersey Mortgage & Investment Co. against victimized homeowners who had refused to continue their payments, these two institutions invariably took the position that they were "innocent holders in due course" of legal papers, and entitled to full payment of the loan, often insured by FHA. The homeowner usually paid.

The attitude of these companies appears to be well expressed in a letter from William Furst which he wrote as attorney for the Franklin Washington Trust Co. to an attorney representing one of the victims of Pioneer. I quote:

Please be advised that I represent Franklin Washington Trust Co., of Newark, N. J., who holds in due course a note made and executed by Mr. and Mrs. Christopher Jaeger to the order of Pioneer Home Improvement Co. The note is presently being serviced by New Jersey Mortgage & Investment Co.

Your letter of December 12, 1951, to New Jersey Mortgage & Investment Co. has been handed to me for reply. Please be advised that as a holder in due course for value my client is not in any way involved in any dispute that exists between your clients and Pioneer Home Improvement Co. Pioneer Home Improvement Co. is in no way connected with either Franklin Washington Trust Co. or New Jersey Mortgage & Investment Co. Any action that you feel should be taken against the original payee on the note is of no concern to my client.

When it seemed clear that no remedial action could be secured through New Jersey Mortgage & Investment Co., the situation was discussed with the Newark office of the FHA in August 1952 by NBBB and the Newark Chamber of Commerce. The chamber also had received complaints. It was disclosed by the FHA representative, Mr. Lammerding, that they too had a file of complaints, but the position was taken that the volume was insufficient to warrant any action, although NBBB urged a full investigation. Recourse was next sought from the Essex County prosecutor's office, which pointed out that it lacked jurisdiction, most of the complainants being located elsewhere

in New Jersey and in New York State. However, the prosecutor's office was helpful in placing the matter in the hands of the Federal Bureau of Investigation.

Due to various pressures brought to bear, Pioneer declared bankruptcy in October 1952, leaving an unknown number of homeowners paying regularly for damage done to their homes under the guise of "improvement" and holding Pioneer's worthless guaranty. Principals of Pioneer, Jerome Brett and his son Morton, shortly after the bankruptcy resumed operation at the same address as Bondstone Corp. of New Jersey where they are currently operating. They are also identified with Bondstone Corp. of Staten Island, another franchisee of Emco Cement Products of Shamokin, Pa. Complaints are now being received against these operations.

An attorney recently reported that a client was being sued by the Franklin Washington Trust Co. on a Bondstone transaction so it would appear that the bank is continuing to do financing for this successor to the Pioneer outfit.

Another thick file collected by NBBB deals with the Aldon Construction Co. of Belleville, N. J., James Sorce, president. The trade style North Jersey Construction Co. was also used as well as Morton Construction Co., and more recently, Brookfield Home Modernizers, Inc. The familiar products of Krylon and Carbozite protective coatings are identified with these trade styles, as well as Brixite, a synthetic simulated brick wall covering. Financing was done through the South Orange Trust Co. of South Orange, N. J., primarily.

For at least 7 years, this bureau has received reports from the public of deception by salesmen of this firm, involving "model home" selling, false promises of bonuses, and faulty workmanship. Our complaint situation was called to the attention of the FHA in August 1953. We have no knowledge of any action taken by FHA but a recent complainant expressed the belief that Brookfield, at least, was no longer in business. It has been stated to us that operations are conducted during the winter as Miami Brookfield.

The Permastica Corp. of Brooklyn, N. Y., also appears as an entrant in the "model home" category—our files date back to 1951, but complaints were greatest during 1952 and 1953. Products of the Re-Nu-It Corp. are apparently featured. In February 1952 Mr. Martin Smith of Permastica told us that his firm used a bonus plan to sell their products. We asked for the names of a substantial number of homeowners who had received bonuses, but received no further communication from this concern.

In June 1953 the writer notified the New York FHA office concerning deceptive practices of this firm, following up this letter in September and October 1953, since we had had no reply. Shortly thereafter, Permastica told the FHA that they were eager to continue FHA financing, and FHA told us that a decision in the matter had been reserved. The New York BBB has also had complaints against this company. Our most recent complaint was in March 1954.

Another firm, identified at some length in our files, is Approved Home Developers, also known as Empire Home Developers, Forest Hills, Long Island. Again, the products of the Re-Nu-It Corp. are involved, along with the usual pattern of deception through the "model home" racket and the promise of bonuses. Representatives use FHA forms in their pitch, and claim FHA approval, according to com-

plainants. Complaints in connection with failure to complete contracts, poor workmanship, failure to adhere to guaranty terms, have also been received. No reply was received from the company to our letters asking for comment on the complaints.

In February 1953 we advised the FHA of a recent complaint of a Long Island resident, and a month later were advised by telephone that the matter was being investigated. Again, in May 1953, we protested the activities of Approved Home Developers to the FHA. The director of the FHA New York office told us shortly thereafter that Mr. Eisenberg, principal, had denied the charges made by our complainants. We supplied a file summary for the use of FHA in June 1953.

In October 1953 we supplied additional material to FHA. In November 1953 we asked the FHA if there had been any developments in their investigation, as complaints were still being received, alleging unsatisfactory workmanship and failure to complete contracts.

In November 1953 the New York FHA office advised that the matter had been referred to the Long Island office for attention. Having heard nothing further, we wrote in May 1954 to the Long Island office of FHA advising that complaints were still being received. We still have had no reply, although we were informed by the FBI that in June 1954 four of the principals, including Eisenberg, were arrested by the New York Police Department. Eisenberg was at one time associated with Pioneer Home Improvement.

The Eastern Home Improvement Co., located in Cambria Heights, Long Island, identified with Re-Nu-It products and Carbozite, has been the subject of a number of complaints involving the familiar "model home" approach, "special" factory prices, failure to complete contracts, et cetera. The president, Jack Roy, was formerly a salesman for Pioneer Home Improvements. In August 1953 we advised the FHA of our complaint situation.

In September a reply was received from the New York FHA office advising that the salesman complained against—Robert Worth, alias Milton Wechsler, another former Pioneer salesman—had been placed on the restrictive list, and that further activities of Eastern were being investigated.

In November 1953 we received an inquiry from Connecticut on Interstate Home Improvement Co., of Cambria Heights, Long Island, another Roy operation. It was indicated that salesmen claimed the company was "FHA approved," and offered to pay a \$800 fee as an advance on future bonuses. The trade style Interstate Home Improvement Co. was reported to be unknown by the Jamaica office of the FHA. In response to several letters from NBBB, Jack Roy promised to "clean house," and keep strict watch over salesmen and only one complaint of sales deception has been recorded during 1954.

It is reported that Interstate has acted as subcontractor for Pioneer, Approved Home Developers, and Miracle Home Improvement—all unfavorably identified in our files. Max Eisenberg is also identified with the latter organization.

Memorandum recommendations:

NBBB has discussed bad practices in the home-improvement field with FHA in the past. We believe that the FHA took important strides toward curtailing irregular dealer activities in connection with home-improvement loans by the amendments to the title I regulations

which became effective on December 1, 1953. These amendments embody some recommendations which this bureau made to FHA at its invitation. They do not go as far as we suggested, and we think there is room for improvement.

One of these amendments requires that the insured institution deliver to the homeowner notice of the approval of his application "at least 6 calendar days prior to disbursing the note." This is a good amendment because it gives the homeowner the opportunity to raise questions, if he has any, and get information on the finance charges. In the past, many homeowners have complained that they had no knowledge of any loan arrangements until they suddenly received a coupon book from an institution unfamiliar to them, often located in a distant city, requiring monthly payments which, in some cases, were beyond their ability to meet. We believe that the lending institution should be required to give more information to the homeowner when this notice is delivered.

For example, a second amendment relates to the completion certificate which must be filed before the loan is disbursed and requires that both the homeowner and the dealer certify that no bonus or commissions on future sales were promised.

It provides further that a complete copy of the contract be delivered to the homeowner. These are good provisions but we believe that the delivery of a copy of the contract to the homeowner and the warning that loans originating under the instigation of a "bonus" promise or a cash payment will not be accepted for insurance should be given to the homeowner by the lending institution at the very beginning and not after the work has been completed.

The amended completion certificate also advises the homeowner-borrower that the selection of the dealer and materials is his own responsibility, and that "neither the FHA nor the financial institution guarantees the material or workmanship, or inspects the work performed." To be of maximum value, we believe that this information should also be given to the homeowner in the beginning and not after the work has been completed.

We think these recommendations are important because, under existing regulations, the lending institution is to rely on the statements of the homeowner and dealer in the absence of information to the contrary. It is true that another amendment requires that the lending institution must approve all dealers to whom FHA loans are disbursed, must require certain information from a dealer-contractor and keep certain records. However, if there are any irregularities involved in a transaction, it is desirable that they be brought to the notice of the lending institution as promptly as possible. It is to be particularly desired by the homeowner who may otherwise face a lender's defense that the latter is an "innocent holder in due course" of a duly-enacted contract when he brings suit against the homeowner who has been victimized by an unscrupulous dealer.

In this connection, we believe that, insofar as is lawfully possible, more responsibility should be placed on lending institutions to determine the reliability and responsibility of contractor-dealers whose paper they buy and insure with FHA. At the present time, the homeowner who has been swindled can look to no recourse from the dealer who, in most cases, has already received his money from the bank and

may have disappeared. He can look to no recourse from the lending institution which disclaims all responsibility as an "innocent holder in due course" and which, in any event, is protected through the insurance of the loan. Thus, the homeowner, alone of the three parties to the transaction, is without protection or redress.

The lending institution holds the key to these transactions because the irregular dealer-contractor cannot operate without obtaining financing for his deals. The persistence with which a few lending institutions have continued to finance the contracts of dealers with a long and sordid record of customer complaints appears to have been in shocking disregard of the public interest. We have laws to penalize those who accept and deal in stolen property and we have a name for such individuals; we call them "fences." Isn't a lending institution which consistently accepts and deals in home loan improvement contracts obtained by fraud or deception, in effect, acting as a "fence" for the home-loan swindler? Whether the Congress can or should enact legislation to curb lending institutions that thus participate in home-loan swindles, we are not in a position to state. We do believe that the Federal Housing Administration should be given the power to deny participation in the home-loan improvement program to lending institutions which make a practice of dealing in home-loan improvement contracts obtained by fraud or deception. We believe that the Government should not continue to subsidize these "financial fences."

Senator PAYNE. Is there anyone further who wishes to be heard this afternoon? If not, the next hearing will be at 10 o'clock tomorrow morning.

(Whereupon, at 3:50 p. m., the committee recessed to reconvene at 10 a. m., Friday, July 16, 1954.)

FHA INVESTIGATION

FRIDAY, JULY 16, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess, at 10:10 a. m., in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Payne, Lehman.

Also present: William J. Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Bonner of Bonhaven, Richmond, Va.

Mr. Bonner, I might announce our schedule for Monday. I will have to leave here at about 11 o'clock for a conference on the housing bill.

Monday, we will meet at 10 o'clock and our witnesses will be Mr. Cowan, of Shawnee, Okla.; Mr. Muss, of San Antonio, Tex.; Mr. Winston, of New York; Mr. Clint Murchison, Jr., of Dallas, on the Page Manor projects in Dayton and the Billy Mitchell projects in San Antonio and other projects in New York.

The Page Manor and the Billy Mitchell projects are so-called defense housing.

I also would like to announce, as we announced it the other day, that we were going to invite the two Grace brothers—one being a former FHA director in New York—on Tuesday, but we will postpone that and hear them in New York City when we go there.

Another brother died rather suddenly, and we think it only fair not to ask them to come down for a couple of weeks, and we will hear them in New York City.

Now, Mr. Bonner, will you be sworn, please.

Mr. BONNER. Yes, sir.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF BERTRAM F. BONNER, BONDALE APARTMENTS, NORFOLK, VA., ETC., ACCOMPANIED BY ORREN G. JUDD AND W. R. ASHBURN, COUNSEL

Mr. BONNER. Yes, sir.

The CHAIRMAN. Now if you will give your name and address for the record, please.

Mr. BONNER. Bertram F. Bonner, 5536 Carnarvon Drive, Norfolk, Va.

The CHAIRMAN. Do you have an attorney with you?

Mr. BONNER. Yes, sir. Mr. Judd.

Mr. JUDD. I am Mr. Orren G. Judd, 655 Madison Avenue, New York City.

The CHAIRMAN. And this gentleman?

Mr. ASHBURN. W. R. Ashburn, Norfolk, Va.

The CHAIRMAN. You are both attorneys representing Mr. Bonner?

Mr. ASHBURN. Yes, sir.

Mr. SIMON. Will you give the reporter your full name and address, please.

Mr. BONNER. I have, sir.

The CHAIRMAN. Will you tell us, Mr. Bonner, all of the projects you constructed that were insured by FHA mortgages under section 608 of the Housing Act?

Mr. BONNER. Bondale in Norfolk, Va.; Chamberlain Gardens, in Richmond, Va.; Bolling Square Apartments, in Norfolk; Bonhaven Apartments in Richmond; Carlton Terrace Apartments in Roanoke; Bertram Garden Apartments, in Queens, New York City.

Mr. SIMON. Is that all, Mr. Bonner?

Mr. BONNER. I am sorry. No, sir. I am doing this from memory. Pine Chapel Apartments in Hampton, Va. That is all.

Mr. SIMON. That is a total of seven projects?

Mr. BONNER. That is right.

Mr. SIMON. Going to the Bonhaven Apartments project in Richmond, there were three corporations there, were there?

Mr. BONNER. Yes, sir.

Mr. SIMON. What was the price you paid for the land that went into the projects?

Mr. BONNER. The actual cost of the land was \$93,300, plus title fees—that is for a title policy—and attorney's fees which made the total cost to the three corporations \$95,000.

Mr. SIMON. And you turned the land into the corporations at your cost; is that right?

Mr. BONNER. As a matter of fact we filed our applications on the basis of \$93,000.

Mr. SIMON. What was the capital stock of the three corporations?

Mr. BONNER. The amount of stock issued was \$1,000 in each corporation—

Mr. SIMON. In addition to that, I take it you loaned money to the corporations to get the projects started and then repaid the loans out of the mortgage money?

Mr. BONNER. Well, you could construe it as a loan. It was. In excess of \$500,000.

Mr. SIMON. Was it a loan, Mr. Bonner?

Mr. BONNER. We treated it as such by choice. That is, we, under the framework of FHA, were permitted to invest a nominal amount in capital stock; but, at that time, I would like to point out, we were required in this instance to show a financial statement for the purpose of covering an indemnity agreement which ran somewhere around \$40,000. We showed such a financial statement and we gave such an indemnification agreement to the FHA for that amount.

Mr. SIMON. The fact is that the capital was \$3,000, and you loaned some money that was repaid out of the mortgage; is that right?

Mr. BONNER. That is right.

Mr. SIMON. What was the total amount of the FIIA commitment in the three projects?

Mr. BONNER. \$3,916,900.

Mr. SIMON. Who built the buildings?

Mr. BONNER. The corporations.

Mr. SIMON. The corporations?

Mr. BONNER. The corporations themselves.

Mr. SIMON. There were just subcontractors and no general contractor?

Mr. BONNER. That is right.

Mr. SIMON. What was the cost of construction of the building, including the cost of the land?

Mr. BONNER. \$3,058,045.93.

Mr. SIMON. Did the corporations distribute to the stockholders any moneys after construction of the buildings?

Mr. BONNER. Yes, sir.

Mr. SIMON. When were the buildings completed?

Mr. BONNER. They were completed in the fall of 1948.

Mr. SIMON. And when was the distribution made?

Mr. BONNER. December 28, 1948, of \$850,000; August 30, 1949, a distribution of \$97,000.

I might point out that the latter distribution was not out of moneys left over from a mortgage because that amount—moneys left over from the mortgage—totaled \$858,854.07.

Mr. SIMON. So within a matter of a couple of months after the buildings were completed, you distributed the \$850,000 which was left over from the mortgage money?

Mr. BONNER. I would say so.

The CHAIRMAN. About eight hundred and some thousand dollars, the difference between actual cost of the project and the proceeds of the mortgage?

Mr. BONNER. Yes, sir.

The CHAIRMAN. And that was approximately 25 percent of the mortgage, wasn't it?

Mr. BONNER. No, between 21 and 22 percent.

Mr. SIMON. Now, in addition, you got a premium on the mortgage, did you not?

Mr. BONNER. Yes, but I think that premium was passed along and used in connection with a price obtained at the time we sold the property.

Mr. SIMON. The premium was \$78,000, was it not, approximately?

Mr. BONNER. I think that is the figure testified to before. \$78,489.31.

Mr. SIMON. And your arrangement with the mortgagee was that the premium was not to be paid until some future date?

Mr. BONNER. Those were the terms, that they would pay over a period of years.

Mr. SIMON. And when you sold the property the purchaser gave you a note for the \$78,000 payable when the purchaser gets the premiums?

Mr. BONNER. That is correct.

Mr. SIMON. Now in the Bondale project in Norfolk, did you mortgage out?

Mr. BONNER. Mr. Simon, I did not bring detailed information on any other subject, but I am in a position to generally talk about several

of them. In other words, when we were told to come back here, we had practically no notice to prepare.

Mr. SIMON. Well we asked you on June 25, 1954, about the other projects.

Mr. BONNER. That is right.

Mr. SIMON. At that time you said you weren't familiar with the figures.

Mr. BONNER. That is right. And at that time, if you will recall, I asked you if we were going to be called back and you said, "I don't know. I'll have to talk it over with the Senator."

Mr. SIMON. We did tell you about 10 days ago that you were coming back.

Mr. BONNER. No, sir. I was first notified on a Friday to be here on a Wednesday. But my accountant was out of town until Tuesday morning.

However, I can talk generally on Bondale.

Mr. SIMON. Did you tell us on June 25 that you mortgaged out in every section 608 project you had, and that the average mortgaging out was about 10 percent?

Mr. BONNER. I did so state. I said, "The only one I am not sure about is Bondale."

Mr. SIMON. Is it true, Mr. Bonner, that you did mortgage out in all of them and that the average was about 10 percent?

Mr. BONNER. I do not know. The average may run as high as 12 percent, and I don't think I mortgaged out on all of them.

Mr. SIMON. On which one did you not mortgage out?

Mr. BONNER. In the case of Bondale—

Mr. SIMON. Let me ask you first, You are certain you did mortgage out on the other six? Is that right?

Mr. BONNER. I am not. There is one other of which I am not certain and that is the Chamberlain Gardens job in Richmond, Va.

Mr. SIMON. You are certain you mortgaged out on the other five then: is that right?

Mr. BONNER. Yes.

Mr. SIMON. On Bondale, what is your recollection with respect to mortgaging out?

Mr. BONNER. The mortgage was \$925,000, and that was the cost to the corporation. The general contractor received a fee of some \$52,000; and, on that fee of \$52,000, they reported a normal tax.

Mr. SIMON. Who was the general contractor?

Mr. BONNER. Bonner Contracting Co.

Mr. SIMON. That is your company?

Mr. BONNER. Yes, sir.

Mr. SIMON. So on that one, you bill the building for just exactly the amount of mortgage: is that right?

Mr. BONNER. That is right.

Mr. SIMON. What is the situation on Chamberlain?

Mr. BONNER. On Chamberlain, my best recollection is—and I have no figures with me to support it—that we just about broke even on the financing.

Mr. SIMON. What do you mean by "broke even"?

Mr. BONNER. We may have just about borrowed out.

Mr. SIMON. Do you mean the total cost was just equal to the mortgage?

Mr. BONNER. It may have been because we had arranged the sale of the property prior to the financing, completion of construction.

Mr. SIMON. Did you have 7 section 608 projects and mortgaged out on 5 of them, and on 2 of them total cost was equal to the mortgage proceeds, and in all of them the average was that you mortgaged out to the tune of about 10 or 12 percent?

Mr. BONNER. That is my best recollection, and I think it is pretty close.

Mr. SIMON. Now will you tell us the situation about a project in Wilmington, Del., where you got a section 608 commitment or a section 207 commitment and after the matter was referred to the Department of Justice you surrendered the commitment?

Mr. BONNER. That isn't quite accurate.

Mr. SIMON. Well, will you tell us what happened?

Mr. BONNER. We received some commitments on a proposed project in Wilmington. In connection with those commitments, we were required to deposit—

Mr. SIMON. What was the name of this project, Mr. Bonner?

Mr. BONNER. Bertram Village.

Mr. SIMON. Bertram Village in Wilmington, Del.?

Mr. BONNER. That is right.

We were required to deposit some \$2 million with the Irving Trust Co. as over-and-above moneys.

Mr. SIMON. Didn't the Washington office send a man named Jones up to Wilmington to check into the project?

Mr. BONNER. When we—

Mr. SIMON. Well, did they?

Mr. BONNER. If you will let me tell the story. I mean yes, they did, eventually, at my request.

Mr. SIMON. Jones went up at your request?

Mr. BONNER. Yes, sir.

Mr. SIMON. Did Mr. Powell intercede at your request, too?

Mr. BONNER. No, sir.

Mr. SIMON. Didn't Mr. Powell, in effect, overrule Mr. Jones?

Mr. BONNER. Not that I know of.

Mr. SIMON. Are you a long-time, intimate friend of Mr. Powell's?

Mr. BONNER. I know Mr. Powell in a business way.

Mr. SIMON. Isn't he an intimate friend of yours?

Mr. BONNER. I wouldn't say intimate.

Mr. SIMON. Didn't you and your wife introduce him to his wife?

Mr. BONNER. I beg to differ. Of course not.

Mr. SIMON. That is not true?

Mr. BONNER. That is not true.

Mr. SIMON. Wasn't your wife a long-time friend of his wife's before they were married?

Mr. BONNER. Not that I know of.

Mr. SIMON. We must have been misinformed on that.

Mr. BONNER. You must have been, sir.

Mr. SIMON. That is not true?

Mr. BONNER. That is not true.

Mr. SIMON. Will you tell us about this Wilmington project?

Mr. BONNER. In connection with the situation, as I stated before, we were required to put up some \$2 million in cash with the Irving

Trust Co. as over-and-above money. Just about that time, something in Washington occurred. I was concerned that if investigation was going to be made by the people now in power—the new commissioners—that I should like to have them review this case and give me a green light.

Mr. JUDD. Is it a fact, Mr. Bonner, that the people who signed the commitment for FHA had resigned before you were ready to proceed with the project?

Mr. BONNER. That is right.

I consulted with Mr. Ashburn, I consulted with Mr. Judd, and we desired that the new commissioners be given the right to review the situation, and reaffirm these commitments, so sometime in April we wrote a letter to the State director in Wilmington offering him and the people in Washington—the new commissioners—

Mr. SIMON. What was the date in April, Mr. Bonner?

Mr. BONNER. Well, I don't have it with me.

Mr. SIMON. Well, the date becomes important because Mr. Powell resigned on April 12, or was fired on April 12, whichever—

Mr. BONNER. I just can't tell you now, but the letter was in the file.

Mr. JUDD. Mr. Chairman, can't we call a limit to these pictures?

Mr. BONNER. The letter is in the file of the FHA.

Mr. SIMON. And you say there was no inquiry by Mr. Jones up at Wilmington until after you wrote a letter sometime in April, is that right?

Mr. BONNER. Our letter in April asked them to review the situation, and subsequently to our letter asking for this review, Mr. Mason, or Baumann, whom we chatted with, sent Mr. Jones up for the purpose of reviewing the situation.

Mr. SIMON. You are saying Mr. Jones went to Wilmington after you wrote a letter in April asking for a review of the project, is that right?

Mr. BONNER. Mr. Jones may have gone to Wilmington on other matters, but not for the purpose of reviewing my situation until a time subsequent to my letter.

Mr. SIMON. And your letter was in April?

Mr. BONNER. Yes, sir. As a matter of fact at the time Mr. Jones went, Mr. Baumann, the Deputy Commissioner, told me he was going, and I was advised to meet with Mr. Jones in the FHA office in Wilmington, which I did. I met him for the purpose of reviewing the matter, and I have talked with him since in the FHA office of Washington as recently as 10 days or 2 weeks ago.

Mr. SIMON. When did you talk with Mr. Taylor of the Department of Justice?

Mr. BONNER. I never talked to him.

Mr. SIMON. Did he go up to Wilmington?

Mr. BONNER. I never saw Mr. Taylor in my life.

Mr. SIMON. You weren't in Wilmington when he went up there?

Mr. BONNER. No, sir.

Mr. SIMON. Will you go on and tell us what happened on that project?

Mr. ASHBURN. May I interrupt, if the Chair please.

I don't know whether Mr. Bonner would know whether he, Mr. Bonner, was in Wilmington or not when Mr. Taylor was there.

Mr. SIMON. At any rate, you didn't talk to him.

Mr. BONNER. That is right.

The CHAIRMAN. You did not talk to him in Wilmington?

Mr. BONNER. No, sir.

Mr. JUDD. I didn't know we were asked to be prepared on this Wilmington job. I have some files on this which I did not bring.

The CHAIRMAN. You were in the executive session when we discussed many, many things with you. You did know you were going to be here to testify today, and you did know we were investigating your FHA connections. It just seems to me as though a man knowing that would sort of review his memory or review his cases before he came in.

Mr. BONNER. Well I think we are giving pretty fair testimony.

The CHAIRMAN. Well, yes, we are not complaining at all. You seem to be the one who is complaining.

Mr. BONNER. I am not complaining.

The CHAIRMAN. We are not complaining. All we want are just the facts.

I want to ask you again, you still want your testimony to stand that you only knew Mr. Powell from a business standpoint and never associated with him personally or socially, or that your wife never knew his wife, and that you did not introduce Mr. Powell to his present wife?

Mr. BONNER. I did not introduce Mr. Powell to his present wife nor did my wife introduce Mr. Powell to his present wife.

Mr. SIMON. You want your testimony to stand that you only knew him in a business way and never associated with him socially?

Mr. BONNER. I had lunch with Powell, and I had dinner with Mr. Powell.

Mr. SIMON. In Norfolk in your home?

Mr. BONNER. In Norfolk in my home? No, sir.

Mr. SIMON. Where do you live?

Mr. BONNER. I live in New York, I stay there, and I stay in Florida.

Mr. SIMON. I see. You have never had Mr. Powell in your home?

Mr. BONNER. Oh, yes, he has been to my home.

Mr. SIMON. How many times?

Mr. BONNER. I wouldn't know, maybe once or twice.

Mr. SIMON. In New York?

Mr. BONNER. He has dropped by, paid his respects, that is all.

Mr. SIMON. How many times, would you say?

Mr. BONNER. Maybe once or twice.

Mr. SIMON. Well, a minute ago you testified that you didn't know him socially at all.

Mr. BONNER. I didn't say—I said I knew him well in a business way. I had dropped in on Mr. Powell on several occasions.

Mr. SIMON. That is why I am bringing it up again, because I want to give you an opportunity to—was he ever in your home in Florida?

Mr. BONNER. Yes, he dropped by to say hello.

The CHAIRMAN. Then you really knew him a little more than in a business way then?

Mr. BONNER. Well, I wouldn't say that. It wasn't an intimate social relationship.

Mr. SIMON. How many times would you say that he came to visit you in Florida at your home?

Mr. BONNER. Possibly once.

Mr. SIMON. Possibly?

Mr. BONNER. Well, yes. I mean I don't recall any other dropping by.

Mr. SIMON. Did he just drop by for a social visit?

Mr. BONNER. That is right.

Mr. SIMON. How long did he remain?

Mr. BONNER. I don't remember now.

Mr. SIMON. Did he stay overnight?

Mr. BONNER. I don't recall. I don't recall his ever staying overnight. I don't know where this story emanates from that we introduced him to his wife.

The CHAIRMAN. Well, you would know, we wouldn't. The facts speak for themselves. He either did or he didn't.

Mr. BONNER. As a matter of fact, coming back to this Wilmington situation, the FHA admits that they made a mistake.

Mr. SIMON. There is no doubt about that.

Mr. BONNER. They made a mistake in their New York office. The person who was sent down to make a market survey made a mistake, they now say, and I am now withdrawing—only now, only yesterday we received a letter, in which they indicate that, about which Mr. Baumann has told me, and about which Mr. Jones has told me, that they made a mistake.

Mr. SIMON. There is no question about that.

Mr. BONNER. And the mistake was made in New York.

Mr. SIMON. We are trying to determine the extent to which Mr. Powell had anything to do with making the mistake.

Mr. BONNER. Nothing whatsoever.

Mr. SIMON. Or with overruling Mr. Jones?

Mr. BONNER. I don't know a thing about that, Mr. Simon.

Mr. SIMON. Do you recall telephoning Mr. Powell from the Wilmington FHA office?

Mr. BONNER. Never.

Mr. SIMON. You never did that?

Mr. BONNER. I never telephoned him, no.

Mr. SIMON. Regardless of who put the call in, did you talk to him on the telephone?

Mr. BONNER. I talked to him on one occasion, yes.

Mr. SIMON. From the Wilmington office?

Mr. BONNER. That is right.

Mr. SIMON. About this project?

Mr. BONNER. Yes, sir.

Mr. SIMON. Did you complain that the Wilmington people weren't treating you right?

Mr. BONNER. No, sir.

Mr. SIMON. What did you say?

Mr. BONNER. I said, as I recall, that the State director had talked about delaying the matter and I said I thought the thing should be delayed a few more days.

The CHAIRMAN. In your first answer you said you had never talked to Mr. Powell in the Wilmington FHA office and later you said you did.

Mr. ASHBURN. What I understood Mr. Bonner to say initially was that he had not originated the call to Mr. Powell.

The CHAIRMAN. You are going to get that technical, are you?

Mr. ASHBURN. I don't think that is technical at all, sir, I think it is a matter of phraseology.

The CHAIRMAN. Do you mean if I say this gentleman is going to call New York and when you get them on the phone I'll talk, that is not me telephoning?

Mr. ASHBURN. I don't understand that it was that way. I understand he was in the State director's office when the State director called, or someone else in the office, and he talked to Mr. Powell.

The CHAIRMAN. Well, my point is, we had to do a lot of digging to even get that out. The question Mr. Simon asked was "Did you ever talk to Mr. Powell from the FHA office in Wilmington?" And his answer was "No." And then when Mr. Simon said, "Well, did you ever talk to him when somebody else put in the call?" then his answer was "Yes."

Mr. ASHBURN. I didn't understand it that way.

Mr. JUDD. I thought the first question was, Mr. Chairman, "Did you ever call Mr. Powell?"

The CHAIRMAN. I only bring it up to show—to show that it is like pulling teeth here to get information out of this gentleman and we have to be very technical.

We first asked if he knew Mr. Powell socially. His answer was "No." Later he said he visited him at his home in New York and visited him at his home in Florida.

Now, we want you to be perfectly frank and honest with us. I don't know that it makes a lot of difference if Mr. Powell visited you 40 times.

Mr. JUDD. Mr. Chairman, I think the first question was whether Mr. Powell was an intimate friend of his. Now, two visits I don't think make a man an intimate friend.

The CHAIRMAN. But he wasn't certain. The point was that he wasn't certain it was only two. He said he just thought maybe it was—well, I am not going to labor the point, excepting that I just don't like to have to get so technical as to distinguish between the difference between whether I put in a long-distance call or somebody else put it in, if I did the talking.

That is all. I just wanted to make sure the record shows that that is getting awfully technical.

Mr. JUDD. I would like the record to show that we disagree on that, Mr. Chairman.

The CHAIRMAN. That is perfectly all right.

Mr. ASHBURN. I believe, Mr. Chairman, when you have an opportunity to see the record as written you will find it is exactly the way you are stating it.

Mr. SIMON. Mr. Bonner, when did the FHA issue the Wilmington commitment?

Mr. BONNER. Sometime in March.

Mr. SIMON. March 1954, is that right?

Mr. BONNER. Yes.

Mr. SIMON. Do you know when the matter was referred to the Department of Justice?

Mr. BONNER. No, sir.

Mr. SIMON. You did voluntarily return the commitment, didn't you?

Mr. BONNER. Yes, sir.

Mr. SIMON. It was after it had been referred to the Department of Justice that you—

Mr. JUDD. I think all he can answer, Mr. Chairman, is whether it was after he had any knowledge of its being referred to the Department.

Mr. SIMON. When you returned the commitment, did you know the matter had been referred to the Department of Justice?

Mr. BONNER. In this way: We gave the FHA the right to review these commitments, because, in discussing it with Mr. Ashburn, in Mr. Judd's apartment, with Mr. Derfine, who is now in Europe, because of the large amount of money we were confronted with, some \$2 million, we wanted them to reaffirm the commitments.

The commitments apparently had been approved by the Commissioner, the Deputy Commissioner, and the Assistant Commissioner, and all of those gentlemen were no longer with FHA.

Mr. SIMON. They were still with FHA until the middle of April, weren't they?

I said to you earlier that it was important whether you wrote this letter in April before the 12th or after the 12th.

Mr. BONNER. I can't testify to a date that I don't know of, sitting here, and I said my letter is a matter of record in the FHA.

Mr. SIMON. You may not remember the day Mr. Powell left and the day Mr. Hollyday left, but I am trying to find out if you wrote the letter before or after they left.

Mr. BONNER. I can't tell you that but it was undoubtedly afterwards because the letter stated that these three people have been replaced or have been removed, or something to that effect.

Mr. SIMON. When did you learn that the matter had been referred to the Department of Justice?

Mr. BONNER. It must have been a matter of about 2 weeks after our letter, and the reason for that was that we were awaiting a reply, we were set to go ahead and close. Our attorney was preparing papers, or started to prepare papers.

Mr. SIMON. How did you learn that the matter had been referred to the Department of Justice?

Mr. BONNER. The FHA—it may have been longer than 2 weeks. I don't recall now—returned our application fee of some \$34,000 to the Irving Trust Co. The Irving Trust Co. of New York contended that FHA had a contract, and they were a party to it and they didn't feel that the contract could be canceled in that fashion, and returned the \$34,000 with a letter along those lines.

Mr. SIMON. Let me interrupt you there. Did the letter say the FHA was canceling the commitment?

Mr. BONNER. I don't know, at this time. The letter was sent to the Irving Trust Co.

Mr. SIMON. I understood that you voluntarily returned the commitment. Then you consulted with Morrie Gurfein, Mr. Judd's partner. Mr. Gurfein contacted Mr. Mason. Mr. Norman Mason?

Mr. BONNER. Yes.

Mr. SIMON. When did he become acting FHA Commissioner?

Mr. BONNER. I don't know.

Mr. SIMON. Then that couldn't have taken place until after Mr. Mason became acting FHA Commissioner?

Mr. BONNER. It was a matter of weeks after we had written our first letter in April, and Mr. Gurfein contacted Mr. Mason. Mr. Mason then told Mr. Gurfein that the matter was in the Justice Department, the legal department, because of the fact that when the \$34,000 check was returned by the Irving Trust Co., Mr. Mason didn't know what to do with the check and he referred it to the legal department.

Mr. SIMON. Are you saying then, Mr. Bonner, that you did not know this had been referred to the Department of Justice until after Mr. Gurfein—

Mr. BONNER. Until after Mr. Gurfein so informed me.

Mr. SIMON. That was after Norman Mason became acting Commissioner?

Mr. BONNER. That is so. That is so.

Mr. SIMON. Then, how long after that did you surrender the commitment?

Mr. BONNER. Mr. Gurfein talked with the Department of Justice. I have never been to the Department of Justice and I never talked with anybody from the Department of Justice. Mr. Gurfein talked with the Department of Justice the same day he talked to Mr. Mason.

Mr. SIMON. Who did he talk to at the Department, do you know?

Mr. BONNER. I don't know. It may have been the party you mentioned before.

What was that?

Mr. SIMON. Marvin Taylor.

Mr. BONNER. It may have been Mr. Marvin Taylor.

Mr. Marvin Taylor, as I recall it—and I think Mr. Judd can help me out here—whoever it was in the Department of Justice, wanted an agreement from us, or suggested an agreement from us, that we would not hold the FHA responsible or liable for any of the expense or out-of-pocket money that we had been confronted with. Mr. Gurfein asked me if that would be agreeable to me, despite the fact that those sums were substantial. And I said "Yes, that I had done business with FHA for a period of 16 years or so, and I wanted to cooperate. I wanted the matter reviewed and if that was the way to get the matter honorably reviewed I would agree to signing a paper relieving them of any obligation that may have existed."

Mr. SIMON. Did you know before I mentioned it this morning that Mr. Marvin Taylor had gone to Wilmington to check into this project?

Mr. BONNER. Mr. Gurfein may have told me that.

Mr. SIMON. Just one more question. What was the occasion for Mr. Powell being telephoned from the Wilmington FHA office while you were there, and when you talked to him?

Mr. BONNER. I can't recall why the State director made the call at this time.

Mr. SIMON. Why did you talk to him, then?

Mr. BONNER. There was some question involved and the State director said "Do you want to talk with Mr. Powell?" And I said, "Surely, I will talk with him."

Mr. SIMON. You don't recall why you talked to him?

Mr. BONNER. I don't recall.

The CHAIRMAN. Mr. Bonner, was it common knowledge—I will put it this way—did any FHA official or employee ever tell you that it was perfectly all right to mortgage out? That is to receive more money from the proceeds of a mortgage than the total cost of the project?

Mr. BONNER. I can answer that by reading from hearings of your committee in 1949, July.

The CHAIRMAN. That isn't my question. You can do that in a minute but my question is, did any FHA official or employee ever at any time tell you it was perfectly all right to mortgage out?

Mr. BONNER. No.

The CHAIRMAN. They did not?

Mr. BONNER. No, sir.

The CHAIRMAN. Did they tell you that it was wrong to mortgage out?

Mr. BONNER. No, sir.

The CHAIRMAN. Did they ever discuss it with you in any way?

Mr. BONNER. I never discussed my personal business, my financial business with any employee in FHA.

The CHAIRMAN. Did any FHA official or employee ever tell you that it was perfectly all right to use a 5-percent architect fee in your application and then only spend 1 percent?

Mr. BONNER. No, sir.

The CHAIRMAN. Did you do that?

Mr. BONNER. Yes, sir.

The CHAIRMAN. And the same thing is true of the builders' fee?

Mr. BONNER. Yes, sir.

The CHAIRMAN. Did any FHA official ever ask you for any favors of any kind?

Mr. BONNER. No, sir.

The CHAIRMAN. Did you ever give to any FHA official or employee anything of value?

Mr. BONNER. Not of value, no, sir.

The CHAIRMAN. Did you ever give them anything?

Mr. BONNER. Oh, going back, small token gifts.

The CHAIRMAN. Of what value would you say, each? \$10, maybe?

Mr. BONNER. Maybe more. Not of consequence.

The CHAIRMAN. How much more?

Mr. BONNER. I can't tell now.

The CHAIRMAN. Well, would it run \$50?

Mr. BONNER. Maybe.

The CHAIRMAN. Do you remember to whom you gave them?

Mr. BONNER. To various employees. The switchboard operator, the receptionist.

The CHAIRMAN. In Washington or New York, or Richmond or all places?

Mr. BONNER. In Richmond.

The CHAIRMAN. Would it be money or would it be gifts—

Mr. BONNER. Oh, no.

The CHAIRMAN. A box of cigars?

Mr. BONNER. Liquor.

The CHAIRMAN. Liquor?

Mr. BONNER. At Christmas time.

The CHAIRMAN. But never anything of value beyond gifts, is that right?

Mr. BONNER. That is right.

The CHAIRMAN. And maybe it would run under \$50.

Mr. BONNER. That is right.

The CHAIRMAN. Was it common practice for builders such as yourself to give gifts of the nature you describe?

Mr. BONNER. Yes, sir.

The CHAIRMAN. On the part of all the builders?

Mr. BONNER. Yes, sir.

The CHAIRMAN. That was common practice?

Mr. BONNER. Yes, sir.

The CHAIRMAN. And then it would amount to considerable value if they all gave gifts?

Mr. BONNER. That is right.

The CHAIRMAN. But you never had any FHA official or employee ask you for anything of substantial amount?

Mr. BONNER. No, sir.

The CHAIRMAN. And you never gave them anything of substantial amount?

Mr. BONNER. No, sir.

The CHAIRMAN. Do you have any FHA officials at the moment working for you?

Mr. BONNER. No, sir.

The CHAIRMAN. Former FHA people?

Mr. BONNER. Never.

The CHAIRMAN. Now, you had something you wanted to place in the record?

Mr. BONNER. It is not too important. It merely deals with your committee in July 1949, with respect to the 5-percent fees.

Rather than read it to you, I would just as soon hand it into the record.

The CHAIRMAN. Do you wish to make it a part of the record or do you care to read portions of it?

Mr. BONNER. I will read, for instance, what Senator Long said in 1949.

The CHAIRMAN. Go ahead.

Mr. BONNER. (reading):

I want to say right here now that frankly I believe this project was intended to be extremely profitable to builders, and the purpose was based on the American tradition that if you want to get a job done, if you will show an American businessman where he can make a hefty profit, they will really get out there and do you a job. That undoubtedly has caused this country to grow the way it has.

Then, Senator Bricker, who still sits on this committee, at the conclusion of this report after talking about the builder making money—incidentally, in this report Senator Long and Senator Bricker talk about the 5-percent fee for the architect and 5 percent for builder.

As a matter of fact, Senator Long states that in his section of the country the builders' fee is 10 percent.

And Senator Bricker winds up the hearing. He says:

Take a hypothetical case. The only way a man could get back his total investment would be if he submitted plans, perfectly good plans, you O. K.'d the plans and the cost, his cost was reasonable, you O. K. 'd that, he built the buildings according to plans, according to standards and subject to your inspection. He is entitled to his full mortgage and if he built the building for 12½ percent less than the estimated cost of it, then he would have his pocket money back.

—————. That is right.

Senator BRICKER. If he built it for more than 12½ percent below cost, he might have a little extra cash, and there is no way to prevent it.

_____. No, sir.

Senator BRICKER. That is what we tried to do, and I do not see any way under the sun you can do it.

The CHAIRMAN. There is no question but what we want people to make a profit, but in this instance you were making a profit and continuing to own the project, too.

In other words, it isn't clear to me how you can make a profit on something you still own. I can understand how you make a profit if you sell something to a third party, but it is rather hard for me to understand how you can make a profit on something and continue to own it.

Mr. BONNER. Well, that was the practice, Senator.

The CHAIRMAN. Yes; we are discovering it was the practice, but were you familiar with this 19th amendment that was made here, and I'll read it. It says:

SEC. 2. Title VI of the National Housing Act as amended shall be employed to assist in maintaining a high volume of new residential construction without supporting unnecessary artificial costs. In estimating necessary current costs for the purpose of said title, the Federal Housing Commissioner shall therefore use every feasible means to assure that such estimates will approximate as closely as possible the actual cost of efficient building operation.

Mr. BONNER. I didn't know about that.

The CHAIRMAN. Evidently the FHA people didn't know it, either. If they did, they completely ignored it.

Thank you very much.

Mr. JUDD. Mr. Bonner, was there not a time when the FHA terminated the practice of builders making gifts? When was that?

Mr. BONNER. I don't recall.

Mr. JUDD. Do you have copies of the Engineering News Record?

The CHAIRMAN. What is that?

Mr. BONNER. It is merely a report on a hearing, July 19, 1949. It may be very interesting to the members of the committee.

The CHAIRMAN. A report on the hearing of what?

Mr. BONNER. A Senate hearing on FHA section 608.

Mr. JUDD. This is the hearing from which Mr. Bonner read the statement.

The CHAIRMAN. You would like to have this made a part of the record?

Mr. BONNER. Yes.

The CHAIRMAN. Without objection, it will be made a part of the record.

(The report referred to is as follows:)

[Engineering News-Record, May 20, 1954]

608 MEANT TO BE PROFITABLE OLD SENATE HEARINGS SHOW—COMMITTEE RECORDS INDICATES CONGRESS RENEWED 608 IN 1949 AFTER DISCUSSING PROFIT POSSIBILITIES FOR BUILDERS

Profits made by sponsors or builders of emergency and postwar rental housing under the favorable terms of the now-defunct section 608 appear to be essentially legitimate. The question of illegality—as distinct from greed—does not arise unless something additional is brought into the picture in the way of collusion with Federal Housing Administration officials or of tax evasion. There are reasonable conclusions to be drawn from the hearings held so far by the Senate Banking Committee, which is investigating the housing scandals.

Look back at the history of section 608 :

Congress drafted that section and voted several times to extend it for the acknowledged purpose of encouraging private investors to supply apartments for war workers during the war and—more urgently—for returning veterans after the war ended.

This section was added in 1942 to title VI (war-housing insurance) of the National Housing Act. It was amended in 1946, 1948, 1949, and 1951. Congress twice extended 608 to a final termination date of March 1, 1950.

Furthermore, Congress successively increased the authorized dollar volume of insurance mortgages under title VI—largely to take care of section 608 insurance. When 608 first took effect, the authorization was for 800 million. By the time 608 expired in 1950, the total had increased to \$6,650 million.

In 1950 Congress provided that applications received at FHA field offices through the expiring date, March 1, could be processed for insurance. To take care of these mortgages, the 608 insurance authorization was boosted by \$500 million. Through the closing date, there were applications for \$4.5 billion of insurance, to cover 612,000 dwelling units. Insurance actually was written for \$3.4 billion on 466,000 units.

A look at the record: Congressional hearings of 5 years ago show clearly how section 608 was designed to operate as a profit incentive for private builders of apartment projects. For any builder or investor who did not know already the possibilities, the Senate Banking Committee hearing of July 29, 1949, for instance, gave a pretty complete course of instruction on how to make money out of a 608 project.

Appearing before the committee that afternoon were FHA Commissioner Franklin D. Richards and Assistant FHA Commissioner Clyde L. Powell, in charge of rental housing. Here are excerpts, edited and condensed for brevity, of what they and the committee members discussed :

Exploring the costs that could be included in the FHA-approved construction estimate for a 608 project, Senator Russell Long of Louisiana first settled the fact that a 5 percent architect's fee was standard. Then he went on—

Senator LONG. Now the 5 percent builder's fee here (on 608 projects) ; in my section of the country the usual contractor's fee is 10 percent.

Mr. RICHARDS. In 608 we break it down into the 5 percent builder's fee and the overhead, which may run 2 percent to 3 percent (allowed in the estimate). It would be 7 percent to 8 percent, which is comparable with what we are talking about, at 10 percent profit.

* * * * *

Mr. RICHARDS. The actual cost of construction, including the items you have mentioned here, varies from builder to builder. So we try to get what we estimate would be the cost to the typical builder, not to the most efficient or not the poorest builder, but to the typical builder.

Senator LONG. I have a friend who constructed one of these section 608 projects. He told me that he managed to construct his project for 70 percent of the estimated cost. Do you think it is possible, even for the most efficient type of builder, to actually construct his project at 70 percent of the estimated cost?

Mr. POWELL. No, I do not think so.

Mr. RICHARDS. I do not think so.

Mr. POWELL. I do not see how that is possible because we are right on top of local construction costs. Our figures are on the current market, not on the national market, what it costs in this particular community. We might be off 2 percent or 3 percent. I do not think it would be physically possible to be off anything like 30 percent.

Senator LONG. To begin with, here is your 5 percent which is allowed as a contractor's fee. That is allowed for his own effort. Actually the man is entitled to compensation for his effort. I would not deny him that for a moment.

Mr. POWELL. We expect him to earn that.

Senator LONG. Plus that, here is a fee of, let's say, 4 percent that he does not actually have to pay out in architect's fees. There is 9 percent of it.

Mr. POWELL. He might save 1 percent on his overhead.

Senator LONG. If he can save 1 percent on his overhead, that is 10 percent, if he can do that under the law. He already has a 100 percent loan. Is that not true?

Mr. RICHARDS. He has 90 percent of cost in the way of a mortgage. The other 10 percent of these items that you have identified here might reasonably be con-

strued to be profit. Therefore, under this act, a builder can get the full reproduction cost of the structure and the land, and leave him his profit as an equity.

Senator LONG. And if the man is a builder himself, and he does not have to pay an architect's fee, in effect, then he could probably, if he is more efficient than just the normal ordinary builder, actually have his structure completed for less than he could borrow on the Government-insured loan. Would that not be true?

Mr. POWELL. That is possible, it could be done.

Senator LONG. I want to say right here now that frankly I believe this project was intended to be extremely profitable to builders and that the purpose was based on the American tradition that if you want to get a job done, if you will show American businessmen where they can make a hefty profit, they will really get out there and do you a job. That undoubtedly has caused this country to grow the way it has.

But do you know of any other ways where a man by prudence or by care or by any other manner of handling his project might come below or might further reduce his cost in building one of these projects?

Mr. POWELL. I do not see how he could, unless our local estimate of the cost of the production of the structures would be far in excess of what it would actually cost him to build.

Senator JOHN W. BRICKER. There have been many instances like that, have there not?

Mr. POWELL. Not to my knowledge, sir.

Senator BRICKER. You do not know of any?

Mr. POWELL. No, sir.

Senator BRICKER. Have you investigated to find out?

Mr. POWELL. We have not made any investigation of any particular project I know of.

Senator BRICKER. Do you not think that would be important?

Mr. POWELL. I do not know that we would have any actual right to do so.

Senator BRICKER. It might be important to get your estimates revised.

Mr. POWELL. We do get those estimates every 30 days.

Senator BRICKER. I happen to know of something, that is the reason I mention this.

Mr. POWELL. Every 30 days we make a check.

Senator BRICKER. I brought this thing up 2 years ago, the very same thing and tried to write a protective section into the law. I was not very successful at it because it is a very difficult thing to do, to tell you the truth about it.

Senator LONG. You do not think a man could construct a project, then, even if you include his own profit, for 30 percent below what the actual estimated cost of the project was?

Mr. POWELL. Well, Senator, if he did, I would say that our office had made a pretty serious error in estimating the cost of the job. It has never been called to our attention, and I do not see how you could miss an estimated cost on an ordinary housing project of any 30 percent.

Senator LONG. In no event if a man is honest and he submitted you an honest estimate, in no event are you going to go back and make a cost accounting to see how much he could save and attempt to get some of that back?

Mr. POWELL. No. We are not going to accept his estimate if we think it is out of line. We can take our own.

Senator BRICKER. Take a hypothetical case. The only way a man could get back his total investment would be that if he submitted plans, perfectly good plans; you O.K.'d the plans and the cost; his cost was reasonable; you O. K.'d that; he built the building according to plans, according to standards and subject to your inspection. He is entitled to his full mortgage, and if he built the building for 12½ percent less than the estimated cost of it, then he would have his pocket money back.

Mr. POWELL. That is right.

Senator BRICKER. If he built it for more than 12½ percent (below) cost, he might have a little extra cash, and there is no way you can prevent it.

Mr. POWELL. No, sir.

Senator BRICKER. That is what we tried to do, and I do not see any way under the sun you can do it.

Mr. BONNER. Before discussing the facts of the Bon Haven Apartments in Richmond, concerning which I was questioned in private hearings, I want to point out to the committee that it seems to me unfair to hold up builders as subject to criticism for FHA projects

which they constructed when all their acts were in accordance with FHA regulations at the time and were part of a Government-sponsored program to provide adequate housing for the Nation.

The builders, operating in conjunction with the FHA, helped the country to exceed all expectations in the number of housing units built in the postwar years.

Naturally, we operated in the hope of a profit, but I find it a source of disappointment that our acts are criticised instead of praised.

My early building experience was in the New York area. I undertook construction in Virginia in 1942 or 1943, because I was advised that the demand for housing in Virginia was so great and so urgently needed that the building industry in Virginia was not in a position to cope with the situation.

A recent article in *House & Home* for May 1954 has pointed out that construction under section 608 of the National Housing Act did not begin in volume until the administration encouraged the builders to use it. I think the committee should have in mind this quotation from that article:

... the apartment boom in the late forties was financed under section 608, which was enacted in 1942 but was hardly used at all until about 1946 when President Truman called Ray Foley, then head of FHA, to the White House, pounded the table and wanted to know why FHA had not been able to persuade more builders to take advantage of its liberal terms to help ease the housing shortage by building rental apartments. It was at this point that FHA, ironically enough, sent men across the Nation to point out to builders what a golden opportunity section 608 offered them. Finally, builders and contractors got busy. By 1950, they had so many section 608's in the works that the back of the apartment-house shortage was cracked, if not broken.

In the committee hearings, or at least in some of the newspaper articles which have appeared, there is the implication that something is wrong when a builder constructs a project for less than the estimated cost. On the contrary, it seems to me that it evidences efficient operation by the builder.

The statute contemplates that a mortgage commitment for a definite amount shall be made before construction is begun. It makes no provision for increasing the amount of the mortgage if costs go up.

Naturally, a responsible builder would make his cost estimate high enough to cover the contingencies which he might have to face. The best proof that my Bon Haven project, even though I constructed it more economically, was worth the amount of the original estimated cost, is the fact that I sold it for a price substantially above the full FHA mortgage, a little more than a year after it was constructed.

Another bit of history that is forgotten today is that the possibility of "mortgaging out" was disclosed to Congress in 1949, and that Congress, nevertheless, continued the FHA program without substantial change. I have quotations from the *Engineering News Record* on the subject which I think it would be interesting for the committee to hear.

A look at the record—Congressional hearings of 5 years ago show clearly how section 608 was designed to operate as a profit incentive for private builders of apartment projects. For any builder or investor who did not know already the possibilities, the Senate Banking Committee hearing of July 29, 1949, for instance, gave a pretty complete course of instruction on how to make money out of a 608 project.

Appearing before the committee that afternoon were FHA Commissioner Franklin D. Richards and Assistant FHA Commissioner Clyde L. Powell, in

charge of rental housing. Here are excerpts, edited and condensed for brevity, of what they and the committee members discussed.

Exploring the costs that could be included in the FHA-approved construction estimate for a section 608 project, Senator Russell Long of Louisiana first settled the fact that a 5-percent architects' fee was standard. Then he went on:

Senator LONG. Now the 5-percent builders' fee here—on section 608 projects—in my section of the country the usual contractor's fee is 10 percent.

Mr. RICHARDS. In section 608 we break it down into the 5-percent builder's fee and the overhead, which may run 2 percent to 3 percent—allowed in the estimate. It would be 7 percent to 8 percent, which is comparable with what we are talking about, at 10-percent profit.

Mr. RICHARDS. The actual cost of construction, including the items you have mentioned here, varies from builder to builder. So we try to get what we estimate would be the cost to the typical builder, not to the most efficient or not to the poorest builder, but to the typical builder.

Senator LONG. I have a friend who constructed one of these section 608 projects. He told me that he managed to construct his project for 70 percent of the estimated cost. Do you think it is possible, even for the most efficient type of builder, to actually construct his project at 70 percent of the estimated cost?

Mr. POWELL. No, I do not think so.

Mr. RICHARDS. I do not think so.

Mr. POWELL. I do not see how that is possible because we are right on top of local construction costs. Our figures are on the current market, not on the national market, what it cost in this particular community. We might be off 2 percent or 3 percent. I do not think it would be physically possible to be off anything like 30 percent.

Senator LONG. To begin with, here is your 5 percent which is allowed as a contractor's fee. That is allowed for his own effort. Actually the man is entitled to compensation for his effort. I would not deny him that for a moment.

Mr. POWELL. We expect him to earn that.

Senator LONG. Plus that, here is a fee of, let's say, 4 percent that he does not actually have to pay out in architect's fees. There is 9 percent of it.

Mr. POWELL. He might save 1 percent on his overhead, that is 10 percent, if he can do that under the law. He already has a 100-percent loan. Is that not true?

Mr. RICHARDS. He has 90 percent of cost in the way of a mortgage. The other 10 percent of these items that you have identified here might reasonably be construed to be profit. Therefore, under this act, a builder can get the full reproduction cost of the structure and the land, and leave him his profit as an equity.

Senator LONG. And if the man is a builder himself, and he does not have to pay an architect's fee, in effect, then he could probably, if he is more efficient than just the normal ordinary builder, actually have his structure completed for less than he could borrow on the Government-insured loan. Would that not be true?

Mr. POWELL. That is possible, it could be done.

Senator LONG. I want to say right here now that frankly I believe this project was intended to be extremely profitable to builders and that the purpose was based on the American tradition that if you want to get a job done, if you will show American businessmen where they can make a hefty profit, they will really get out there and do you a job. That undoubtedly has caused this country to grow the way it has.

Senator BRICKER. Take a hypothetical case. The only way a man could get back his total investment would be that if he submitted plans, perfectly good plans, you O. K.'d the plans and the cost; his cost was reasonable; you O. K.'d that; he built the building according to plans, according to standards and subject to your inspection. He is entitled to his full mortgage, and if he built the building for 12½ percent less than the estimated cost of it, then he would have his pocket money back.

Mr. POWELL. That is right.

Senator BRICKER. If he built it for more than 12½ percent below cost, he might have a little extra cash, and there is no way you can prevent it.

Mr. POWELL. No, sir.

Senator BRICKER. That is what we tried to do, and I do not see any way under the sun you can do it.

In other words, both Senator Long and Senator Bricker, who is still a member of this committee, recognized that an efficient builder might

complete a job with cash in his pocket, and that they could not draw a statute which would prohibit that result and still be attractive to builders.

We elected to issue capital stock in the amount of \$1,000 for each of the 3 corporations although we employed in excess of \$500,000 of capital. In our opinion, using the \$3,000 figure which was done purely as a matter of convenience, the net result to us as well as to the Government taxwise, was the same.

Had we used \$500 000 worth of capital, the net result would not have been different under the circumstances.

In the event that the job required part of the \$500,000 that was employed, be left in the job, the capital stock would have increased to that extent in order to have avoided loans to the corporations, which we do not feel would have been permitted by the FHA.

FHA required personal indemnities of the stockholders, and these personal indemnities were the equivalent of \$446,000. The difference between the mortgage of \$3,916,000 and the estimated cost of \$1,362,000.

Since we had given our personal indemnity to this extent, had the job required money over and above the mortgage, we would have been compelled to invest the required sums either in the form of capital or paid in surplus.

I have prepared for the committee schedules showing the various items of construction cost, and the savings which I realized over the FHA project analysis.

The following are the principal elements of savings shown by those schedules:

Architect's fee (excess of FHA allowance over amount actually paid) ---	\$164,473
Builder's fee (work done by my organization with no fee to any outside builder) -----	180,450
Interest during construction (saved by more expeditious construction and by employing my own capital without charging interest) -----	39,249
Land (difference between my cost and FHA appraisal) -----	85,144
Total -----	469,316

The summary accounts for \$469,316 of savings. The total left over from the mortgage proceeds after deducting the total cost of land, buildings, and interest during construction was approximately \$858,000, so that it will be seen that the major portion of this is accounted for by the items I have listed.

It would be fair to say that the balance can be accounted for by savings effected by the corporations in performing much of the work usually performed by subcontractors. This applied to a great deal of the heavy work such as masonry and carpentry. In connection with the carpentry work, methods entirely new to the builders in the area as well as the local FHA office, were employed.

For the first time in the area, roof trusses with a split-ring design as designed by the Timber Engineering Co. of Washington, D. C., which resulted in an economy on labor and materials. Plumbing systems were also prefabricated for the first time in the area, and the methods employed resulted in substantial economies.

The highly satisfactory results obtained from the new methods employed were not anticipated at the time of the inception of the job. The corporations did take an added risk in departing from the conventional procedure of building theretofore employed.

In building the Bon Haven project, I had to begin with a careful selection of land, which involved foresight and courage on my part in converting to residential use property in an industrial area, and thus make it possible for the workers in the area to have comfortable accommodations at reasonable rentals.

An option for the purchase of the property on which the Bon Haven project was built was entered into on June 26, 1947, between James H. Scott and Mary Wingfield Scott and Bertram F. Bonner. On December 3, 1947, title was passed to the Pike Corp.

The Pike Corp. paid the same consideration that the Bonner option called for. The cost of the property was \$93,375 plus title fees and attorney's fees which brought the cost up to \$95,356.

The total value of the property was listed in our applications making up the three projects—Pike, Lynn and Haven—as \$93,000. Pike Corp., \$47,200; Lynn Corp., \$23,600; and Haven Corp., \$22,200. The FHA valued the property on their project analysis at \$180,500.

This property was lying dormant and was viewed by real estate people as probably suitable for industrial development as it was in an area in which a great deal of industrial development had taken place. We saw the possibility of utilizing the property for a sound 608 development with housing suitable for the many industries in the area.

After many weeks of negotiations we obtained the option referred to. In that time we made a very careful study of the area, a survey of the various industries and concluded that housing with a shelter rent of \$61.50 a month would serve a need and would be successful. After obtaining the option, we laid out quite a few plans and sketches and finally on October 28, 1947, we filed our formal applications with the FHA.

With the study and work we had put into the project up to this time and with a further analysis we made during the time of our application, and at the time the FHA issued the commitments on November 24, 1947, we felt that the property, having the use that we felt would be most appropriate, was worth in excess of \$180,500 that the FHA had used as value. As a matter of fact, we felt certain that we could have sold it at a price in excess of that sum.

The project was finally developed with 552 units and a shopping area. The shopping area was included under the mortgage of Pike Corp. which also contained 280 units of the 552 total units built. The estimate of rent for the shopping area which the FHA made was \$20,000.

However, the rents obtained were in the neighborhood of \$22,000 to \$24,000. It would seem, based upon these rents, that the value of the shopping area would have been at least \$200,000 or \$225,000.

The construction cost of the shopping area as estimated by the FHA was \$129,000; therefore, the land devoted to the shopping area, probably about 1 acre, would have produced value of at least \$71,000.

We could have kept the land used for the shopping area out of the mortgage and built it free from FHA insurance; however, it was our desire at the time we filed our applications, to keep the shopping area under the mortgage as we felt it was much more attractive and economically sound from the point of view of the mortgagee as well as the FHA.

There was a total of more than 54 acres of land involved in the project. It is our opinion that a single-family home development could have been built with four homes to the acre. This would have meant a total of approximately 216 homes. It is our opinion these homes could have sold for \$10,000 to \$12,000 each.

Using a formula of land value equaling 10 percent of sales price, the land value of each home would have been approximately \$1,000. The total land value on this formula for the 216 homes would have been \$216,000.

It is interesting to note that the FHA's land appraisal of \$180,500 represents 4.13 percent of the total cost of the land and buildings. Those in them multiple-family building business or even in the small-home building business feel safe when land cost runs from 10 to 15 percent of total cost.

(The following was later received for the record:)

Tabulation made from figures and information supplied by telephone from office of B. F. Bonner

	Proceeds of insured mortgage	Surplus from mortgage proceeds after discharge of project cost
Bondale.....	925,000	None
Chamberlayne Gardens.....	1,284,900	None
Bolling Square.....	1,665,900	54,000
Pine Chapel Village.....	3,712,700	966,000
Carlton Terrace Apartments.....	1,787,800	243,000
Bertram Gardens.....	1,512,000	37,000
Total.....	10,888,100	1,300,000

Percentage of total mortgage proceeds which were not required for total project costs, to total mortgage proceeds is about 11 1/2 percent.

NOTE.—Where an overage of mortgage proceeds over project costs existed on these projects, a substantial part of the overage resulted from 2 sources, which were:

- (1) The projects were constructed without any provision for a builder's fee as a cost item; and
- (2) The projects did not pay full 5 percent architect's fee which is customarily allowed as a cost item in any estimate for construction costs.

The percentage of approximately 11 1/2 percent will be substantially reduced if builders' fees at standard rates and architects' fees at 5 percent are included as project costs.

The CHAIRMAN. Now our next witness is Mr. Joseph Maged of the Alley Park Homes, Bayside, N. Y.

Mr. MAGED. Please, Mr. Chairman, I am a lawyer. I want no publicity.

The CHAIRMAN. You want no photographs?

Mr. MAGED. That is right.

The CHAIRMAN. That is the gentleman's privilege. I will have to ask the photographers to step aside because that is the privilege, I think, of any man to refuse to be photographed if he cares to.

Now, will be sworn in, please.

Mr. MAGED. Yes, sir.

The CHAIRMAN. Do you solemnly swear the testimony you are about to give will be the truth the whole truth and nothing but the truth, so help you God?

**TESTIMONY OF JOSEPH L. MAGED, ALLEY PARK HOMES,
BAYSIDE, N. Y.**

Mr. MAGED. I do, sir.

The CHAIRMAN. Now, will you give your name to the reporter, your name and address.

Mr. MAGED. Joseph L. Maged, my address is 360 Clinton Avenue, Brooklyn, N. Y.

The CHAIRMAN. And your business is that of a lawyer?

Mr. MAGED. I am a lawyer and I am a member of the firm of Keog & Brennan.

The CHAIRMAN. You are just a lawyer for the project that we are going to check into?

Mr. MAGED. That is correct, sir. I had no financial interest, nor did my firm have any financial interest of any kind.

The CHAIRMAN. You are just going to tell us what happened to the Alley Park Homes?

Mr. MAGED. To the best of my knowledge.

Mr. SIMON. You were an attorney for Alley Park Housing, Bayside, N. Y.?

Mr. MAGED. My firm was.

Mr. SIMON. You or your firm was attorney, were you not, for 77 Road Realty Corp., New York?

Mr. MAGED. Yes, sir.

Mr. SIMON. Who were the stockholders of Alley Park Housing Corp.?

The CHAIRMAN. This gentleman objects to having his photograph taken so we will have to ask that you step aside, please. He objects to having his photograph taken.

Mr. MAGED. The stock of these corporations, Mr. Simon, had been sold.

Mr. SIMON. Who were the stockholders at the time the corporations were incorporated?

Mr. MAGED. I am going to try to tell you that to the best of my recollection.

These two corporations, I believe, organized before these people planned to build a section 608. I think the stock was issued—90 percent of it I think was issued to Queens Valley Development Corp., and 10 percent to John L. Turner. Now, that is my best recollection. At any rate, up to a certain point, that is how the stockholdings were.

We then had to amend the certificates of incorporation to include the necessary provisions so they could qualify for section 608 mortgage insurance. At that time, I am quite sure, that is how the stockholdings were. Ninety percent with the Queens Valley Development Corp. and 10 percent to John Turner.

Mr. SIMON. At the present time the distribution of the surplus mortgage money was made, who were the stockholders of the corporation?

Mr. MAGED. I will tell you that. When Mr. Hogue asked me yesterday I gave him this but I didn't tell him the prior stockholdings because I assumed he was only interested in the terms of distribution. The stockholders at the time of distribution were Mr. Francis Taylor, Jr.

Mr. SIMON. Where does he live?

Mr. MAGED. He lives in England.

Mr. SIMON. Why in England?

Mr. MAGED. His business address is 10 Park Street, London, W-1, England.

Mr. SIMON. Who else was a stockholder?

Mr. MAGED. Sir Godfrey Way Mitchell.

Mr. SIMON. Where does Sir Godfrey live?

Mr. MAGED. He lives in England.

Mr. SIMON. Can you tell us where?

Mr. MAGED. Wilton Place, Beaconsfield, Bucks, England.

Taylor Woodrow, Ltd., 10 Park Street, London W-1, England.

Mr. SIMON. That is a corporation?

Mr. MAGED. Well, it is a limited company as they call it over there. I mean it is essentially a corporation as we know it here.

Mr. SIMON. And their address is?

Mr. MAGED. 10 Park Street, London W-1, England.

Mr. SIMON. Any other stockholders?

Mr. MAGED. Mr. Owen A. Aisher of Faygate, South Godstone, Surrey, England. The Faygate Investment Trust, Ltd., the same address, and Mr. John L. Turner, of Brookville Road, Brookville, London, England.

Mr. SIMON. How much stock did Mr. Turner own?

Mr. MAGED. He owned 10 percent.

Mr. SIMON. And the other 90 percent was owned by these British citizens?

Mr. MAGED. That is correct.

Mr. Turner is a British citizen, too.

Mr. SIMON. But he resides in this country?

Mr. MAGED. That is right.

Mr. SIMON. A British citizen residing in Long Island?

Mr. MAGED. That is right.

Mr. SIMON. What was the capital stock of this company?

Mr. MAGED. I don't recall, sir. I didn't have the books. I think it was about \$225,000 for each company.

You are talking about the authorized capital?

Mr. SIMON. I am talking about the issued capital stock.

Mr. MAGED. \$6,000 is my recollection.

Mr. SIMON. \$6,000 in each company?

Mr. MAGED. \$1,000 in 77th Road, and \$5,000 in Alley Park. I think that was the amount issued before there was any FHA project.

Mr. SIMON. Was any other stock issued in any company?

Mr. MAGED. Preferred stock was issued to the FHA.

Mr. SIMON. \$100 in each company?

Mr. MAGED. Yes.

Mr. SIMON. Was any other stock ever issued?

Mr. MAGED. Not to my knowledge.

Mr. SIMON. The total stock in both companies was \$6,000 of common and \$200 of preferred to the Commissioner?

Mr. MAGED. That is the best of my recollection.

Mr. SIMON. Are the stockholders that you gave us the same for both corporations?

Mr. MAGED. I believe they are; yes.

Mr. SIMON. Now, the land on which this building was built was purchased by the Queens Valley Development Corp., is that right?

Mr. MAGED. That is right.

Mr. SIMON. Do you recall what Queens Valley paid for the land?

Mr. MAGED. Give me a minute while I look for that sheet here.

The CHAIRMAN. We certainly will.

Mr. SIMON. While you are looking for it, the stockholders of Queen Valley development are also British citizens, are they?

Mr. MAGED. They are the same people except for Mr. Turner.

Now if you will just bear with me for a moment I will try to find that sheet.

All right.

You see, Mr. Simon, we bought—when I say “we” I mean the Queens Valley people bought a tract of land which I believe was about 64 acres. They wanted to build one-family homes on it. They had been building through their affiliates, one-family homes in this country since 1937 or 1938. They went to the FHA and wanted to get commitments to build one-family homes on this tract. The FHA said, “Oh, no. This is perfect for rental housing. We need rental housing badly. We won’t give you a commitment for one-family housing. You have to change the whole thing.”

We had a devil of a job. We worked for over a year, I think, filing new maps, getting the city to close streets and let us open new streets and change the zoning laws, and the various requirements for building in New York City. I think we went to every department which you could possibly mention that would have anything to do with it. We didn’t build on the entire tract. We sold part of it. I think we kept about half or less than half.

Mr. SIMON. This project was built on 30 acres, wasn’t it, roughly?

Mr. MAGED. Yes.

Mr. SIMON. Is your own apportioned cost of the 30 acres on which this project was built—

Mr. MAGED. When you ask about the land cost I have to tell you we bought a whole piece, you see.

Now, the land, in proportion to the piece we built on, according to this statement the accountants have given me—and I must make it very clear, Mr. Chairman, that these accountants did not have the books of the corporation available when they made these up, when the properties had been sold and they made these statements up from the reports they had, worksheets they had accumulated during the years but I think the figures are substantially correct.

Now, they show the bare land cost at \$211,905.50 and they show a total cost, with the improvements, the on-site improvements required to be made by FHA in order to issue a commitment, a total cost of \$399,842.11.

Mr. SIMON. Do you know what was the FHA valuation for the 99-year lease?

Mr. MAGED. You are talking about the recapture price?

Mr. SIMON. Yes.

Mr. MAGED. About \$623,000. I might add the assessed valuation I understand was greater than that.

Mr. SIMON. The 99-year rental was based on \$623,000?

Mr. MAGED. Yes.

Mr. SIMON. Is the land mortgaged?

Mr. MAGED. The leaseholds are mortgaged.

Mr. SIMON. Is the fee mortgaged?

Mr. MAGED. I believe it has been mortgaged—no, it hasn't.

Mr. SIMON. The fee has not been mortgaged?

Mr. MAGED. No. I am sorry. It is a leasehold.

Mr. SIMON. Queens Valley leased the land for 99 years to 77th Road Realty Corp.

Mr. MAGED. That is correct.

Mr. SIMON. And Alley Park Housing Corp.?

Mr. MAGED. That is right.

Mr. SIMON. Then, as I understand it, Queens Valley also loaned these two sponsoring corporations the money to start the building?

Mr. MAGED. They advanced the money.

Mr. SIMON. That advance was later repaid out of the mortgage proceeds?

Mr. MAGED. Not to Queens Valley; no, sir.

Mr. SIMON. To whom was it repaid?

Mr. MAGED. It wasn't repaid at all. There was a distribution paid to the stockholders of these two corporations. Part of it was repaid.

Mr. SIMON. Didn't Queens Valley get repaid to it all the money it advanced to start the construction?

Mr. MAGED. Oh, yes.

Mr. SIMON. That was repaid?

Mr. MAGED. Yes. Surely.

Mr. SIMON. What was the total amount of the mortgage on both buildings? Is it \$6,196,500?

Mr. MAGED. That sounds correct to me.

Mr. SIMON. I am reading this from the sheet you gave me yesterday.

Mr. MAGED. Oh, have you got that? That is what I have been going crazy trying to find.

Mr. SIMON. Was the actual cost \$5,874,386.62?

Mr. MAGED. That was the actual cost as computed by the accountants on the basis that I have told you. They computed it when the date of the certificate of occupancy was issued and not at the date when the FHA figured completion could have been made. In other words, they could have projected the cost to the 18-month period, but they didn't.

Mr. SIMON. Does that cost include whatever sums were originally advanced and later repaid to Queens Valley?

Mr. MAGED. Well, it is the cost of construction.

Mr. SIMON. That includes everything?

Mr. MAGED. They had advances made, and this is what they spent.

Mr. SIMON. And the spending includes repayment of the advances; is that right? Or is that figure after the repayment of the advances?

Mr. MAGED. In order to build this job they got mortgage money.

Mr. SIMON. But before that they got some advances from Queens Valley?

Mr. MAGED. That is right.

Mr. SIMON. And they repaid the advances out of the mortgage money; is that right?

Mr. MAGED. When they finished up, all the money advanced by Queens Valley had been repaid. That is right.

Mr. SIMON. Now, the difference on your sheet between the total cost and the mortgage money was \$322,000; is that right?

Mr. MAGED. That is right, but that does not include anything for builder's fees or architect's fees.

The CHAIRMAN. Did they pay anything for builder's fees or architect's fees? Did they actually pay anything for it?

Mr. MAGED. They did not pay themselves a builder's fee, and they did not pay 5 percent.

The CHAIRMAN. It was money never paid out.

Mr. MAGED. They did not pay 5 percent.

Mr. SIMON. The figures you have on your sheet include all the costs they paid to anybody for anything; is that not right?

Mr. MAGED. That is right.

Mr. SIMON. It doesn't include things they didn't pay anybody for?

Mr. MAGED. That is right.

Mr. SIMON. Now, the \$322,000 was left out of the mortgage proceeds after all the costs that they incurred were paid; is that right?

Mr. MAGED. That is correct.

Mr. SIMON. And what happened to the \$322,000?

Mr. MAGED. It was distributed to the stockholders.

Mr. SIMON. And do you know whether the 90 percent that was owned by the British stockholders was remitted to England?

Mr. MAGED. Oh, yes; they go it in accordance with their stockholdings.

Mr. SIMON. And they subsequently, as I gather it, sold the project and made an additional profit of some \$350,000.

Mr. MAGED. They sold it for about \$350,000, yes, sir, which to my mind indicates very definitely they probably had a very substantial equity.

Mr. SIMON. Thank you, sir.

Mr. MAGED. May I just indicate one thing, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. MAGED. Mr. Simon has been good enough to ask me how much they invested by way of stock. I want to point out that in FHA requirements they had to advance some \$354,000—that was in addition to the money they invested for buying the land—and I find in my file a letter, for example—let me preface this remark—these people being British subjects, they couldn't do what was done in most cases—in practically all the other FHA jobs—give their personal indemnity agreement. FHA wouldn't accept them. They wouldn't even accept Queens Valley indemnity agreement which had very substantial assets. So we had to supply surety company performance bond, not only for the outside improvements but for the work. We paid something like \$23,000 in premiums. FHA wouldn't allow that as an item to us.

Now, I have here a copy of a letter which we delivered to the Seaboard Surety Co. in connection with the Alley Parks section—I didn't find one for the 77th Road; I imagine we must have given them a similar letter. If I may, with your permission, read that letter. This is dated April 6, 1948, which is 2 or 3 days before we closed the mortgage loan.

SEABOARD SURETY Co.,
New York.

Re Oakland Gardens, section 1576, FHA No. 012-40084.

GENTLEMEN: Please be advised we have advanced the necessary funds to our associate company, Green Park Homes, Inc., in order to enable said company to have a cash working capital of \$150,00 for use in the construction of the above captioned project until the completion and acceptance thereof, and that we shall

not demand or accept repayment of any part of said funds until completion and acceptance of said project.

Very truly yours,

QUEENS VALLEY DEVELOPMENT CORP.
By JOHN L. TURNER, *President*.

I am sure we delivered a similar letter on 77th Road but for a lesser amount because the project was smaller.

Mr. SIMON. In that connection I have here an application for mortgage insurance filed on the 77th Road Realty Corp. project, and it says that the sponsor was going to put up cash of \$37,288 and other equity of \$217,466, or a total equity of \$254,754, and I take it the fact is that this sponsoring corporation didn't put anything except—was it \$1,000 or \$5,000 of capital—and everything else it got was a loan from Queens Valley; is that right?

Mr. MAGED. The sponsoring corporation is Queens Valley in that application.

Mr. SIMON. It is signed by Queens Valley on behalf of 77th Road Realty Corp.

Mr. MAGED. The 77th Road is the mortgagor corporation and not the sponsoring.

Mr. SIMON. That is the sponsoring corporation.

Mr. MAGED. I disagree with you.

Mr. SIMON. Who do you regard as the sponsoring corporation?

Mr. MAGED. It says right on there who the sponsors are. Queens Valley and John L. Turner.

Mr. SIMON. It says, "* * * on behalf of."

Mr. MAGED. On behalf of the corporation that is going to get the money.

Mr. SIMON. If you sign something on my behalf, doesn't that make it my application?

Mr. MAGED. My dear sir, I call your attention to the front of the application.

Question 1. "Name and address of sponsors: Queens Valley Development Corp. and John L. Turner."

It gives their addresses.

The CHAIRMAN. How did these British subjects find out about how it was possible to mortgage out? Do you have any idea? How was it called to their attention?

Mr. MAGED. Like anybody else. He builds a job, and he has some money that he didn't spend, and he doesn't know that when he starts.

The CHAIRMAN. In the beginning, how did they happen to become interested in it; do you know?

Mr. MAGED. I explained to you, Mr. Chairman, that when they wanted to build it on this land originally, they wanted to build one-family houses and the FHA said, "No, we need rental housing. We won't approve this tract for one-family houses."

That was their business. They had built a lot of one-family houses in this country. This was the first section 608.

The CHAIRMAN. Are they still building one-family houses?

Mr. MAGED. They are pretty much stopped, much to my regret.

The CHAIRMAN. Why are they stopped?

Mr. MAGED. Well, they are very honorable businessmen. Mr. Taylor is at the head of one of the largest construction companies in England.

Sir Godfrey is with one of the worldwide organizations. They don't fancy being called crooks and thieves because they made a profit.

The CHAIRMAN. Has anyone called them crooks and thieves?

Mr. MAGED. Well if I can understand the English language they were being charged with doing something wrong because they were efficient in building a job and not spending every dollar that they borrowed.

The CHAIRMAN. Let me ask you something. We seem to get into an argument about this all the time. Do you consider that you can make a profit on something and still own it? How can you make a profit on something and continue to own it?

Mr. MAGED. How do you make profits on rents? You still own it. Isn't that a profit?

The CHAIRMAN. You make the income from the rents received, not from selling the physical property. Here is a case where these English people put in \$3,000, wasn't it?

Mr. SIMON. \$6,000.

The CHAIRMAN. \$6,000 invested capital and took out what?

Mr. SIMON. \$322,000.

The CHAIRMAN. The \$322,000 was the difference between the actual cost of constructing this property and the proceeds of the mortgage.

Your position is that that is a profit. My position is that it is not a profit, because they continue to own the physical property and the three hundred and some thousands was still owing on the mortgage. But yet they take it out in the form of dividends.

Had they left it in the corporation, or had they applied it on the mortgage, which I think they should have done—but no, they take it out, stick it in their pockets, FHA sits there then—all FHA has behind that mortgage is \$6,000 and the building.

Like the gentleman from New York, Mr. Levitt, testified yesterday, and freely admitted that he was the biggest and best builder in the United States, he had 4 projects, 2 in New York, 2 in Norfolk. On three of them he mortgaged out and made a lot of money. One of them he testified he made \$5 million on. One of them went sour. He handed the sour one back to FHA, just like your people would have handed it back to FHA had it gone sour, and they would have lost \$3,000 only.

Mr. SIMON. \$6,000.

The CHAIRMAN. They would have lost \$6,000.

You can't make a profit on something and continue to own it. If you can, I wish you would tell me how to do it.

Mr. MAGED. I feel very honored that you should ask my humble opinion; but, if you wish it, Mr. Chairman, I shall be very glad to state it.

In the first place, I take very, very strong exception to your position that they only invested \$6,000. I have just read to you, sir, that they put in, just on this job, with the surety company, they advanced—

The CHAIRMAN. Of course they did, we don't deny that, but it was a loan and was repaid back to them out of the proceeds of the mortgage. So it was not invested capital.

Mr. MAGED. As I understand the building—

The CHAIRMAN. I have no objection—we wouldn't possibly be here today had this amount been invested capital, but the point is it wasn't invested capital. And my position is that this \$300,000 they took out

and put in their pockets should have gone to reduce the mortgage because the Federal Government is guaranteeing that mortgage, you see. That is what we are complaining about.

Mr. MAGED. Mr. Chairman, in the first place, that is not the way the real-estate business is conducted. There is nothing about section 608 that makes it *sui juris*.

It is not any different than any other real-estate transaction. When they completed the project they did all they were required to do for FHA or anybody else. FHA is a paid insurer. FHA is not giving anybody any charity. They have made a tremendous profit since it was formed. When they completed the job they had risked some \$700,000 until it was completed. When they were completed they had done their work. If there was any balance there, they didn't have to pay it on the mortgage. That wasn't part of the deal, that wasn't part of the law, and it is unfair to say they should have done it now. If that had been the requirement, they would never have done it. They wouldn't take the risk and then have to pay back the difference.

The CHAIRMAN. If they hadn't had an idea that they could mortgage out and get back more money than they put in or at least an equal amount, they wouldn't have gone into these projects at all.

Mr. MAGED. I think there were 7,608 projects built in this country and only about one-fifth or less mortgaged out, I think.

The CHAIRMAN. Of course you don't know and neither do we. That is what we are finding out. Those we do know about, of course, are those who filed tax returns and went after dividends, but we are finding many cases now, of course, where they just keep the money in the corporation and are loaning it to themselves with or without interest.

For example, these people put in their application a 5 percent builder's fee and a 5 percent architect's fee.

Mr. MAGED. The \$322,000 represents about 5 percent. They were entitled to a builder's fee of 5 percent at least, weren't they?

Mr. SIMON. How much was the architect's fee they paid?

Mr. MAGED. I don't know. I suppose it was the usual fee they were paying 11½ or 13¼ percent. The architect didn't do supervision—just drew the plans.

Mr. SIMON. The reason I ask that, they originally filed these applications in 1947, I believe, and then they filed amended applications in 1948.

Mr. MAGED. That is right.

Mr. SIMON. In the meantime, Congress had changed the law, and on December 27, 1947, Congress passed an amendment to the act which the Senator read a minute ago, which said:

In estimating necessary current costs for the purpose of said title, the Federal Housing Commissioner shall thereafter use every feasible means to insure that such estimates will approximate as closely as possible costs of an efficient builder.

And yet when they filed the amended application in 1948 they still put in 5 percent architects' fees which they knew wasn't the actual cost.

Mr. MAGED. I think I could give you the answer, but I won't do it on the record.

The CHAIRMAN. Well, thank you very much.

Senator LEHMAN. May I ask a question?

The CHAIRMAN. Senator Lehman.

Senator LEHMAN. Can you tell me what was the actual cost?

Mr. MAGED. The actual cost was \$6,874,386.62.

Now may I point out, sir, as I have testified, that this was the actual cost to the date of completion, not to the date when the FHA figured we would finish the job which would have been 5 or 6 months later. When you project that out, you find that the FHA estimates are actual costs, taking 18 months to complete, it is practically identical.

Senator LEHMAN. What was the mortgage?

Mr. MAGED. The mortgage total \$6,196,500.

Senator LEHMAN. So there was an apparent profit of \$322,000?

Mr. MAGED. Yes.

Senator LEHMAN. Now in this cost of \$5,874,000, was there included an item for builder's fee?

Mr. MAGED. No, sir.

Senator LEHMAN. There was not?

Mr. MAGED. No, sir.

Senator LEHMAN. Who did the actual building?

Mr. MAGED. Queens Park Homes which was an affiliate corporation.

Senator LEHMAN. If you had—this is a point which I have raised several times before because it disturbs me—that is, as to the interpretation, the propriety of the builder's fee.

If, instead of doing it through this company which was an affiliated corporation, you had engaged a builder, how much would you have had to pay him?

Mr. MAGED. You probably would have had to pay him 10 percent, and that would have been \$600,000.

Senator LEHMAN. Assuming you only would have had to pay him 5 percent—

The CHAIRMAN. We have to keep the record straight there. You did take out of this project a lot of costs for superintendents and salaries and expenses of the building of the building?

Mr. MAGED. So does every builder.

The CHAIRMAN. Had you paid a builder to have done the job, he would have paid those expenses?

Mr. MAGED. Yes, but you are paying a fee on top of that if you do it on a fee basis.

The CHAIRMAN. But you must remember they were working for themselves and they continue to own the project. It was their project. Why should you pay them for working on their own project? It was their own project. They own the physical thing when it is finished.

Mr. MAGED. Mr. Chairman, may I ask you this: If they had known it was wrong that they should make 5 percent, they would have hired a builder and let him have the headaches and they wouldn't have to come here.

The CHAIRMAN. We are not necessarily taking the position that it is wrong. We are trying to point out to the American people and to all concerned how millions and millions of dollars were made in so-called windfall profits, and we are trying to find out how we should change the law. Whether it is a good thing or not. We are making a report to the American people or the taxpayers who are putting

up the money for FHA. If there are a lot of them going sour they will be taxed in the future to make good because there are billions and billions of dollars involved.

Mr. MAGED. I pointed out that we sold the property for about \$350,000 after it was built—the stock in it—which to my mind is conclusive proof that it had an equity above the mortgage.

Senator LEHMAN. What I was getting at is that if they had paid 5 percent to a builder, that would have been about equivalent to the \$322,000.

The CHAIRMAN. If they made 10 percent it would have been twice that amount.

Senator LEHMAN. The reason I raised this in a number of cases is that I think that is a question that the committee will have to consider very carefully. Whether, simply because a man does his own work and does not employ a builder, he should be blamed or criticized for apparently doing something that wasn't ethical.

The CHAIRMAN. Let me say this: We wouldn't be concerned about it, at all, if these gentlemen were endorsing and guaranteeing these mortgages. We wouldn't be worried about it at all. These people took out \$322,000. Had they gone to FHA and said, "Now, if this project ever goes sour, we will refund you \$322,000," we wouldn't be concerned at all. But when they got all through with this project, all they had invested was \$6,000. And the only thing FHA had behind this mortgage—and they guaranteed it 100 percent—that is 100 percent of the amount of the mortgage—was \$6,000 in this corporation, plus the building, and not even the land in this instance because they rented the land with a 99-year lease. That is all the Government had behind it. Had they put the \$322,000 in the bank account and kept it in there until such time as the mortgage was paid off, no one could object at all.

Here they are making a profit on that which they continue to own, and they are passing it on to the—if it goes sour, they are passing on 100 percent of the responsibility, other than the buildings, to the Federal Government.

They take the position that there have been very few repossessions. I think that is a true statement, but there might well be in the future, billions of dollars worth—it might well be—we hope not but it might so develop.

Senator LEHMAN. I want to point out just this one thing for the record: If the cost had been greater than the mortgage, the actual cost, or if the thing had gone sour, they would not have recouped that money, so that \$150,000 was at least to that extent at the risk of the business.

Mr. MAGED. That was only on the one project. I can't find the letter on the other. It was probably about half of that.

The CHAIRMAN. Thank you very much, we appreciate it.

Mr. MAGED. Thank you.

Senator PAYNE (presiding). Mr. W. S. Banks.

TESTIMONY OF W. S. BANKS, UNIVERSITY CITY AND HUNTINGTON APARTMENTS, ARLINGTON, VA., ACCOMPANIED BY JAMES M. ERNEST AND SOLOMON GROSSBERG, COUNSEL

Senator PAYNE. Mr. Banks, will you be sworn in, please.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth so help you God?

Mr. BANKS. I do.

Senator PAYNE. State your name and address for the purposes of the record.

Mr. BANKS. William S. Banks, 3600 Dunlop Street, Chevy Chase, Md.

Mr. SIMON. Would you also give the names of your counsel for the record.

Mr. BANKS. James M. Ernest, 1000 Woodward Building, Washington, D. C.

Mr. GROSSBERG. Solomon Grossberg, 729 15th Street, Washington, D. C.

Mr. ERNEST. The subpoena which was directed to Mr. Banks requires that he produce copies of the audits of the corporate books and records of the University City, Inc., whereas the name of the corporation is "apartments." I assume that is a typographical error.

Mr. SIMON. Either that or a mistake.

Mr. ERNEST. In any event we have produced the records as requested and Mr. Banks is ready to testify.

Mr. SIMON. Are you associated with the Huntington Apartments project in Virginia?

Mr. BANKS. Yes.

Mr. SIMON. Where is that project located?

Mr. BANKS. On Huntington Avenue, Fairfax County, Va.

Mr. SIMON. Who acquired the land on which the project is located?

Mr. BANKS. The land was acquired under option in 1946, a part of it by Huntington Development Co., and part of it by Huntington Market Place, Inc.

Mr. SIMON. Who were the stockholders in those corporations?

Mr. BANKS. George Ford, 150 shares; W. S. Banks, 105 shares, and Howard Everhard, 45 shares.

Mr. SIMON. Is that true of both corporations?

Mr. BANKS. Yes.

Mr. SIMON. What was the cost of the land?

Mr. BANKS. To whom?

Mr. SIMON. To these two corporations?

Mr. BANKS. One portion of it was \$3,600. The other portion was \$22,344. They installed the improvements, which they paid for themselves in the amount of \$9,239.81, plus another portion of \$9,720, so the actual cost was \$44,903.81 to these corporations.

Mr. SIMON. Did the corporations sell the land to the section 605 sponsor corporation?

Mr. BANKS. They did.

Mr. SIMON. At what price did they sell it?

Mr. BANKS. \$45,000.

Mr. SIMONS. What was the name of the sponsoring corporation?

Mr. BANKS. Huntington Apartments, Inc.

Mr. SIMON. Did you or any of your associates make any profit on the sale of the land to Huntington Apartments?

Mr. BANKS. From the figures it would appear we lost a little money because we charged no interest and the difference in the cost price and the money paid for improvements is less than \$100.

Mr. SIMON. Are you saying, then, that you did not make a profit on the sale of the land?

Mr. BANKS. We did not.

Mr. SIMON. Who were the shareholders in Huntington Apartments?

Mr. BANKS. The same as I gave you a moment ago, Ford, Banks, and Everhard.

Mr. SIMON. And in the same proportion?

Mr. BANKS. That is right.

Mr. SIMON. What was the amount of the mortgage?

Mr. BANKS. \$570,000.

Mr. SIMON. Who constructed the building?

Mr. BANKS. Banks & Lee, Inc.

Mr. SIMON. Who are the stockholders of Banks & Lee, Inc?

Mr. BANKS. W. S. Banks.

Mr. SIMON. You own all the stock?

Mr. BANKS. That is right.

Mr. SIMON. What was the contract between Huntington Apartments and Banks & Lee for the construction of the project?

Mr. BANKS. Cost plus a fee of 5 percent for the construction work.

Mr. SIMON. And what did the 5 percent turn out to be?

Mr. BANKS. I can't see these papers on account of the lights.

Mr. SIMON. It would be about \$26,000, wouldn't it?

Mr. BANKS. That would be approximately correct.

Mr. SIMON. So that your company agreed to construct this project on a contract of cost plus a fee of about \$26,000?

Mr. BANKS. That is correct.

Mr. SIMON. And what was the cost of the project?

Mr. BANKS. \$495,288.86.

Mr. SIMON. Does that include your fee?

Mr. BANKS. Yes.

Mr. SIMON. And was the total cost of Huntington Apartments, of the building and the land, approximately \$540,000?

Mr. BANKS. The total cost including the land was \$495,288.86.

Mr. SIMON. That figure included the land?

Mr. BANKS. That is correct.

Senator PAYNE. That includes the builders' fee?

Mr. BANKS. That is correct.

Senator PAYNE. Was any distribution made to stockholders of the difference between the cost and the mortgage?

Mr. BANKS. Yes.

Senator PAYNE. And how much was that?

Mr. BANKS. Well, the difference between the cost and the mortgage was \$74,711.14.

Senator PAYNE. How much of that was distributed to the stockholders?

Mr. BANKS. We distributed in May 1950, \$80,100.

Mr. SIMON. Was that \$80,000 distributed to the stockholders in proportion to their stock ownership?

Mr. BANKS. That is right.

Mr. SIMON. And that \$80,000 distribution represented, in part, the difference between the cost of the land and buildings, and the proceeds of the mortgage?

Mr. BANKS. That is correct.

Mr. SIMON. In addition to your share of that \$80,000 distribution, you received a \$26,000 fee for building the building?

Mr. BANKS. The corporation did.

Mr. SIMON. Your corporation?

Mr. BANKS. That is correct.

Mr. SIMON. And you own all the stock in the corporation?

Mr. BANKS. That is correct.

Mr. SIMON. Have there been any other dividends paid since the \$80,000 dividend?

Mr. BANKS. Yes, there is another distribution of dividends in 1952, of \$15,000.

Mr. SIMON. And that I assume also was paid in proportion to the stock ownership?

Mr. BANKS. That is right.

Mr. SIMON. Now going to University City Apartments, where is that located?

Mr. BANKS. That is located at University Lane and Riggs Road, in Prince Georges County, Md.

Mr. SIMON. Do you and your partner still own the Huntington Apartments project?

Mr. BANKS. Mr. Ford sold his share to a Mr. Abrahamson.

Mr. SIMON. You still own your interest?

Mr. BANKS. Yes, sir.

Mr. SIMON. The University City Apartments are three corporations?

Mr. BANKS. That is correct.

Mr. SIMON. Who are the stockholders?

Mr. BANKS. The stockholders are W. S. Banks, 150 shares, common stock; John M. Walton, 75 shares, common stock; and R. Webster Ross, 75 shares, common stock.

Mr. SIMON. You own 50 percent and each of the other two, 25 percent?

Mr. BANKS. Each of the three corporations is held the same way.

Mr. SIMON. And you own 50 percent in each and the other two own 25 percent in each?

Mr. BANKS. That is right.

Mr. SIMON. What is the capital of each of these corporations?

Mr. BANKS. They were each formed with 300 shares of common stock at no par value.

Mr. SIMON. How much was paid for that stock?

Mr. BANKS. \$1 per share.

Mr. SIMON. Each had \$300 of capital plus the \$100 of Commissioner's preferred stock?

Mr. BANKS. That is right.

Mr. SIMON. What was the capital of Huntington Apartments in Virginia?

Mr. BANKS. What was that, now?

Mr. ERNEST. The capitalization of Huntington.

Mr. BANKS. 300 shares of no par value.

Mr. SIMON. And \$100 of preferred stock?

Mr. BANKS. That is right. To the best of my knowledge the 300 shares is correct and to the best of my knowledge we issued it for \$1 per share.

Mr. SIMON. Going back to University City, who acquired the land?

Mr. BANKS. The land was acquired from University City, Inc.

Mr. SIMON. Who were the stockholders of University City, Inc.?

Mr. BANKS. I don't know, but I believe Mr. Walton and Mr. Ross owned a portion of the stock.

Mr. SIMON. You had no connection?

Mr. BANKS. No connection whatever.

Mr. SIMON. How much did the sponsoring corporations pay for the land?

Mr. BANKS. For the raw land, \$26,260, \$29,290, and \$24,846. I will have to give you a total.

Mr. SIMON. Approximately \$80,000.

Mr. BANKS. That is correct.

Mr. SIMON. Do you know what Mr. Walton and Mr. Ross paid for it?

Mr. BANKS. I have no idea.

Mr. SIMON. You don't know whether they made a profit on the sale of the land to the sponsoring corporation?

Mr. BANKS. I have no idea. I know they held it for a number of years.

Mr. SIMON. What was the amount of the mortgage on the 3 buildings, or for the 3 corporations?

Mr. BANKS. \$2,522,400.

Mr. SIMON. Who built the buildings?

Mr. BANKS. Banks & Lee, Inc.

Mr. SIMON. That is the same company that you are the sole stockholder of?

Mr. BANKS. That is right.

Mr. SIMON. What was the construction contract?

Mr. BANKS. The construction contract was with William S. Banks and John M. Walton, and R. Webster Ross. They then sublet it to Banks & Lee, Inc.

Mr. SIMON. What was the construction contract between the sponsoring corporation and you three as individuals?

Mr. BANKS. Cost plus a fee of \$130,000.

Mr. SIMON. Is that for the three projects?

Mr. BANKS. For the 3 projects, plus 500 shares of second preferred stock in each corporation.

Mr. SIMON. What was the contract between the three individuals and your corporation?

Mr. BANKS. Cost plus \$110,000.

Mr. SIMON. So that the three individuals made a profit of \$20,000 cash, and the 500 shares of preferred stock, in the subletting of the contract?

Mr. BANKS. That is correct.

Mr. SIMON. What was the cost to the 3 corporations, of constructing the project?

Mr. BANKS. The total cost was \$2,326,826.59.

Mr. SIMON. Does that include the cost of the land?

Mr. BANKS. Yes.

Mr. SIMON. Was a distribution made of the difference between the cost and the mortgage?

Mr. BANKS. Yes.

Mr. SIMON. How much was that distribution?

Mr. BANKS. The second preferred stock was redeemed at par value, which is \$150,000, and section 1 bought the stock of sections 2 and 3, for \$150,000.

Mr. SIMON. Therefore, out of the proceeds of the mortgage, and over and above the cost of construction, you and your two partners each received \$300,000 from the sponsoring corporation, is that right?

Mr. ERNEST. No; that is incorrect.

Mr. SIMON. Didn't you get \$150,000 on the preferred stock—

Mr. BANKS. We got \$300,000 between the 3 of us.

Mr. SIMON. I didn't mean that you each got \$300,000.

Mr. ERNEST. That is correct.

Mr. SIMON. In addition to the \$300,000, the 3 of you received \$20,000 in cash in connection with the subletting of the contract?

Mr. BANKS. That is correct.

Mr. SIMON. So it would be a total of \$320,000 and in addition your construction company received a \$100,000 fee for constructing the building?

Mr. BANKS. That is correct.

Mr. SIMON. Have there been any other dividends paid there?

Mr. BANKS. No, sir.

Mr. SIMON. In both these projects the land was sold to the sponsoring corporation, wasn't it? There is no leasehold arrangement?

Mr. BANKS. They were both sold.

Mr. SIMON. Thank you, sir.

Senator PAYNE. Dr. Daniel Gevinson.

Doctor, will you raise your right hand and be sworn.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. GEVINSON. I do.

Senator PAYNE. Will you state your name and address for the purposes of the record?

Dr. GEVINSON. Daniel Gevinson, 25th and North Bay Road, Miami Beach, Fla.

TESTIMONY OF DR. DANIEL GEVINSON, WASHINGTON CIRCLE APARTMENTS IN WASHINGTON, D. C., ETC.

Mr. SIMON. What city did you say?

Dr. GEVINSON. Miami, Beach, Fla.

Mr. SIMON. Have you been a resident of the District of Columbia?

Dr. GEVINSON. Up until 8 months ago; until last September.

Mr. SIMON. I believe you were a dentist here in the District until a couple years ago?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. When did you give up your dental practice?

Dr. GEVINSON. Well, I actually sold my office—I believe it was 1950-51.

Mr. SIMON. Where was your office in the District?

Dr. GEVINSON. It was in the Park Lane Apartments.

Mr. SIMON. Where was that?

Dr. GEVINSON. That is at 21st and I. No, it is 23d and I.

Mr. SIMON. Could you speak either a little closer to the microphone or a little louder? It is difficult hearing you.

When did you first become interested in section 608 projects?

Dr. GEVINSON. In 1947-1946 and 1947.

Mr. SIMON. I believe your first was the Washington Square—

Dr. GEVINSON. Washington Circle.

Mr. SIMON. The Washington Circle project?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. Where is that, Doctor?

Dr. GEVINSON. At 2430 Pennsylvania Avenue NW.

Dr. SIMON. How much was the FHA commitment there?

Dr. GEVINSON. \$2,343,300.

Mr. SIMON. Who constructed the project?

Dr. GEVINSON. Charles H. Tompkins Co.

Mr. SIMON. How much did they charge for doing it?

Dr. GEVINSON. \$155,000.

Mr. SIMON. Do you mean cost plus \$155,000?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. What did that turn out to be?

Dr. GEVINSON. \$2,293,439.99.

Mr. SIMON. Does that include the cost of the land, Doctor?

Dr. GEVINSON. Yes, it does.

Mr. SIMON. Now, the Charles H. Tompkins Co. helped you to finance—

Dr. GEVINSON. I am sorry. That was \$2,393,000.

Mr. SIMON. Which is \$50,000 more than the mortgage? Is that right?

Dr. GEVINSON. Yes, that is right.

Mr. SIMON. Now, did the Charles H. Tompkins Co. help you to finance that project?

Dr. GEVINSON. They advanced the necessary closing moneys and also the moneys necessary to pay the mortgage on the land—the existing mortgage on the land.

Mr. SIMON. At the time you filed the application for the section 608 mortgage on this project, what was your net worth?

Dr. GEVINSON. Well, I don't remember, I had Mr. Savage—he told me he sent in a financial statement, I believe.

Mr. SIMON. The subpoena called for two financial statements, one in the period of 1947-48, or 1949, and the second one as of December 31, 1953.

We received the latter one, Doctor, but we never received the earlier ones.

Dr. GEVINSON. Mr. Savage told me he had sent in the earlier one.

Mr. SIMON. The earliest one he gave us was December 31, 1951, but we also wanted to know what your net worth was in the 1940's when you started into the section 608 projects.

Dr. GEVINSON. I am sorry. I didn't get the subpoena. I was called by someone from your office. I was up in Syracuse. If I had known you wanted 1947, I would have brought it. I will be glad to have Mr. Savage give it to you.

Mr. SIMON. On June 22, 1954, you were present in an executive session?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. Do you recall that at that time I asked you about your net worth at the time this project was started?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. And as I recall it you said it was not over \$50,000; is that right?

Dr. GEVINSON. I was really guessing. I am still guessing. I don't know because I haven't been in Washington since that day. I left that day. I would be very happy to very specifically give you any information that you might need.

Mr. SIMON. Did you tell us on June 22 that it was not over \$50,000 in 1947?

Dr. GEVINSON. I think I said I thought it might be that but I think I also said I wasn't sure at all.

Senator PAYNE. Well, let me ask this, Doctor. What properties did you own in 1947?

Dr. GEVINSON. I owned the parking lot at 19th and I.

Senator PAYNE. What did you pay for that?

Dr. GEVINSON. I think that was about \$45,000 or something like that.

Senator PAYNE. And did you own a home here?

Dr. GEVINSON. Yes, I own a home at 3243 Military Road NW.

Senator PAYNE. What was that valued at?

Dr. GEVINSON. Well, it cost me \$12,000 but I value it around \$17,000 or \$20,000, something like that.

Senator PAYNE. \$20,000 would be a fair figure?

Dr. GEVINSON. I think so.

Senator PAYNE. You had an office, you had equipment and so forth, in your own permanent dental office?

Dr. GEVINSON. Yes.

Senator PAYNE. What would you estimate that would be?

Dr. GEVINSON. I would say maybe around \$15,000, something like that, I am not sure.

Senator PAYNE. Did you have any stocks and bonds?

Dr. GEVINSON. I think I had some government stocks.

Senator PAYNE. How much, about, would you say?

Dr. GEVINSON. It is hard to say.

Senator PAYNE. I mean approximately.

Dr. GEVINSON. It would be purely a guess. I really wouldn't know.

Senator PAYNE. Was it a substantial amount or was it a minor amount?

Dr. GEVINSON. I don't think it was too substantial. I think it was several thousand dollars but I don't know exactly.

Senator PAYNE. Would it be \$2,000, \$5,000, or \$7,000?

Dr. GEVINSON. It might have been between \$3,000 and \$5,000. I just exactly don't recall. I might have had more. In other words, I could get the statements and let you know very accurately.

Senator PAYNE. Were you carrying a substantial bank balance at that time, in cash?

Dr. GEVINSON. I think I was.

Senator PAYNE. Would you have any idea how much that was?

Dr. GEVINSON. As I said these figures are purely guesses. They could be as wrong as anything. If you would let me, I would like to give you the actual statements which would be accurate because when I tell you now I just don't know the answer.

Senator PAYNE. Did you have much in the way of mortgage against the land that you had bought and the home that you owned?

Dr. GEVINSON. Well, I really don't recall now. In other words, I would rather not tell you something that isn't true. I mean—

Mr. SIMON. One thing, as I recall it, you borrowed some money from your mother and father to buy this piece of property, didn't you?

Dr. GEVINSON. That is right.

Mr. SIMON. And you owed that?

Dr. GEVINSON. Well, there was no note.

Mr. SIMON. The Tompkins Co. financed this project for you, is that right?

Dr. GEVINSON. That is correct.

Mr. SIMON. Now, in addition to paying the Tompkins Co. the charges that they made for this, did you pay anything to the individuals to induce them to finance the project for you?

Dr. GEVINSON. No. The \$155,000 was the entire sum paid to the Tompkins Co.

Mr. SIMON. Did you ever give any money or shares of stock to Mr. Tompkins' son, in consideration of his having persuaded his father to finance the project for you?

Dr. GEVINSON. No.

Mr. SIMON. You didn't?

Dr. GEVINSON. No, sir. You are talking about Washington Circle?

Mr. SIMON. I am talking about all the projects.

Dr. GEVINSON. Now, in the Westchester House in Fort Worth, Tex., it wasn't a question of giving. At the forming of the corporation, the original stockholders there were Francis M. Tompkins, 10 percent; myself, I think 67½—well, I will give you—I mean—for instance—well Francis Tompkins got 10 percent at the beginning of the corporation. It wasn't an inducement, it was part of the agreement.

Mr. SIMON. You had a total of six projects, I believe?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. And the Tompkins Co. or the Tompkins family were helpful to you in one way or another in all of them, is that not right?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. Now, after they were constructed, you gave what for the moment we will call the Tompkins group, \$180,000 in either cash, land, or stock, is that right?

Dr. GEVINSON. Well, that was during construction. I think if you will remember, as I explained, actually \$40,000 of it—I mean \$25,000 and \$16,000, I think—\$41,000 was actually cash. Then, in order to obtain loans from Mr. Tompkins, in order to pay off obligations which I had accrued during this development of the project to other individuals, like Mr. Wiley and Mr. DeFabio, he loaned me \$85,000. For that \$85,000 loan, I gave him 12½ percent of the stock of the Westchester, so by that method he got 12½ percent of the stock in the Westchester, for a private loan to pay off private obligations.

Mr. SIMON. Well, Doctor, the money we are now talking about or the money and property totaling \$180,000 was in addition to repaying any moneys you had ever borrowed from the Tompkins group, isn't that right?

Dr. GEVINSON. Well, yes, but one thing I think you should keep clear for the record and for your own information is that this cash

that I gave Mr. Tompkins and the stock I gave him was for private loans. In other words, it was for moneys loaned to me as an individual and actually as I said, \$85,000 of it was, you might say, not in direct investment in the projects, themselves.

Mr. SIMON. I so understood and want to make clear that he personally, and the company, both, helped you, personally, finance these projects.

Dr. GEVINSON. That's correct.

Mr. SIMON. And, in addition to repaying him all the advances?

Dr. GEVINSON. That's correct.

Mr. SIMON. You gave them cash and property, valued at \$180,000?

Dr. GEVINSON. That I valued at that, that's right.

Mr. SIMON. Part of that went to the Tompkins Co., is that right?

Dr. GEVINSON. I believe all of that did.

Mr. SIMON. Now, didn't some of it go to Mr. Tompkins personally, and some of it go to his son Francis?

Dr. GEVINSON. His son Francis had always had 10 percent of the stock in the Westchester House. In other words, he was an original stockholder. He purchased the original shares at the beginning of the corporation.

Mr. SIMON. Why did he get that stock?

Dr. GEVINSON. Well, he was a very good friend of mine.

Mr. SIMON. His father told us in executive session that you gave the stock to the son to persuade the father to help you finance these projects, is that wrong?

Dr. GEVINSON. Well, I think I felt that if his father knew Francis was a stockholder, he would be more apt to help me in the project, yes.

Mr. SIMON. What was the second section 608 project in which you were interested?

Dr. GEVINSON. Washington Circle was the first and then—well, I think they were all about at the same time—Hilltop House I know, I believe, was the first one after Washington Circle, and then there were others.

Mr. SIMON. Where is Hilltop House located?

Dr. GEVINSON. That is at 15th and Euclid Street NW.

Mr. SIMON. In Washington, D. C.?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. What was the mortgage on that one?

Dr. GEVINSON. \$787,700.

Mr. SIMON. Who built that one for you?

Dr. GEVINSON. That was actually built by Mr. Bender and Mr. Bright—I think it was the B. & B. Construction Co. I am not exactly sure of the name of the contracting outfit right now.

Mr. SIMON. What was the cost of the project?

Dr. GEVINSON. The cost of the project, including the land was \$795,990.51.

Mr. SIMON. What was the third one?

Dr. GEVINSON. I was the minority stockholder in Dorchester House. That was in Dallas, Tex. Then, the Westchester House in Fort Worth, Tex., and then the Flamingo Apartments in Philadelphia and the Sky Line Apartments in Syracuse, N. Y.

Mr. SIMON. In the Syracuse Apartments, in the Sky Line, who are the stockholders?

Dr. GEVINSON. The stockholders were myself, 90 shares, Mr. Grossberg, Solomon Grossberg, 10 shares.

Mr. SIMON. Any other stockholders?

Dr. GEVINSON. No, sir.

Mr. SIMON. What was the mortgage, there?

Dr. GEVINSON. \$3,473,800.

Mr. SIMON. What was the cost, there?

Dr. GEVINSON. \$3,900,512. The actual cost was \$3,930,000, but \$50,000 was put into the building but paid for by the tenants.

Mr. SIMON. Who built that one?

Dr. GEVINSON. That was the Turner Construction Co.

Mr. SIMON. Now, Flamingo in Philadelphia, who were the stockholders?

Dr. GEVINSON. Myself, 90 percent, and Mr. Solomon Grossberg, 5 percent, and Mr. Israel Grossberg, 5 percent.

Mr. SIMON. What was the mortgage there?

Dr. GEVINSON. \$2,533,800.

Mr. SIMON. What was the cost?

Dr. GEVINSON. The total cost was \$2,530,831.35.

Mr. SIMON. Who built that one?

Dr. GEVINSON. Turner Construction Co.

Mr. SIMON. The Westchester in Fort Worth, who were the stockholders there?

Dr. GEVINSON. Well, it was the Dalmark Corp. The stockholder that owns the Westchester Corp.

Mr. SIMON. Dalmark owns all of the Westchester Corp. stock?

Dr. GEVINSON. Yes.

Mr. SIMON. And, who owns the Dalmark stock?

Dr. GEVINSON. That is 72½ percent by myself, 12½ percent by Charles H. Tompkins Co., 10 percent by Francis M. Tompkins, 5 percent by Solomon Grossberg.

Mr. SIMON. That 10 percent by Francis is the 10 percent you gave him to persuade his father?

Dr. GEVINSON. Well, I mean, yes, that's right.

I didn't give it to him, he bought it. He was in at the beginning and was one of the original stockholders.

Mr. SIMON. How much did he pay for it?

Dr. GEVINSON. We all paid \$10,000 a share.

Mr. SIMON. How many shares were there?

Dr. GEVINSON. 100.

Mr. SIMON. So, the total capital was \$100,000?

Dr. GEVINSON. That's right.

Mr. SIMON. Who owns the land?

Dr. GEVINSON. Dalmark.

Mr. SIMON. Where did they get it?

Dr. GEVINSON. From the individual owners.

Mr. SIMON. Who were the individual owners?

Dr. GEVINSON. Myself, Francis Tompkins, Solomon Grossberg, and Charles Tompkins Co.

Mr. SIMON. In the same percentages as you gave us for stockholders?

Dr. GEVINSON. That's right.

Mr. SIMON. And, where did the individual get the land?

Dr. GEVINSON. They bought it from Mr. Hank Byron.

Mr. SIMON. Henry Byron?

Dr. GEVINSON. Byron Hanks, I believe was the name.

Mr. SIMON. Byron Hanks?

Dr. GEVINSON. I believe that's right.

Mr. SIMON. How much did you pay Mr. Hanks for the land?

Dr. GEVINSON. \$237,000.

Mr. SIMON. How much did Dalmark pay you for it?

Dr. GEVINSON. \$461,339.03.

Mr. SIMON. As I remember it, Francis Tompkins got about \$22,500 for that?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. Did Dalmark then mortgage the land?

Dr. GEVINSON. Well, the owners had mortgaged the land.

Mr. SIMON. You had mortgaged it?

Dr. GEVINSON. Yes, and the mortgage cost is in the—in other words, we had borrowed \$160,000 and the \$160,000 mortgage is part of the \$461,000.

Mr. SIMON. You bought it for \$237,000 and you paid \$77,000 cash and \$160,000 mortgage, is that right?

Dr. GEVINSON. The mortgage was not put on until after the building was about 20 percent completed.

Mr. SIMON. Then you sold it to the corporation that these same people owned, for \$461,000, is that correct?

Dr. GEVINSON. That is correct.

Mr. SIMON. Who built the Westchester House?

Dr. GEVINSON. Charles H. Tompkins Co.

Mr. SIMONS. That is this Washington building firm?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. Going to Dorchester House, who are the stockholders there?

Dr. GEVINSON. Myself for 37½ percent, Mr. Edward Dicker and Mr. Jerome Frank own the other thirty-one and three-quarters percent of the stock.

Mr. SIMON. You own how much?

Dr. GEVINSON. Thirty-seven and a half percent.

Mr. SIMON. And the others own 62½ percent?

Dr. GEVINSON. Yes.

Mr. SIMON. What was the mortgage on that?

Dr. GEVINSON. That was the \$1,300,000.

Mr. SIMON. Just one project?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. What was the cost of that?

Dr. GEVINSON. \$1,354,000, including the land.

Mr. SIMON. Who built that project?

Dr. GEVINSON. The Charles H. Tompkins Co.

Mr. SIMON. Is that the project in which Tompkins Co. paid you a \$6,000 kick-back for getting them the contract? Well, you owned 37 percent?

Dr. GEVINSON. That's correct.

Mr. SIMON. And, you arranged for them to build the building?

Dr. GEVINSON. That's correct.

Mr. SIMON. And, out of the fee they paid you \$6,000?

Dr. GEVINSON. That's right.

Mr. SIMON. And you didn't share that with the other stockholders?

Dr. GEVINSON. No, sir.

Mr. SIMON. What was the amount of the mortgage in Westchester?

Dr. GEVINSON. It was \$2,935,800.

Mr. SIMON. If my mathematics are right, Doctor, the total mortgages on these six projects are \$12,500,000?

Dr. GEVINSON. Well, actually, if you take all six of them, the total mortgage is \$13,474,400. I have \$2,533,800 for Flamingo; \$2,443,300 for Washington Circle; \$2,935,800 for Westchester House; \$3,473,800 for Sky Line; \$787,700 for Hilltop, and \$1,300,000 for Dorchester, and if I add correctly it is \$13,474,400.

The total cost for all is \$13,588,854.

Mr. SIMON. That is \$200,000 less than the mortgages for the six of them?

Dr. GEVINSON. That's right.

Mr. SIMON. Doctor, do you have a copy of the financial statement that you showed us on June 22 that is dated December 31, 1953?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. May I see it please?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. This statement, Doctor, was prepared by your auditors, is that right?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. And, I believe in connection with your equities in the section 608 projects, you told us that the values there, are not your cost, but represent—

Dr. GEVINSON. Eight times the gross rental.

Mr. SIMON. As I understand you also told us they also represent figures at which you have been offered by purchasers?

Dr. GEVINSON. It would be very close to that; yes, sir.

Mr. SIMON. You have had offers at these figures?

Dr. GEVINSON. Yes, just about.

Mr. SIMON. And, the same shows, does it not, total assets of \$2,541,998; liabilities of \$533,811, or a net worth, on December 31, 1953, of \$1,981,186, is that correct?

Dr. GEVINSON. Using the value of the stocks set up—what we consider the market value, yes, sir.

Mr. SIMON. In each case you have had an offer for at least that much?

Dr. GEVINSON. Yes.

Mr. SIMON. Is that after the payment of this \$182,000 to the Tompkins Co.?

Dr. GEVINSON. It is after he got his share of the stock, of the Dalmark Corp.

Mr. SIMON. Of the \$182,000 that you paid in 1953, to the Tompkins Co., or Charles Tompkins, or Francis Tompkins, how much of that was cash and how much of it was in stock?

Dr. GEVINSON. Well, \$46,000—the \$25,000 and the \$16,000—\$36,000 was cash and the balance as the equity of the stock.

Mr. SIMON. In these various corporations?

Dr. GEVINSON. Yes.

Mr. SIMON. How much cash?

Dr. GEVINSON. \$25,000 and \$16,000. \$41,000.

Mr. SIMON. \$41,000 cash and the balance was in stock?

Dr. GEVINSON. That's right.

Mr. SIMON. That has no relation to the \$6,000 that they paid you, commission, or what have you?

Dr. GEVINSON. No, sir.

I think I would like to add, or I wish you would add what the actual cash is that I had in there, because unfortunately there are a lot of people who think I should have a lot of cash.

Senator PAYNE. Do you mean the actual cash that showed on your balance sheet as of December 31, 1953?

Dr. GEVINSON. Yes, sir.

Senator PAYNE. The actual cash that shows on hand or in the banks as of that date is \$67,664.96?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. Dr. Gevinson, do you still own Hilltop House?

Dr. GEVINSON. No, we sold that.

Mr. SIMON. When did you sell it?

Dr. GEVINSON. Shortly after it was completed.

Mr. SIMON. Who did you sell it to?

Dr. GEVINSON. Mr. Sveska.

Mr. SIMON. Do you know his first name?

Dr. GEVINSON. Raymond.

Mr. SIMON. Where does he live?

Dr. GEVINSON. 1725 Taylor Street.

Mr. SIMON. How much did he pay you for it?

Dr. GEVINSON. He paid \$97,700 over the mortgage. \$97,700 for the stock.

Mr. SIMON. And the mortgage just remained as it was?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. He just bought your stock in the corporation for \$97,700?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. In 1953, Doctor, was your income all from these properties?

Dr. GEVINSON. In 1953—well, most of it.

Mr. SIMON. Did you have income that wasn't from these properties, directly or indirectly?

Dr. GEVINSON. Well, yes, some.

Mr. SIMON. Excluding the income that you had in 1953, in no way related to these properties, what was your income in 1953?

Dr. GEVINSON. Well, there again, I don't know without looking at the income-tax return. I don't have it with me. I would be very happy to furnish it.

Mr. SIMON. How many of these properties do you draw salaries from or get management fees from?

Dr. GEVINSON. In 1953, I believe that \$40,000 was drawn in salaries, total.

Mr. SIMON. \$40,000 in salaries?

Dr. GEVINSON. That was also for salaries in other years.

Mr. SIMON. What companies paid that?

Dr. GEVINSON. Flamingo paid \$20,000—no, wait a minute: Flamingo paid \$20,000 and Westchester paid \$10,000 and Washington Circle paid \$20,000 so that was \$50,000.

Mr. SIMON. \$50,000?

Dr. GEVINSON. Yes, but that was for previous years as well as 1953.

Mr. SIMON. Do you now draw a salary from Westchester House?

Dr. GEVINSON. \$10,000 a year.

Mr. SIMON. You draw \$10,000 a year salary?

Dr. GEVINSON. From the Westchester House.

Mr. SIMON. What is that for, Doctor?

Dr. GEVINSON. Well, I just flew back in from being there a week, in order to look after corporation affairs. In other words, I am the only one taking care of the business, you might say.

Mr. SIMON. Do you draw a salary from any of the others?

Dr. GEVINSON. No, not this year.

Mr. SIMON. Westchester is the only one you are now drawing a salary from?

Dr. GEVINSON. Yes, sir.

Mr. SIMON. Do you get any management fees from any of them?

Dr. GEVINSON. Just the Westchester.

Mr. SIMON. I thought you lived in Syracuse?

Dr. GEVINSON. No. There again—I visit each project about every other week. In other words, I spend a day or so at each project.

Mr. SIMON. Well, Doctor, going back to my prior question, excluding income in no way related to these projects, can you tell us what your income was in 1953?

Dr. GEVINSON. Well, I know I paid a tax of about \$49,000—I know the tax, but I don't know the income. I could get it for you, but I mean I just don't know. In fact, I think it was \$39,000.

Mr. SIMON. You said earlier that \$41,000 of what you paid the Tompkins was cash. In addition to that didn't they get \$22,500 cash out of the sale of the——

Dr. GEVINSON. Yes, that's right. I'm sorry.

Mr. SIMON. So, that would be \$63,500 cash that Mr. Tompkins got?

Dr. GEVINSON. Yes, that's right.

Mr. SIMON. In addition, didn't they get—is that the only cash they got, now?

Dr. GEVINSON. Yes.

Mr. SIMON. Everything else is in either land or stock?

Dr. GEVINSON. That's right.

Mr. SIMON. But, that \$63,500 cash, and the balance in stock, is in addition to reimbursement for all the moneys they ever loaned, and in addition to the full contract price for all the construction work they did?

Dr. GEVINSON. Yes.

Senator PAYNE. So that the record will be straight, where you were asked the question on Federal income taxes, your statement here shows that Federal income taxes for 1953 as reported by your accountant, were \$27,137.84.

Dr. GEVINSON. Thank you.

Senator PAYNE. Wouldn't you say, Doctor, that probably based upon that amount of tax, if I recall correctly in the session that you had with us previously, there were some capital gains involved in there, were there not?

Dr. GEVINSON. Yes. Actually that covered, I would say, transactions from 1950, through 1953. In other words, that was the culmination of, you might say, all the transactions.

Senator PAYNE. So there is a pretty good possibility as far as gross income was concerned in connection with that return, that it might have been close to \$100,000 and it might have exceeded it?

Dr. GEVINSON. Yes, sir, because that was equities in land and other things, included as income on a capital-gains basis.

Senator PAYNE. I believe that it all then, thank you.

The committee will stand in recess. The next meeting is at 10 Monday morning

(Whereupon, at 12:15 p. m., the committee recessed, to reconvene at 10 a. m., Monday, July 19, 1954.)

FHA INVESTIGATION

MONDAY, JULY 19, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to recess at 10 a. m., in Room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart (chairman), Bush, Payne, Frear, and Lehman.

Also present: Senator Kerr.

Also present: William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

Our first witness this morning will be Mr. Link Cowan, of Oklahoma with respect to the Page Manor matter in Dayton, Ohio.

Mr. Cowan, will you come forward, please?

Senator KERR. Mr. Chairman?

The CHAIRMAN. Senator Kerr.

Will you be seated, Mr. Cowan, please?

Mr. COWAN. Yes, sir.

Senator KERR. I want to present this distinguished Oklahoman to this fine committee and to say to the committee that he is one of Oklahoma's outstanding businessmen, and citizens. I would like to request the committee, after it has asked Mr. Cowan all the questions that the committee desires to ask him, to give him and his representative the opportunity to make such further statement or present such further exhibits in connection with their matter as they might desire.

The CHAIRMAN. I want to say to the Senator that in this investigation we permit all witnesses to have as many attorneys as they care to and so say what they please, even to the point of abusing the Senators, which has occurred here a couple of times, and also to file any statements they care to file either when they are before us or after they have testified.

In other words, we are just interested in one thing, and that is the facts, and we do not care how we get them, as long as we get them honestly. They can file statements today and if they want to they can file more again tomorrow. That has been our policy and will continue to be our policy.

Senator KERR. I am aware of that policy and happy that this committee is composed of the personnel that it is. I want to say to the committee that I have the same respect for it that I have for my constituent.

The CHAIRMAN. Thank you, Senator. We appreciate it. We appreciate very much your showing up.

Mr. COWAN. Thank you, Senator.

The CHAIRMAN. We would be glad to have you join us.

Senator KERR. I am in the shape the chairman is. I have another committee I have to attend.

The CHAIRMAN. We are all busy. Thank you very much for coming in.

Mr. Cowan, if you will please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF LINK COWAN, PAGE MANOR, DAYTON, OHIO, ACCOMPANIED BY JOHN CAHILL AND LOFTUS BECKER, COUNSEL

Mr. COWAN. Yes.

The CHAIRMAN. Let's get the names of these gentlemen.

Mr. CAHILL. I am John Cahill, Senator.

The CHAIRMAN. The attorney representing Mr. Cowan?

Mr. BECKER. Loftus Becker—

The CHAIRMAN. Representing Mr. Cowan.

We will proceed, then.

Mr. SIMON. Mr. Cowan, will you give the reporter your full name and address?

Mr. COWAN. Link Cowan, 802 North Broadway, is my residence, 214 North Broadway is my residence, Shawnee, Okla.

Mr. SIMON. What is your business, Mr. Cowan?

Mr. COWAN. Building contractor, Shawnee.

Mr. SIMON. When did you first become interested in the Page Manor housing project in Dayton, Ohio?

Mr. COWAN. In the fall of 1948, I think was the first time it was discussed.

Mr. SIMON. What did you first do with respect to that project?

Mr. COWAN. What did I first do?

Mr. SIMON. Yes. What was the first thing you did when you got interested in the project?

Mr. COWAN. We discussed it with Mr. Ready and Mr. Casey.

Mr. SIMON. Did they bring the project to you or did you bring it to them?

Mr. COWAN. They brought it to me, so to speak.

Mr. SIMON. They had the idea?

Mr. COWAN. They had the idea if that is what you are talking about.

Mr. SIMON. They had the idea for a housing project at the Air Force Base at Wright Field and came to you with it?

Mr. COWAN. No. They did not in the beginning. We discussed general construction and did not have housing in mind at all, because I am not a housing man fundamentally. I am a building contractor.

Mr. SIMON. What did they have in mind when they came to you?

Mr. COWAN. They had any construction that the military might be doing, such as airbases or any type of work that the military might be doing.

Mr. SIMON. What was the business of Mr. Ready?

Mr. COWAN. He represented himself to me as an engineer and contractor and ex-colonel in the Army.

Mr. SIMON. Was he what is frequently called a 5-percenter?

Mr. COWAN. No, sir.

Mr. SIMON. Did you sign a contract with him to give him 5 percent of what you got out of this arrangement?

Mr. COWAN. Not 5 percent of what I got out of it, no, sir. It was not exactly like that. We had a contract that was made between my associates and myself and Mr. Ready, but he sent it back with a rider on it which changed the face of the contract and that part was never executed.

Mr. SIMON. You did have a contract with Mr. Ready, did you?

Mr. COWAN. We signed one that was never complete in its face value.

Mr. SIMON. What do you mean? Do you have a copy of the contract with you?

Mr. COWAN. No, sir.

Mr. SIMON. Did you sign it?

Mr. COWAN. Yes, sir.

Mr. SIMON. Did he sign it?

Mr. COWAN. Yes, sir.

Mr. SIMON. What did it provide for?

Mr. COWAN. It provided that, as I remember it, it provided that if we built a housing project at Dayton—I do not remember the exact wording or anything—but if we built the housing project at Dayton, Ohio, he was to get 5 percent of the stock of the owner corporation, and if we built any construction projects, he would get 5 percent of the net profit, if any.

Mr. SIMON. Incidentally—

Mr. COWAN. That was the sum and substance of what was in the contract, and when it was executed and sent to him, he signed it, but he sent it back with a rider and this rider said that he wanted to correct it and read it in a different way and it was to be reexecuted, which was never done.

Mr. SIMON. What was Mr. Ready's first name?

Mr. COWAN. William.

Mr. SIMON. And Mr. Casey's first name?

Mr. COWAN. Thurry.

Mr. SIMON. Were they in the building business? Did they have an office and run a building business?

Mr. COWAN. Not to my knowledge. I do not think so.

Mr. SIMON. So far as you know did they have any office other than the home in which they lived?

Mr. COWAN. That to my knowledge is all they had, yes.

Mr. SIMON. What did they do for this 5 percent they were supposed to receive?

Mr. COWAN. What did they do?

Mr. SIMON. Yes.

Mr. COWAN. They were supposed to do liaison work for us.

Mr. SIMON. Liaison with whom?

Mr. COWAN. With any of the agencies that we might be doing business with; the Government agencies.

Mr. SIMON. Governmental?

Mr. COWAN. Yes.

Mr. SIMON. During the early period when you were doing the spade work were they flying back and forth from Washington to Dayton in Air Force planes?

Mr. COWAN. I think Mr. Ready was. I don't know of Mr. Casey ever doing that.

Mr. SIMON. Ready did fly back and forth in Army planes?

Mr. COWAN. I think he did. He had that privilege from being an ex-Army officer.

Mr. SIMON. When this was all through he sued you for not paying him, is that right?

Mr. COWAN. That is right.

Mr. SIMON. That suit was in New York?

Mr. COWAN. That is right.

Mr. SIMON. Did you defend the suit on many grounds, including the fact that the contract was against public policy?

Mr. COWAN. My attorney inserted that in the case, yes.

Mr. SIMON. That was one of the defenses?

Mr. COWAN. That was one of the defenses.

Mr. SIMON. Why did you consider the contract to be against public policy?

Mr. COWAN. Well, at the time we were talking to Mr. Ready originally, the word "5-percenter" had never been coined. We never thought anything about that.

Mr. SIMON. By that you mean the phrase had not been coined but the practice existed, did it not?

Mr. COWAN. Not to my knowledge, no, sir.

Mr. SIMON. Why did you defend the law suit on the ground—

Mr. COWAN. I was acting on my counsel's advice.

Mr. SIMON. Your lawyer told you the contract was against public policy?

Mr. COWAN. No. My lawyer told me that we had a very thin case in that behalf, and if he could prove that kind of a question it would be thrown out immediately, but he thought it was very thin.

Mr. SIMON. You finally paid him \$37,000, is that right?

Mr. COWAN. That is correct.

Mr. SIMON. When did you first acquire or get an option on that land?

Mr. COWAN. I do not remember the date, but it was—I think it was in the spring of 1949.

Mr. SIMON. What were the terms of the option?

Mr. COWAN. You mean how much was it for or what do you mean?

Mr. SIMON. Yes. How long a period of time did you have to exercise the option and what was the price?

Mr. COWAN. I do not recall the time. I think it was 6 months, and the first option that we received was made in favor of myself and my associates for the total sum of \$95,000, I believe.

Mr. SIMON. For how many acres?

Mr. COWAN. Approximately 120 and 78.

Mr. SIMON. And you finally bought 78 acres for \$65,000, is that right?

Mr. COWAN. Finally bought the 120 for \$65,000.

Mr. SIMON. Was that option extended from time to time?

Mr. COWAN. Yes.

Mr. SIMON. Why did you extend the option from time to time instead of exercising it?

Mr. COWAN. Well, there is a lot of things happened from the time we took the option until—you see, when they first started out in this housing deal, nobody knew exactly how it was going to be handled. Nobody knew how they were going to make it work. They wanted

to figure out some way where they could get private money to develop military housing.

Mr. SIMON. Is the reason——

Mr. COWAN. And there was a lot of time elapsed in there when they first invited us in and we first started talking about housing and the military making up their mind and the Government making up their mind how they were going to handle all these things so as time elapsed we had to extend the option. We thought possibly they were going to negotiate these things when they first started. That is what they talked about.

Mr. SIMON. Is the reason you extended the option you did not want to pick up the land and pay for it until you first got the FHA commitment?

Mr. COWAN. No.

Mr. SIMON. Why did you not buy the land if you were not concerned with the commitment?

Mr. COWAN. Why did we not buy the land?

Mr. SIMON. Yes. You did not want it except for this housing project, did you?

Mr. COWAN. We did buy it before we got the commitment and paid for it.

Mr. SIMON. Did you have in mind anything other than the housing project when you bought the land?

Mr. COWAN. We had the housing project in mind, certainly.

Mr. SIMON. Now before you did buy the land——

Mr. COWAN. The reason why we had it in mind, I can tell you exactly: we went out and looked at some sites and we have a similar circumstance in Oklahoma City where Midwest City right across from Tinker Field, and they have quite a nice housing development there and I visualized the fact we could make the same sort of a development across from Wright-Patterson. And we felt it was a good investment.

Mr. SIMON. If it was a good investment regardless, why did you permit the option to expire without picking it up?

Mr. COWAN. Well, that was kind of a pinpoint deal. My first associates in the deal, one of them died, the other got sick and blew up on the thing, and it looked like it might be a deal that I would have to carry through by myself. Not being a housing man, it looked like a dark picture, but——

Mr. SIMON. Is it not a fact, Mr. Cowan, that you permitted the option to expire and a man named Pine picked up the option and made arrangements to buy the land and the Army then put the heat on him to let you buy it?

Mr. COWAN. Not to my knowledge, not put any heat on. Mr. Noss, my attorney, picked it up in his own name.

Mr. SIMON. Did Mr. Pine not become the owner of the option? Did he not pick it up?

Mr. COWAN. It does not say so.

Mr. SIMON. Did you not negotiate——

Mr. COWAN. It does not say so in the option. It is in Mr. Noss' name.

Mr. SIMON. Did you not negotiate with Mr. Pine to pick it up?

Mr. COWAN. Not to my knowledge. I do not remember ever talking to him about picking it up.

Mr. SIMON. Did you pay Mr. Pine anything for the option?

Mr. COWAN. I paid Mr. Noss.

Mr. SIMON. Did you ever pay Mr. Pine anything?

Mr. COWAN. Not to my knowledge.

Mr. SIMON. Do you know if you ever paid him anything?

Mr. COWAN. No, sir, not to my knowledge.

Mr. SIMON. Are you saying you did or did not or that you do not remember?

Mr. COWAN. I am saying that I did not pay him anything not to my knowledge.

Mr. SIMON. What do you mean by adding, "not to your knowledge?"

Mr. COWAN. Well, I just mean that I do not know of any time that I ever did pay Mr. Pine anything for anything, whatsoever. I paid Mr. Noss, my attorney, for the option, that he took in his own name.

Mr. SIMON. I am trying to make sure the record is clear, Mr. Cowan—

Mr. COWAN. I am trying to make it clear—

Mr. SIMON. Whether you ever paid anything to Mr. Pine.

Mr. COWAN. Do you mean for anything whatsoever?

Mr. SIMON. If you care to say that, yes. I am particularly interested in this option.

Mr. COWAN. Well, if I ever paid him anything, I certainly do not know.

Mr. SIMON. Why are you unable to say yes or no, that you did or did not pay Mr. Pine anything?

Mr. COWAN. I do not want to say anything except the truth.

Mr. SIMON. I do not want you to say anything except the truth.

Mr. COWAN. That is what I am trying to tell you.

Mr. SIMON. Did you pay Mr. Pine anything?

Mr. COWAN. Not to my knowledge, no, sir.

Mr. SIMON. Do you know a Colonel Griggs?

Mr. COWAN. Yes, sir.

Mr. SIMON. Do you know whether Colonel Griggs asked Mr. Pine to give you this land after he had acquired it?

Mr. COWAN. Not to my knowledge, I do not know it, no, sir.

Mr. SIMON. You do not know whether Colonel Griggs ever talked to him?

Mr. COWAN. No, sir.

Mr. SIMON. Last Thursday, Mr. Pine testified in executive session before this committee that after he purchased the land, or had the option, that you had let expire, that Colonel Griggs came to him and said it was very embarrassing to the Army, and would he not please turn that over to you.

Do you know anything about that?

Mr. COWAN. No, sir.

Mr. SIMON. Is that false as far as you are concerned?

Mr. COWAN. I do not know. I do not know anything about it.

Mr. SIMON. You do not know anything about it?

Mr. COWAN. No, sir.

Mr. SIMON. When did you get your commitment from FHA?

Mr. COWAN. You mean the first commitment?

Mr. SIMON. Yes.

Mr. MOWAN. I do not remember the date. The record will show what that is. I do not remember the date.

Mr. SIMON. I have—

Mr. COWAN. You might have it here. We can probably look it up and find it for you.

Mr. SIMON. I have one here dated December 8, 1950. Was there any issued before that?

Mr. COWAN. I think that is the first one.

Mr. SIMON. That is the first one?

Mr. COWAN. I think so.

Mr. SIMON. That was issued to Cowan Construction Co. and Murchison Bros., Dallas, Tex.

Mr. COWAN. That is right.

Mr. SIMON. When did Murchison Bros. get into the picture?

Mr. COWAN. About 6 months before that.

Mr. SIMON. What was the reason for bringing them into the picture?

Mr. COWAN. The reason for bringing them into the picture was because as I explained to you before, I have limits on my finances and I have limits—I certainly did not know anything about housing, and in order to be able to carry on with the deal, it was necessary that I get a partner.

The CHAIRMAN. Mr. Cowan, if you knew nothing about housing then, why did you make any effort in the first place to get the contract to build it?

Mr. COWAN. I was going—I thought probably I could build it. I can build a house or building but I speak of not knowing anything about housing. I am speaking about the general procedure of the development.

The CHAIRMAN. But you are a builder?

Mr. COWAN. I am a builder, yes.

The CHAIRMAN. You just never built any houses of this type?

Mr. COWAN. That is right.

The CHAIRMAN. I see.

Mr. SIMON. You got the Murchisons in because you didn't have the financial ability to carry the project through; is that right?

Mr. COWAN. That is right.

The CHAIRMAN. Had the Murchisons had a lot of experience in building houses?

Mr. COWAN. They had had some. I mean—I understood they had some.

The CHAIRMAN. Were they experienced housebuilders?

Mr. COWAN. No. I didn't know they were experienced housebuilders but I understood they had done this kind of work.

Mr. SIMON. On December 8, 1950, when you got this commitment from the FHA, had you previously submitted plans and specifications for the project?

Mr. COWAN. Had we previously?

Mr. SIMON. Yes.

Mr. COWAN. Yes, certainly. You have to before you can get a commitment.

Mr. SIMON. So you submitted plans and specifications before December 8, 1950?

Mr. COWAN. Before December 8, 1950.

Mr. SIMON. That is right.

Mr. COWAN. I don't recall about the date.

The CHAIRMAN. That is the date in the application.

Mr. SIMON. That is the date of the commitment.

Mr. COWAN. Yes, sir.

Mr. SIMON. You submitted plans and specifications before that?

Mr. COWAN. Yes. You have to send them in for valuation.

Mr. SIMON. Were those plans and specifications adequate and proper?

Mr. COWAN. We considered them such; yes, sir.

Mr. SIMON. Was it proper and feasible to build a building pursuant to those plans and specifications?

Mr. COWAN. Yes, sir.

Mr. SIMON. You think they were good plans and specifications, do you?

Mr. COWAN. We thought they were good at the time.

Mr. SIMON. Do you now think they were good?

Mr. COWAN. After we got into the thing further, and Mr. Winston and Mr. Muss joined us in the project, I don't think they were; no, sir. After learning about the rental housing and getting into the thing further, I don't think they were the type of thing that would have been profitable to build.

Mr. SIMON. So while you thought they were good plans when you submitted them prior to September 1950, you later came to the conclusion they weren't any good; is that right?

Mr. COWAN. Yes, sir.

Mr. SIMON. Were you capable of building this building or buildings?

Mr. COWAN. Yes, sir.

Mr. SIMON. Were the Murchison's capable of financing it?

Mr. COWAN. Yes, sir.

Mr. SIMON. Then why did you bring in Mr. Muss and Mr. Winston?

Mr. COWAN. Well, actually, when we had this original job evaluated, and the span of time that elapsed, material and labor had gone up and the evaluation the FHA they gave us on our plans and specifications was much lower than we figured we could build the thing for. When we analyzed the whole situation we figured we had a bad job and it would be impossible to go ahead with the thing, so we sat down and talked about it, and Mr. Murchison said that he was acquainted with a gentleman that he had met down in San Antonio by the name of Dave Muss and he thought he would talk with him about the project and see what he suggested.

The CHAIRMAN. Mr. Murchison said that?

Mr. COWAN. Yes, sir.

Mr. SIMON. By that time you had bought this land for \$65,000?

Mr. COWAN. I think we closed the deal on the land at that time: yes, sir.

Mr. SIMON. Whose \$65,000 was it?

Mr. COWAN. Mr. Murchison paid half of it and I paid half of it.

That is, our brothers joined us in it.

Mr. SIMON. The Cowans put up \$32,500 and the Murchisons put up \$32,500.

Mr. COWAN. That is right.

Mr. SIMON. After you went ahead with this commitment did you sell the land to the Page Manor Cos.?

Mr. COWAN. We sold it to the Airway Construction Co., as I remember it.

Mr. SIMON. How much did you sell it to Airway Construction Co. for?

Mr. COWAN. Well, after——

Mr. SIMON. What was the amount of money?

Mr. COWAN. That we sold the land for?

Mr. SIMON. Yes.

Mr. COWAN. About \$165,000, I think, was the consideration for the whole deal that Mr. Muss, after Mr. Muss and Winston came into the thing. They were to reimburse us for our expenditures to date and it went in, of course, as part of the cost of the land.

Mr. SIMON. You sold the land that you and Mr. Murchison had paid \$65,000 for to Airway Construction for \$165,000; is that right?

Mr. COWAN. Well, you can put it that way. Actually, it involved some other expenses.

Mr. SIMON. What other expenses?

Mr. COWAN. That Mr. Muss and Mr. Winston were willing to absorb.

Mr. SIMON. What were those other expenses?

Mr. COWAN. Making plans and developing the job up to that point.

Mr. SIMON. How much had you spent for making plans and developing the job?

Mr. COWAN. I don't have a breakdown on all those things, but it came to, in round figures, the \$100,000.

Mr. SIMON. Can you tell me specifically what you had spent?

Mr. COWAN. Sure. We had traveling expense, we had——

Mr. SIMON. How much was that——

Mr. COWAN. Engineering expense.

Mr. SIMON. How much was your traveling expense?

Mr. COWAN. Probably we spent \$15,000, I would say, in round figures.

Mr. SIMON. Are you just guessing or do you know that?

Mr. COWAN. No, I am just guessing. I don't have those figures in my mind. It would be impossible for me to remember all that.

Mr. SIMON. Can you supply us with those figures?

Mr. COWAN. I think so. I think I can furnish you a breakdown.

Mr. SIMON. Did you get half of the \$100,000 and did the Murchisons get the other half?

Mr. COWAN. No. It was broken down on what our actual expenses were. We were reimbursed for what we had actually expended, both of us.

Mr. SIMON. So that extra \$100,000 was not intended as a reflection of the value of the land, but was merely intended to reimburse you and the Murchisons for other expenses; is that right?

Mr. COWAN. That is what we had agreed on with Mr. Muss and Mr. Winston; yes, sir.

Mr. SIMON. In buying this land, did you pay the former owner the fair value of the land?

Mr. COWAN. We considered it such, yes, sir.

Mr. SIMON. There was no reason he had to sell to you or that he was forced to sell at any lower value than the land was worth, is there?

Mr. COWAN. Not to my knowledge; no, sir.

Mr. SIMON. In your first application for FHA loan—

The CHAIRMAN. We are going to have a recess for about 5 minutes while Senator Frear and I go to the floor for a quorum. Excuse us for about 5 minutes and we will be back. We are going to make a quorum.

(Whereupon, a recess was taken.)

The CHAIRMAN. The committee will please come to order.

We will continue with Mr. Cowan.

Mr. SIMON. Mr. Cowan, in your application of July 24, 1950, you listed the value of this land for Page Manor No. 1 at \$70,000; is that right?

Mr. COWAN. I don't remember. I didn't make the application out, as I remember it. I might have signed it but it was made out by people that were experts in that business, or professed to be at any rate.

Mr. SIMON. I would be glad to show you a photostatic copy of the application and ask you if you signed it, and if you valued the land at \$70,000 in that application.

Mr. COWAN. That is correct, \$70,500 the land is valued here at.

Mr. SIMON. You similarly valued the land in project No. 2, didn't you?

I show you the application for project No. 2, and see if that refreshes your recollection.

Mr. COWAN. That is correct.

Mr. SIMON. What happened between the time you bought the land for \$65,000 and the time you filed these applications that justified increasing the value to \$141,000?

Mr. COWAN. What happened?

Mr. SIMON. Yes, sir.

Mr. COWAN. I don't understand what you mean, what happened?

Mr. SIMON. You paid \$65,000 for the land; is that right?

Mr. COWAN. Yes.

Mr. SIMON. If I understood you a moment ago you said that was the fair value of the land when you bought it?

Mr. COWAN. Total figures; yes, sir.

Mr. SIMON. Then a short time later you said in your application to FHA, or at least the application that you signed, that the value of the land was \$171,000—\$141,000, excuse me.

Mr. COWAN. Well, of course, as I understood it, when you value your land in these FHA applications, they include the off-site utilities that have to be brought to them, and the land after it has been developed for building.

Mr. SIMON. You also put in your application \$225,000 for these utilities, and \$50,000 for landscaping.

Mr. COWAN. I said—

Mr. SIMON. You weren't including the utilities and landscaping twice, were you?

Mr. COWAN. No, I don't think so.

Mr. SIMON. Isn't the \$225,000 for the utilities what you were talking about in the value of the utilities?

Mr. COWAN. I am talking about the off-site utilities that have to be brought to the land.

In other words, you have to extend your sewer and water mains, which we had to do, which cost some million or million and a half. I don't remember.

Mr. SIMON. When did you buy this land?

Mr. COWAN. When did I buy it?

Mr. SIMON. When did you finally consummate the purchase of it?

Mr. COWAN. Sometime in 1950. I don't remember the date.

Mr. SIMON. What is your best recollection of the date?

Mr. COWAN. I just don't have a recollection of the date. I don't remember.

Mr. SIMON. You filed this application——

Mr. COWAN. It is a matter of record. We can get the date for you.

Mr. SIMON. You filed this application July 24, 1950. With reference to that date, when do you recall purchasing the land?

Mr. COWAN. I don't recall.

The CHAIRMAN. Was it in the year 1950?

Mr. COWAN. We can get the date for you.

The CHAIRMAN. Or was it the latter part of 1949? Was it a year, 6 months, or 3 months prior to the time you filed the application?

Mr. COWAN. We had a lot of things going on back and forth about that. I don't remember dates. I don't just remember the date.

I can get it for you if it is important.

Mr. SIMON. Was it more than a matter of a couple of months before you filed this application?

Or was it matter of a couple of days before you filed the application?

Mr. COWAN. I would say—I just don't remember.

The CHAIRMAN. Was it a year?

Mr. COWAN. It wasn't a year, no. I am sure it wasn't a year. I don't think it was a year before that, no, sir.

Mr. SIMON. You don't know whether it was a couple of days or couple of months?

Mr. COWAN. Is it important? I will get it for you.

Mr. SIMON. Two things make it seem important, that you let the option lapse and then a couple of days after you let it lapse you were very interested in acquiring the land.

Mr. COWAN. Yes, sir.

Mr. SIMON. I am wondering whether in that couple of days you found out you were going to get this application granted.

Mr. COWAN. No, sir. That had nothing to do with the purchasing of the land.

Mr. SIMON. Why did you change your mind so suddenly about getting the application or getting the land?

Mr. COWAN. Why did I?

Mr. SIMON. Yes.

Mr. COWAN. You mean renewing the option?

Mr. SIMON. Yes.

Mr. COWAN. Renewing the option——

Mr. SIMON. Exercising the option.

Mr. COWAN. Exercising or renewing the option. As I told you before, it was a pinpoint deal and it looked like——

Mr. SIMON. What do you mean "pinpoint" deal?

Mr. COWAN. It focused down within a matter of a day or two.

Mr. SIMON. I don't understand that.

Mr. COWAN. The time element was just a day or two in there, and I had lost interest in the job myself practically and it looked—one of

my partners died, another got sick and quit and it looked like I wouldn't maybe be able to go on with the deal but Mr. Thompson came along and we got the Murchisons into the deal and it looked like I would be able to go ahead and carry the thing on financially so naturally I got interested in the thing again.

Mr. SIMON. That all happened within a couple of days?

Mr. COWAN. Yes, sir, that all happened within a very few days.

Mr. SIMON. Did you have any other help in getting this application through the Government, other than Ready and Casey?

Mr. COWAN. What do you mean other help? I had people working for me, sure.

Mr. SIMON. How about people who weren't working for you?

Mr. COWAN. No, not to my knowledge we didn't have anybody else.

Mr. SIMON. Did anybody intercede with you with either the FIAA or the Air Force to help you get this commitment?

Mr. COWAN. No, sir.

Mr. SIMON. You are sure of that?

Mr. COWAN. Yes, sir; not to my knowledge. I had Senator Thomas make some appointments with me, 1 or 2, I think.

Mr. SIMON. Wasn't that for the purpose of helping you get the application through?

Mr. COWAN. No, sir.

Do you think that when you have a Senator or Congressman and I am his constituent, come to Washington, who do you think I would have make my appointments?

Mr. SIMON. I am trying to find out what the purpose of those appointments was. Who were they with?

Mr. COWAN. One of them was with Harold Stewart, as I remember.

Mr. SIMON. Harold Stewart.

Mr. COWAN. Yes.

Mr. SIMON. Who was he?

Mr. COWAN. He was Secretary of the Air Force.

Mr. CAHILL. Assistant Secretary.

Mr. COWAN. Assistant Secretary of the Air Force.

Mr. SIMON. Who else?

Mr. COWAN. I don't remember.

That is all I remember right now. I don't remember there was anybody else. I didn't know Harold Stewart. I had to get acquainted with him some way.

Mr. SIMON. As you reflect now, do you think that you and your company were able to build this building at the time you got the commitment?

Mr. COWAN. Build what building?

Mr. SIMON. Page Manor project.

Mr. COWAN. Do you mean in the first stage or the last stage? Which part are you talking about?

Mr. SIMON. You have already testified that while you thought the plans and specifications were all right at the time you submitted them you now feel they weren't any good.

Mr. COWAN. I told you also that I wasn't a developer and wasn't versed in those kind of things, too.

Mr. SIMON. As of now, do you think that you or your company was able to construct these buildings?

Mr. COWAN. Do you mean financial ability or abilitywise?

Mr. SIMON. Abilitywise.

Mr. COWAN. Yes, sir.

Mr. SIMON. You were?

Mr. COWAN. Yes, sir.

Mr. SIMON. Did you need Mr. Muss or Mr. Winston for anything other than to revise the plans?

Mr. COWAN. For anything other than to revise the plans?

Mr. SIMON. Yes.

Mr. COWAN. I don't get what you mean. What do you mean by that?

Mr. SIMON. I take it you had the financial ability in the Murchisons?

Mr. COWAN. Yes.

Mr. SIMON. You say even now you are satisfied that your company had the construction ability.

Mr. COWAN. Yes, sir.

Mr. SIMON. The only thing that you now feel was lacking at the time was the plans weren't any good.

Mr. COWAN. I told you before that Mr. Murchison and I evaluated the job and we figured it was a bad job and it was no good to go ahead with and we were about ready to discard the whole thing, when we were talking it over.

The CHAIRMAN. You didn't testify the plans were no good, did you?

Mr. COWAN. I said that after learning what I have learned, about rental housing, that our plans weren't any good and in a sense that they were impractical.

Mr. SIMON. I show you——

Mr. COWAN. For rental housing.

Mr. SIMON. Did Mr. Muss know about your arrangement with Ready & Cowan?

Mr. COWAN. No, sir.

The CHAIRMAN. Ready——

Mr. SIMON. Ready & Casey, excuse me.

Mr. COWAN. Yes.

Mr. SIMON. You never told him about it?

Mr. COWAN. No. I don't remember ever telling him about it.

Mr. SIMON. I show you an affidavit that Mr. Muss signed on September 26, 1951, and ask you——

Mr. COWAN. Do you mean I never did tell him about it? We told him about it, sure, when I got sued.

Mr. SIMON. You never told him about it before that?

Mr. COWAN. At the time we made our deal we didn't tell him. Is that what you meant?

Mr. SIMON. Yes.

Mr. COWAN. Yes.

Mr. SIMON. I show you an affidavit Mr. Muss signed in September 1951, and ask you whether you knew that he had been asked to sign that affidavit.

Would you read the last paragraph, Mr. Cowan?

Mr. COWAN. Yes. No. I didn't know he had been asked to sign it.

Mr. SIMON. Would you read the last paragraph out loud please?

Mr. COWAN (reading):

No person or selling agency has been employed or retained by said corporation or any officer thereof, to solicit or secure said certificate upon an agreement or understanding for a commission, percentage, brokerage or contingent fee.

Mr. SIMON. I take it to the extent that that is technically correct in that Mr. Muss, or the Page Manor Corp. had not retained any agent for that purpose, that you had retained Ready & Casey on a commission basis to help you; is that correct?

Mr. COWAN. You didn't say it correct. We had retained them as a liaison officer.

Mr. SIMON. What do you mean by a liaison officer?

Mr. COWAN. To do legal work for us from one agency to the other, and see about the different things that you would have to go through in developing one of these projects.

Mr. SIMON. Is it customary in the building industry to hire liaison officers?

Mr. COWAN. It certainly is, when you are doing work for the Government.

Mr. SIMON. Is it customary to pay them 5 percent of the profits of the venture?

Mr. COWAN. Is it customary you say?

Mr. SIMON. Yes, to pay them 5 percent?

Mr. COWAN. You are asking me a question that is a \$64 question. I don't know—

Mr. SIMON. Is it customary for your company to pay these liaison officers 5 percent?

Mr. COWAN. We had a deal here that was—represented to us—the man represented to us to know his way around—

Mr. SIMON. What do you mean by "know his way around?"

Mr. CAHILL. Do you want to finish the answer?

Mr. COWAN. Yes.

Mr. CAHILL. He wants to finish his answer.

Mr. SIMON. In finishing if he would explain what he meant by "know his way around."

Mr. COWAN. Sure. I will explain it. He said he was a colonel in the Army and he was acquainted with people in the military, and was a contractor, and an engineer, knew his way around in the construction industry, as well as acquainted with people in the military.

Mr. SIMON. Is it the custom for your company to pay these liaison people 5 percent rather than a salary?

Mr. COWAN. Well, in this particular instance, it was a deal where we thought we were going, as I explained to you in the first place, that we were going to negotiate these contracts. That it was the intent of the military to do it on that kind of a basis. That is the reason we made that kind of a contract with him. We were going to sit down and negotiate this on a percentage basis, cost-plus-fixed-fee basis, and he was willing to go ahead and do this work, this legal work, and liaison work, on his own expenses, and his own out-of-pocket deal, for—

The CHAIRMAN. Was he to get 5 percent of the total amount of the project or 5 percent of the profits?

Mr. COWAN. He was supposed to get 5 percent of the owning stock.

The CHAIRMAN. The what?

Mr. COWAN. Five percent of the owning stock in any corporation that might be developed with reference to the housing at Dayton, and 5 percent of the net profit on any job that we might undertake, that we built, that he brought to us.

The CHAIRMAN. I see.

Mr. COWAN. And did the work on, of the net profit, if any.

The CHAIRMAN. In other words, you hired him sort of like a salesman, thinking that he had experience in dealing with the Government and the Army and the Air Force, to bring jobs to you or sell jobs for you to the Air Force. They in turn would follow through on specifications and do other work that was necessary to do in connection with it; is that right?

Mr. COWAN. That is right. He was to——

The CHAIRMAN. Did he bring you more than this one project?

Mr. COWAN. We talked about several; yes, sir.

The CHAIRMAN. But was this the only one that he actually delivered?

Mr. COWAN. He didn't actually deliver this one. He did a lot—did some work on it, but——

The CHAIRMAN. You did get the contract?

Mr. COWAN. Yes. We did finally develop it. It wasn't through him that it was developed.

The CHAIRMAN. Did he ever bring you any other contract or secure any other orders for you?

Mr. COWAN. He never secured any orders for us any place. He didn't even secure this one.

The CHAIRMAN. But he never secured any orders for you. Your job is building—you do a lot of building for the Air Force, do you not?

Mr. COWAN. I do a lot of building for the military.

The CHAIRMAN. Such as what, runways?

Mr. COWAN. No. I am a building contractor. I build buildings.

The CHAIRMAN. Do you mean like barracks, hospitals, hangars?

Mr. COWAN. Hospitals, etc.

The CHAIRMAN. You do a lot of that?

Mr. COWAN. Not a great lot, but quite a little; yes, sir.

The CHAIRMAN. How many such projects have you had, such as that?

Mr. COWAN. I have had 10 or 12, I guess.

The CHAIRMAN. Pretty much all over the United States?

Mr. COWAN. No, not all over. Mostly out in my locality.

The CHAIRMAN. Mostly out in Oklahoma?

Mr. COWAN. Arkansas, Oklahoma, Texas, out in the Midwest.

The CHAIRMAN. What would you say the total contract prices amounted to all of your 10 or 12 projects?

Mr. COWAN. We had a negotiated job for the Army and Navy at Norman, Okla., of \$28 million. I had three associates with me on that job, and we did some work at Fort Sill. It was possibly four or five hundred thousand dollars worth. We built the alien camp at McAllister, Okla., about a million and a half; we built the airbase at Newport, Ark., that run about, something under \$3 million, and work like that.

The CHAIRMAN. But this Page Manor in Dayton was the only housing projects that you ever had any connection with with the Air Force or the Government?

Mr. COWAN. That is right.

The CHAIRMAN. And that man Ready—you hired him to secure the contract, and help get going on it?

Mr. COWAN. We hired him to do liaison work for us; yes, sir.

The CHAIRMAN. He told you that he knew how to do it; knew the Army officers?

Mr. COWAN. The way he represented to me, he said he was a contractor and engineer, and he knew the ins and outs——

The CHAIRMAN. How to get in and out?

Mr. COWAN. No, the ins and outs of the details in handling construction work with the Government. You know there is a lot of—when you are going to negotiate work with the Government, that was the part that we primarily had him for, to be our representative and take our brochure around to these different agencies and present our case.

The CHAIRMAN. That is right.

He had been an Army officer?

Mr. COWAN. That is what he said.

The CHAIRMAN. He had been a colonel, you say?

Mr. COWAN. That is right.

The CHAIRMAN. How long had he been out of the Army?

Mr. COWAN. I don't recall as he told me; not very long, I think.

The CHAIRMAN. Well, thank you very much, Mr. Cowan. We appreciate your testimony.

Mr. COWAN. Yes, sir.

The CHAIRMAN. Our next witness will be Mr. David Muss.

Mr. Muss, will you please be sworn.

Do you solemnly swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF DAVID MUSS, PAGE MANOR, DAYTON, OHIO, ACCOMPANIED BY JOHN CAHILL AND LOFTUS BECKER, COUNSEL

Mr. MUSS. I do.

The CHAIRMAN. Thank you, sir. Please be seated.

Give your full name to the reporter.

Mr. MUSS. My name is David Muss, M-u-s-s.

The CHAIRMAN. I presume the same attorneys are representing you that represented Mr. Cowan?

Mr. BECKER. That is correct.

Mr. MUSS. Yes, sir.

The CHAIRMAN. Thank you.

Will you proceed?

Mr. SIMON. Mr. Muss, who built the Page Manor project?

Mr. MUSS. Our company, the Airway Construction Co.

Mr. SIMON. Is that Airway Construction Corp.?

Mr. MUSS. No, sir; Airway Construction Co., a corporation, an Ohio corporation.

Mr. SIMON. Who are the stockholders of that company?

Mr. MUSS. The stockholders of the Airway Corp. are David Muss, Norman K. Winston, Tecon Co. of Dallas and Cowan Bros.

Mr. SIMON. Did each of those 4 people or groups own 25 percent of Airway?

Mr. MUSS. Each of them owned 25 percent. I may not have the exact titles, but essentially those are the interests, and the shares are that way.

Mr. SIMON. Who is Tecon?

Mr. MUSS. Tecon is a corporation in which the young Clint Murchison, his brother, and some of their associates, own stock.

Mr. SIMON. The Murchison family own Tecon; is that correct?

Mr. MUSS. I don't think that is correct, Mr. Simon. I recall in the testimony given I think 60 percent of it belongs to the Murchisons and 40 percent to some associates in the company.

Mr. SIMON. Cowan Bros. is Link Cowan and his brother who just testified?

Mr. MUSS. Link Cowan and his brother Ernest, yes.

Mr. SIMON. And you and Mr. Winston each own 25 percent?

Mr. MUSS. Yes, sir.

Mr. SIMON. What is the capital stock of Airway Construction Co.?

Mr. MUSS. I am not sure. Let me see—

Mr. SIMON. Is it 24 shares at \$50 each?

Mr. MUSS. I refer to the records, and I would say that is right. That is from the books of the company.

Mr. SIMON. That is a total of \$1,200, and did each of you pay \$300 for capital stock?

Mr. MUSS. To the best of my recollection; yes, sir.

Mr. SIMON. Now, there are four Page Manor corporations; is that right?

Mr. MUSS. Yes, sir.

Mr. SIMON. Nos. 1, 2, 3, and 4?

Mr. MUSS. Yes, sir.

Mr. SIMON. Who owns the stock in the four Page Manor companies?

Mr. MUSS. Page Manor Management Corp.

Mr. SIMON. What is the capital stock of Page Manor Management Corp.?

Mr. MUSS. Do we have that here?

Mr. SIMON. Is that 8 shares at \$100 each?

Mr. MUSS. Is that what is shown in the record? If it is, I believe it is right.

Mr. BECKER. That is correct.

The CHAIRMAN. Is that \$800?

Mr. MUSS. Eight hundred dollars.

Mr. SIMON. For each?

Mr. MUSS. No, sir; all of them.

Mr. BECKER. That is Page Manor Management Corp.

The CHAIRMAN. There are four corporations?

Mr. SIMON. There are four subsidiaries.

The CHAIRMAN. I see. Total capital stock is \$800?

Mr. BECKER. Eight hundred dollars.

Mr. SIMON. Page Manor had 4 stockholders who are the same as the 4 stockholders in Airway; is that correct?

Mr. MUSS. Yes, sir.

Mr. SIMON. Each of them put up \$200 of the \$800 in capital?

Mr. MUSS. You mean permanent invested capital?

Mr. SIMON. Yes.

Mr. MUSS. For common stock; that is right. This does not count the risk capital used during construction.

Mr. SIMON. By risk capital, you mean loans?

Mr. MUSS. Well, loans—that is correct.

Mr. SIMON. Each of the Page Manor corporations were wholly owned subsidiaries of the Page Manor management; is that right?

Mr. MUSS. Well, if they weren't when they were organized they ended up being that way.

Mr. SIMON. What was the common stock in each of the Page Manor Corps.?

Mr. MUSS. Forty shares of no par value in each, a total of \$2,000 in each paid in, sir.

Mr. SIMON. Then there was preferred stock in each of the Page Manors that was owned by Airway; is that correct?

Mr. MUSS. That is right.

Mr. SIMON. And since that totaled about \$250,000, I take it Airway borrowed the money to buy that preferred stock?

Mr. MUSS. That is correct, sir.

Mr. SIMON. After you got into this picture, I gather you scrapped the original plans and specifications?

Mr. MUSS. Yes, sir.

Mr. SIMON. Why?

Mr. MUSS. Perhaps I had better give you a little background for that.

When Mr. Murchison called me to visit him at his office, and discuss this——

Mr. SIMON. Can you tell us when that was?

Mr. MUSS. I would say that was in the spring, possibly late February or early March of 1951.

Mr. Murchison talked to me over the telephone and asked if I could come by and chat with him a while about this Wright-Patterson deal. He and his associate, Mr. Cowan, had been working on it, and they had some plans they wanted me to look at. I went to Dallas and I had my architect with me, Herman Gerber. We had been working on some other matter, and I met Mr. Cowan at that time, and met Mr. Murchison, and they showed me plans, and asked my opinion about them. We went over them. We studied them for quite some time, both Mr. Gerber and myself, and I told them I didn't like the plans. The objections I had to them was, first, the location of the buildings on the site. I didn't think it was attractive. Secondly, the distribution of units was bad. They had, I believe, 20 or 25 percent of 1-bedroom units, and our experience had been that 1-bedroom units is not good apartments for the military, that they all have families, or those that don't have children have a mother-in-law or visitors to come to stay with them, and I said so. I said, "These are bad."

Again, we didn't like the size of the units. They averaged about 850 square feet per apartment, and that is pretty small units.

We showed them some rough sketches, Gerber drew some sketches——

The CHAIRMAN. May I interrupt?

The original plans that Cowan prepared were accepted by FHA, were they not, and the Air Force?

Mr. MUSS. They had been accepted by both FHA and the Air Force.

The CHAIRMAN. And the Air Force?

Mr. MUSS. Yes, sir; but we were faced—we had been talking about a possible joint venture.

The **CHAIRMAN**. Therefore, if there were any faults in the construction or, rather, the plans, it would be both known to Mr. Cowan and the FHA and the Air Force?

Mr. **MUSS**. Essentially it would be the fault of the designer.

The **CHAIRMAN**. It would be their fault, also, for accepting them?

Mr. **MUSS**. Well, sir, they met minimum standards. They met minimum property standard of FHA and minimum property standards of the Air Force, but they didn't meet our minimum property standards.

To begin with, we felt that these units ought to average about 1,020 square feet instead of 850. We wanted—it has been our experience, over the years, that the builders who try to make the units too small are unwise. They may save \$50 or \$60 an apartment, but they lose it mighty fast if they get some vacancies, and, again, the type of units were not too good, either. Half of the units were of the one-over-one type, where somebody would have to take care of the hallways, and maintenance costs would be high. There were dozens of other reasons we picked on, including the fact that there were, I believe, very few garages available.

Mr. **SIMON**. What was the reason for changing from a brick building to a stucco building?

Mr. **MUSS**. We had just completed some stucco buildings in San Antonio. We were building them. We liked stucco.

Mr. **SIMON**. It is more or less expensive?

Mr. **MUSS**. I would say per square foot, sir, stucco is less expensive, but you want to remember that when we redesigned these buildings we increased the average floor area per apartment from 850 square feet to 1,020 square feet.

Again, we added considerable more perimeter to the building, exterior walls, so that while per square foot stucco is cheaper than brick, the overall in this case might have been more expensive than brick.

The other reason was, as these plans were designed—I am sorry, I don't have them here—but while they showed brick all the way up, they had no relief, no ornamentation, no decorative features. Even the entrance hallway, the trim around the entrance door was a 1-by-4 board, and we felt that it would look like a prison more than anything else; just putting brick on a house don't make it look good.

Mr. **SIMON**. Mr. **MUSS**, I have the application which Mr. Cowan identified a few minutes ago, dated July 24, 1950, for an FHA loan, which estimated the total requirements of \$4,562,500, and I also have the application which you signed, dated June 5, 1951, estimating the total requirements at \$5,353,515. The increase is approximately \$800,000 in that 11-month period from the 2 applications.

Comparing the lands, Mr. Cowan said the land was worth \$70,500. You said the land was worth \$80,000. What was the reason for raising the valuation of the land \$9,500?

Mr. **MUSS**. I can't recall any particular reason, except that I probably included more off-site items that were intended or that had to be added to this land before it was usable. You must remember, sir, that this was raw land, way out in the country, that we had to spend more than \$1 million for water and sewer. We had to do certain improvements in adjacent roads, both sides of the project, before the land would be acceptable to FHA.

Mr. SIMON. Mr. Cowan said the new utilities would cost \$250,000, and you said the new utilities would cost \$372,000. What was the reason for that?

Mr. MUSS. Well, as I said, we didn't like the original layout. We added some streets, for one example. Airway Road is a pretty busy traveled road. We set the housing back in our plan 150 feet from the road, and then we put an additional service road—the word “service road” is not correct, but we put a road and a mall directly in front of this property. Again, we used more land. You want to remember that in the first instance the coverage of the project was—I think they averaged about 14 or 15 units per acre. We reduced ours down to nine point some fraction so you had to use more streets, more roads, more land.

Mr. SIMON. Mr. Cowan had \$50,000 for landscape work, and you raised the landscape to \$79,800. What was the reason for that?

Mr. MUSS. Again, sir, our units were all row-house type, single-family units, each one with a front and back yard. Our coverage was less per acre than the other, which meant we had more area to landscape, and, again, you see, the cost of landscaping is based upon what the landscape architect puts in. I can't tell you now, but I would assume that the architect that drew the final plans showed more landscape.

Mr. SIMON. Mr. Cowan had legal and organization expense at \$5,000, and you raised that to \$17,500. What was the reason for that?

Mr. MUSS. I had more experience than he did.

Mr. SIMON. Why did your experience cause you to raise that from \$5,000 to \$17,500?

Mr. MUSS. Because I estimated the new cost was \$17,000. We had people that had to travel long distances to get to Dayton or to Cincinnati. We had to hire lawyers, and I didn't know you could hire lawyers for the price that Cowan had in his application.

Mr. SIMON. All these figures apply, the differences, to all four projects; is that right?

Mr. MUSS. Yes, sir.

Mr. SIMON. So we can multiply these by four?

Mr. MUSS. That is all right, sir. You want to remember, of course, that when we came into this picture there were only two projects, a thousand units.

Mr. SIMON. Then it was later doubled to four projects?

Mr. MUSS. There were added a thousand additional.

Mr. SIMON. Mr. Cowan had the architect's fee at \$179,615 and you raised the architect's fee to \$234,053. What was the reason for that?

Mr. MUSS. Well, sir, the words “architects' fee” is almost a misnomer, and that was our estimate of what it would cost us in architectural services. It would not only include the architect, but it would include the engineering fees, the surveyors, staking out, supervision, and additional drawings that we might be called on from time to time or additional architectural services.

Mr. SIMON. I have before me an agreement between owner and architect dated September 26, 1951, between Page Manor No. 1, signed by you, and an architect named Erwin Gerber. Are you familiar with that contract?

Mr. MUSS. If I can see it, I can probably recall it.

This is in consideration of \$1.

Mr. SIMON. Yes. I wondered why the contract says the fees of the architect shall be \$1 and other valuable considerations?

Mr. MUSS. Because he was being paid by Airway Co. and not directly by Page Manor. Following FHA procedure, if you will notice, in determining the amount of cash requirements for closing, no amount was set for architects' fees.

Mr. SIMON. What was Mr. Gerber actually paid?

Mr. MUSS. I think Mr. Gerber himself was paid around \$200,000, possibly a little bit more than that.

Mr. SIMON. For each of the projects?

Mr. MUSS. For all of them.

Mr. SIMON. For all four?

Mr. MUSS. For all of them, sir.

Mr. SIMON. That would be roughly \$50,000 for each project?

Mr. MUSS. Well, no, sir. They weren't broken up exactly that way, but the total was on the basis, percentagewise, I don't know what it figured out to, but it was a lump sum of \$100,000 on the first thousand units, and \$100,000 on the second thousand.

Mr. SIMON. One hundred thousand dollars for the first two projects?

Mr. MUSS. Yes, sir.

Mr. SIMON. One hundred thousand dollars for the second two projects?

Mr. MUSS. Yes, sir. His fee does not include all architectural services and engineering expense that was incurred and spent on this job.

Mr. SIMON. Wasn't that included under construction cost?

Mr. MUSS. No, sir; there is no provision in construction cost or in the prepayment breakdown for surveyors, engineers, clerical workers, or architectural supervision.

Mr. SIMON. How much did you pay the surveyors?

Mr. MUSS. I don't have the figures here, but my best recollection is probably in excess of \$130,000 or \$140,000; those are only part of the expenses. We had engineers and architectural supervisors on our daily payrolls.

Mr. SIMON. What was the cost of construction of the four Page Manor projects?

Mr. MUSS. Do you want total, sir?

Mr. SIMON. I would like the total construction cost as shown by your books.

Mr. MUSS. The total adjusted construction——

Mr. SIMON. Not adjusted, just total construction cost.

Mr. MUSS. As per our books, the building costs, per books, shows \$15,879,146.

Mr. SIMON. That does not include the land?

Mr. MUSS. It does not include the land nor other items of construction cost which were charged to profit and loss.

Mr. SIMON. Now, I would like to get those one at a time. The mortgage was how much?

Mr. MUSS. The mortgage was \$17,377,500.

Mr. SIMON. And the actual construction cost was \$15,879,000——

Mr. MUSS. No, sir. The actual construction cost, if I may be permitted to explain——

Mr. SIMON. Your books shows that \$15,879,000 as your construction cost.

Mr. MUSS. That is what we used for depreciation purposes, sir, but they do not include financing during construction, interest during construction, or other items that we would have had an option to charge to capital cost, but our accountants advised us to charge to profit and loss.

Mr. SIMON. I understand. You had about \$800,000 of interest and similar expenses that for your own tax purposes you chose to charge to profit and loss, and not to construction?

Mr. MUSS. And they should properly be charged—they could properly be charged to construction cost, sir. These are items which are included in FHA's estimated costs.

Mr. SIMON. But you chose to charge them to profit and loss and offset them against the rental income for tax purposes?

Mr. MUSS. On advice of our accountant; this is, right, sir. The figure that I have here, totaling these items, which would include the building cost, and these items charged to profit and loss, and the land, is \$16,613,439.

Mr. SIMON. The \$16 million figure includes this approximately \$800,000 of expenses that you elected not to charge to construction costs; is that right?

Mr. MUSS. Some \$750,000, including—I direct your attention to one item of interest alone of \$421,000.

Mr. SIMON. When the building was financed, out of the proceeds of the mortgage, was any distribution made to the stockholders?

Mr. MUSS. No distribution, as such, was made to stockholders, sir.

Mr. SIMON. I don't know that we want to quibble about the word "distribution." Did money flow from the corporation to the stockholders?

Mr. MUSS. The corporation, through another corporation—I would like to redraw that and rephrase it—the stockholders borrowed money from—which would represent part of the mortgage proceeds; is that correct?

Mr. SIMON. Is what happened that the four Page Manor corporations disbursed \$908,000 to Airway as a loan, and then Airway disbursed the \$908,000 to its stockholders as a loan?

Mr. MUSS. That is not exactly correct. It was disbursed by—as loans; rather, it was loaned out by Page Manor Management Co., and not Airway.

Mr. SIMON. So what I said is correct, except that it went through Page Manor Management?

Mr. MUSS. That is correct.

Mr. SIMON. How much of that \$908,000 did you get?

Mr. MUSS. One-fourth—approximately one-fourth of it, sir.

Mr. SIMON. And each of the four stockholders got approximately one-fourth?

Mr. MUSS. Each of us borrowed approximately one-fourth; yes, sir.

Mr. SIMON. The Murchisons and Cowan got a little less than you and Mr. Winston. Did that have any relation to the fact that they got \$100,000 out of the land?

Mr. MUSS. No, sir. As long as we are on the lands question, may I say this to you: That Winston and I came in the deal, Murchison—Murchison and Cowan told us what they paid for the land, they showed us figures. They also showed us itemized lists of what they

had expended in architectural service, travel expenses, engineering fees, and other out-of-pocket expenses. We agreed to reimburse them, but to set it up as part of the land cost because whatever had been—all the plans had been done before that were valueless to us and our company does have itemized statements showing those particular items.

Mr. SIMON. Is the only reason you did this as a loan rather than a dividend, the income-tax problem?

Mr. MUSS. Well, sir, we did it on advice of our accountants, and our lawyers, and we are very mindful of the present policy of the Internal Revenue Service on distributions of that nature.

Mr. SIMON. In the executive session on July 10, 1954—and I am reading from page 1995 of the transcript—did this take place:

Senator CAPEHART. Why did you make loans instead of distribution?

Mr. MUSS. Well, we didn't know what the picture would be and we still don't know. It looks just about the way we have given it to you here. There is still some outstanding bills that might change the picture, and also we have been waiting on a decision from the courts, the tax courts, in cases like Gross-Morton's 117-M case.

I am interjecting here: By the Gross-Morton tax case you mean the case where the internal revenue collector contended that the Gross-Morton windfall was ordinary income and not long-term capital gains?

Mr. MUSS. I don't know what the Internal Revenue Service says about the word "windfall," but I know the amount is about right.

Mr. SIMON. The Internal Revenue Department claims the difference between the cost of construction and a mortgage is ordinary income, and Gross-Morton claimed it is long-term capital gain?

Mr. MUSS. That is my understanding of the case. I said at the closed hearings, and I meant to say it again, but in a slightly different way. I think I said that just a minute ago.

Mr. SIMON. Then I said to you, and I am continuing from the transcript:

You don't want to pay normal income on that \$800,000?

Mr. MUSS. If you could assure us it would not be subject to suit by the Internal Revenue Department under 117-M, we would distribute it, and be very happy to pay our taxes on it.

I take it by "taxes" there you meant long-term capital gains?

Mr. MUSS. That is correct, sir.

Mr. SIMON. The applications for mortgage commitment refer to Wright-Patterson Apartments, Inc., in each of the four projects. Was that company ever active?

Mr. MUSS. Not as such. We did not use the Wright-Patterson Apartments, Inc., as such. When we were discussing the commencement of the construction or the formation of the corporations, we asked the Adjutant General and other people at Wright-Patterson if there wasn't some fine outstanding Air Force person we would name the project after, and they thought it could be fine if we named it after the late Colonel Page, who was a fine officer, and who, in fact, commanded Wright-Patterson for some time.

Mr. SIMON. Did you change the name of the corporation from Wright-Patterson to Page Manor, or were they new corporations?

Mr. MUSS. We formed new corporations.

Mr. SIMON. The others were abandoned?

Mr. MUSS. The others, we changed the charter and used Wright-Patterson Apartments, Inc., as the owner-sponsor of some title IX housing that we built in Dayton.

Mr. SIMON. Mr. Muss, who awarded the cement block contract to Mr. Sardo?

Mr. MUSS. I believe I did. In the usual course of our business, we have a purchasing department, headed by a man who takes bids from various people, but in the final analysis I guess I pass on all the bids and select the contractor.

Mr. SIMON. Where does Mr. Sardo live?

Mr. MUSS. I believe Mr. Sardo now lives in San Antonio.

Mr. SIMON. Where did he live at that time?

Mr. MUSS. I believe he lived in San Antonio. However, let me clarify something. The Sardo Construction Co., or Sardo Bros., are two brothers. One lives in Brooklyn and one lives in San Antonio.

Mr. SIMON. In either event, either San Antonio or the other city, each is equally distant from Dayton?

Mr. MUSS. That is right.

Mr. SIMON. It was an essentially Dayton concern?

Mr. MUSS. That is right.

Mr. SIMON. Do you know what the price was the construction company agreed to pay Sardo for the construction blocks?

Mr. MUSS. We had a lump-sum price with Sardo for not only cement blocks but all masonry work.

Mr. SIMON. It was so much a block laid in place?

Mr. MUSS. No, sir.

Mr. SIMON. What was the contract?

Mr. MUSS. It was a lump-sum contract. It was a lump-sum contract for \$362,000, which covered the scope of the work; it covered all foundation walls to be built of concrete block, in lieu of the poured concrete originally showed in the drawings, all fireproof party walls, all necessary filling in between beams with concrete and ordinary brick, all service-building walls and partitions, all decorative brick, stone and sill work, and the lump-sum value of this contract has been based on the foundation wall, over the concrete footing, to consist of two courses of block and an 18-inch cat block, and then we did provide that for any changes in plans and specifications, any deviations, intended to mean omissions or additions, the unit price of the foundation block, 18-inch block was 58 cents; 12-inch block was 80 cents, and the garage and 8-inch block was 62 cents, and 4-inch block, 50 cents.

Then along with it, the subcontractor shall furnish and install service-building vents as well as installing in a proper workmanlike manner all other items of materials which are furnished by others and ordinarily built in by the mason.

In general, this contract includes all work which is ordinarily performed by the masonry trade.

Mr. SIMON. Do you know where Mr. Sardo bought his cement blocks?

Mr. MUSS. I believe we tried to help him make a deal there. We had several people in Dayton bidding, but I think we finally recommended that he take bids from everybody—to my recollection—he bought his blocks from Price Bros.

Mr. SIMON. Do you know what he paid Price Bros. for the blocks?

Mr. MUSS. I don't know, sir, but remember that his prices to us are

in place. I do somehow recall a figure of 20 cents—there are various blocks—20 cents, I think, for the 8-inch block, then we had some blocks that were top-cost blocks and some of them were solid and there were various prices.

My recollection is that the 8-inch block was, at one time, 20 cents, with possibly a 2 or 5 percent discount if he paid his bills within 10 days. That is the best of my recollection.

Mr. SIMON. In other words, he paid roughly 20 cents a block for them from Price Bros.?

Mr. MUSS. For the raw materials; yes, sir. I am sure he paid for the brick on the basis of raw material.

Mr. SIMON. We have been told, Mr. Muss, that this Brooklyn firm that had the masonry contract bought the cement blocks from Price Bros. in Dayton, and then had them installed in the project, and ended up making a profit of approximately 20 cents a block on a million blocks, or, roughly, \$200,000. Do you know anything about that?

Mr. MUSS. I don't know how you could make that much profit, and I know he did not buy the blocks and turn them over to somebody. I know that there was for one period of time when we were pushing the completion of our second section, we were pushing the men, that he did get a small subcontractor with 5 or 6 men to do some work for him. What he paid them, or what he did, we don't know, but I have here also a bid, dated October 3, 1951, from a brick and stone contractor in Dayton.

Mr. SIMON. Was that for work done on this project?

Mr. MUSS. It was a bid on the same job, sir.

Mr. SIMON. Sorry—

Mr. MUSS. It was a bid on the same job. We took bids. We took bids from many people before we gave anybody any work.

Mr. SIMON. Did Price Bros. bid on this job?

Mr. MUSS. No, sir. Price Bros. is only a supplier. We wanted somebody who would put these blocks and brick in the wall. I think, counsel, that somebody has either misled you or have taken the mere price that was paid to the material men of 20 cents a block.

Mr. SIMON. No. The difference of 20 cents and 65 cents a block would be 45 cents, and the information we had is that the cost of putting them in place was about 25 cents a block. That reduces the profit to about 20 cents.

Mr. MUSS. To begin with, our blocks, our unit price, adjusted price, runs from 58 cents for an 8-inch block to 62 cents for an 8-inch block, in garages, and 80 cents for a 12-inch block.

Mr. SIMON. Is 65 cents a good average?

Mr. MUSS. No, sir. The 8-inch block—the 12-inch block, you don't mean to say that that man is going to be able to buy a 12-inch block for the same price as an 8?

Mr. SIMON. No, but is 65 cents a block a good average for what you paid him?

Mr. MUSS. It would be misleading to say 65 cents. I would say that his unit price for replacements or omission was 60 cents for 8-inch block, and 80 cents for a 12-inch block, but I know that after the testimony at the executive meeting, and the questions that counsel raised from Mr. Cowan and Mr. Winston, I talked to Sardo and I asked him about it, and I told him there were reports that he had made \$200,000, and he laughed. He said that his average—I said

"Would you tell me how much you did earn?" and, well, he said, "of course, he himself, worked with his hands, and so did his brother on the job," and he said "I think if we made 10 percent we did pretty good." The total contracts here are about five hundred—they were reduced, because instead of going to cement block on the foundations we went to concrete walls, concrete foundations, and the contracts were finally reduced, if my recollection is correct, his contract price on Page Manor 1 and 2 was \$282,000, and on Page Manor 3 and 4, about \$8,000 less.

Mr. SIMON. So your information is he only made \$50,000 instead of \$200,000; is that right?

Mr. MUSS. My information is from him that that is what he believes to be the most he earned. He is not sure.

Mr. SIMON. Mr. Muss, sections 3 and 4 were built on Government property, were they?

Mr. MUSS. That is right, sir.

Mr. SIMON. Sections 1 and 2 were built on this land that Mr. Cowan had originally purchased?

Mr. MUSS. Yes, sir.

Mr. SIMON. Did you have some litigation with the local authorities out there in which you contended they had—the local authorities had no right to inspect sections 3 and 4 because they were built on Government property?

Mr. MUSS. Yes, sir.

Mr. SIMON. And you prevailed in the courts in keeping the local authorities from inspecting sections 3 and 4?

Mr. MUSS. We applied—it had nothing to do with inspection. We welcomed the inspection, sir. We told the building department we would welcome their inspection, but we did not feel that we were obligated to pay the building department fee or other fees that they were going to charge for services, that they couldn't render on Government-owned lands, sir, and we got a declaratory judgment from an Ohio court to that effect.

Mr. SIMON. Were the fire stops left out on sections 3 and 4?

Mr. MUSS. No, sir. The fire stops were not left out anywhere, but it is a big job, and we might on occasion, someone might have overlooked something. Our own inspectors, as well as FHA inspectors, probably brought it to our attention and they were corrected.

Mr. SIMON. Before they were corrected, though, there was a fire in sections 3 and 4, wasn't there?

Mr. MUSS. That is not true, sir. We had a fire in section 3, but I am sure it had nothing to do with the fire stops, sir.

Mr. SIMON. There had been fire stops left out of the section 3 building, weren't there?

Mr. MUSS. No, sir.

Mr. SIMON. There weren't?

Mr. MUSS. No, sir; not to my knowledge. If there were, it was what would happen in any job. A man might have left a piece out here and a piece there, but I challenge that statement that the fire stops were left out, and the fire happened, sir.

Mr. SIMON. You have heard the statement made before, haven't you?

Mr. MUSS. No, sir; I have not heard it made until this very minute, and I assure you that the insurance adjusters, when we had that fire—

that was serviced by the Air Force people, the fire department under our contract, and I am sure that in their records you will find a complete history of the fire. It was reported by their investigators, and I think that that ought to be better testimony than hearsay by some—well, unhappy builder.

Mr. SIMON. Was the fire loss covered by insurance?

Mr. MUSS. Yes, sir.

Mr. SIMON. So it didn't increase the cost of the project?

Mr. MUSS. No, sir.

Mr. SIMON. Do you know whether the medicine cabinets in the bathrooms are back to back?

Mr. MUSS. Yes, sir; they are back to back.

Mr. SIMON. There is nothing separates two bathrooms except the backs of the medicine cabinets?

Mr. MUSS. No, sir; there is insulating material in between them.

Mr. SIMON. What is the insulating material?

Mr. MUSS. One-inch rockwool.

Mr. SIMON. That is the only thing separating the backs of the medicine cabinets?

Mr. MUSS. Yes, sir; and in some places an air space.

Mr. SIMON. I take it that Page Manor also owns a shopping center in this community?

Mr. MUSS. Yes, sir.

Mr. SIMON. Is that owned by Wright-Patterson Apartments, Inc.?

Mr. MUSS. No, sir. That is owned by Page Manor Shopping Center, Inc.

Mr. SIMON. Is that a profitable one?

Mr. MUSS. We hope it will be, sir. It has just been completed; Page Manor Center, Inc., may I correct the record?

Mr. SIMON. There was some preferred stock in Page Manor, 1, 2, 3 and 4.

Mr. MUSS. Yes, sir.

Mr. SIMON. Is that still outstanding?

Mr. MUSS. Yes, sir.

Mr. SIMON. Have loans been made to Airway in approximately the same amount of the preferred stock?

Mr. MUSS. No, sir; no loans have been made to Airway but Airway, I believe, on the books, owes Page Manor some—I couldn't tell you whether it was more or less than the preferred stock. It has no relationship to the preferred stock.

Mr. SIMON. What is the approximate amount that Airway owes the four Page Manor companies?

Mr. MUSS. We don't have that record here, sir, but it probably is in excess of the preferred stock.

Mr. SIMON. Why doesn't the Airway Co. pay what it owes and have Page Manor redeem the preferred stock?

Mr. MUSS. Well, sir, there have been several intercorporate transactions, and if it hasn't been done, it has been just—we don't intend to redeem the preferred stock, sir. We don't intend to and it can't be redeemed under the charter without permission of FHA.

Mr. SIMON. Mr. Muss, you entered into a contract with the Government, I believe, upon the completion of the construction of these projects, all of these corporations would be merged into one?

Mr. MUSS. We had such an understanding, yes, sir.

Mr. SIMON. It was a written contract, wasn't it?

Mr. MUSS. I believe there was a letter on that.

Mr. SIMON. Has that been done?

Mr. MUSS. No, sir.

That has been waived.

Mr. SIMON. It has been waived?

Mr. MUSS. Yes, sir.

Mr. SIMON. By written letter?

Mr. MUSS. By, I believe, written letter from Air Force and FHA.

Mr. SIMON. Do you remember when that was?

Mr. MUSS. I would say it was January of this year or December of last year, somewhere around that time.

Mr. SIMON. When was this project completed?

Mr. MUSS. The final endorsement of the mortgage occurred I believe in November or December of 1953.

Mr. SIMON. That is last December?

Mr. MUSS. Yes, sir.

Mr. SIMON. In June of 1953, Congress passed an amendment to the Housing Act, providing that prior to the final endorsement of a mortgage, there should be a certificate, by which the mortgagor or company shall certify—

That the actual cost of the physical improvements did not exceed the amount of the mortgage—

and that—

if the actual cost of the physical improvements did exceed the amount of the mortgage, the difference should be paid on the loan.

Then it says in the last sentence:

The Commissioner shall construe the term, actual cost, in such a manner as to reduce same by the amount of any kickbacks, rebates, and normal trade discounts received in connection with the construction of said physical improvements, and to include only the actual amount paid for labor and materials and necessary services in connection therewith.

Do you know why that provision of the law wasn't complied with here?

Mr. MUSS. Well, sir, that applied to cases processed and commitments issued after June 30, or July 1, 1954, our construction was already underway. We went under the original title.

Mr. SIMON. You said 1954. I take it you mean 1953?

Since you raise this question, I don't know how familiar you are with the operation of title VIII—

The CHAIRMAN. Will you yield just 1 minute?

Is it your position that had you have started your project after the date of this amendment, then you wouldn't have been able to have done what you did?

Mr. MUSS. That is not true, sir.

I say we wouldn't have done it exactly the same way, but we would have been allowed a builders' fee, a builders' fee which would have amount to roughly 7 percent.

Mr. SIMON. Mr. Muss, that is exactly opposite to what Congress provided for.

Mr. MUSS. Well then, sir, we are not charged with the—the builder is not charged with the enforcement or administration of the law,

but I don't agree with you, sir, because you read something in that act about "other services." In the regulations of FHA, and they are still in effect, permit under the certification procedure, a payment of the builders' fee.

The CHAIRMAN. Wait a minute.

They certainly do allow a builders' fee you actually spend, but do they permit a builders' fee you do not actually spend?

Mr. MUSS. The language is considerably similar, Senator to the language in your report to the Senate itself, when you said they will allow a builders' fee, over and above the actual cost of the construction, where the builder is the same person as the sponsor; not in excess of 10 percent. That is in your report.

Mr. SIMON. Mr. Muss—

Mr. CAHILL. May he finish, please?

Mr. MUSS. May I answer?

I refer you to form No. 3304 or 3305, in the Federal Housing Administration which refers to certification procedure, and if the FHA interpreted the wishes of the committee wrong, that has nothing to do with us but as we understand it—and that form will indicate, it fixes the maximum amount of fee allowable to a builder in our position.

The CHAIRMAN. That is the purpose of this investigation, to find out who did what and why and when.

Mr. MUSS. We will be glad to help sir, all we can.

The CHAIRMAN. Here is a case where your total cost was about \$800,000 less than the proceeds of the mortgage.

Mr. MUSS. Total cost was \$764,000 less than the mortgage sir, but the builders' fees, which we did not take as such, allowable under the FHA, allowable in the project analysis, allowed to us on the basis of 6 percent, which we would be entitled to keep under the certification procedure, was \$987,522.

The CHAIRMAN. The law says 90 percent.

You were supposed to put up 10.

Mr. MUSS. No, sir; I think you are right, sir, the law says 90 percent of estimated replacement cost.

Now, frankly, I don't see—

The CHAIRMAN. The law says you are supposed to put up 10 percent and here is a case where you got approximately \$800,000 more than the actual cost of construction from the proceeds of the mortgage.

Mr. MUSS. Well, sir—

The CHAIRMAN. You got more. We are trying to find out how that is possible under the law, and under existing regulations.

Mr. MUSS. Sir, that is going to leave itself open to a great deal of discussion.

The CHAIRMAN. Do you want me to add there that if you had been given credit for builders' fees which you didn't spend it wouldn't have been so much. Is that what you would like me to add?

Mr. MUSS. No. I would like to say this. Had we in turn not performed this construction ourselves but turned it over to the XYZ General Contracting Co., we wouldn't be here today answering these questions, but it wouldn't have increased the value of the project one bit more would it, have cost the FHA insurance anything less.

The CHAIRMAN. But you organized the specific corporation for the specific purpose of building it. What was the capital investment in this Airways Corp.?

Mr. MUSS. The permanent capital investment is somewhere around \$2,000 in common stock.

Mr. SIMON. Isn't it \$1,200 in Airway and \$800 in Page Management?

Mr. MUSS. You mean the construction company?

The CHAIRMAN. In other words, you organized a separate corporation for the specific purpose of building these four projects; is that correct?

Mr. MUSS. That is correct.

The CHAIRMAN. And the capital invested in that company was \$1,200, permanent investment?

Mr. MUSS. That is the permanent investment, except, sir, we were doing a \$17 or \$18 million job.

The CHAIRMAN. Wait a minute. I understand that. You needn't spend any time on that. We understand that. You loaned the corporation several hundred thousands of dollars.

Mr. MUSS. \$1,800.

The CHAIRMAN. You had to in order to build it. But that was all paid back to you from the proceeds of the loan.

Mr. MUSS. Yes, sir.

The CHAIRMAN. So \$1,200 was the permanent investment in this corporation and you made some \$800,000.

Mr. MUSS. Now—

The CHAIRMAN. Wait a minute.

That is actually what happened in this instance?

Mr. MUSS. That is correct.

The CHAIRMAN. Your position is that had you contracted with someone from the outside, that you possibly wouldn't have been able to have the buildings built for even the amount of money it cost you?

Mr. MUSS. That is correct.

The CHAIRMAN. Why didn't you do it?

Mr. MUSS. Sir, we are builders essentially, and we learned this: that when we act as our own contractors, we can make changes in construction, without hurting us, that will benefit the job. Now, in Page Manor let me point out to you one thing like that: when we had gotten about 10 percent under way, we have our units divided into airmen's units and officers units.

Our airmen's units are smaller than the officer's units and rent for less. Just before we started building, and after we had ordered the lumber for the airmen units I became dissatisfied with the plans. They were a little bit small. We increased the floor area in those units by 20 square feet on each floor, or a total of 40 square feet, for which we got no additional mortgage. Had we had a general contractor, we wouldn't have been able to do it.

He would have wanted \$3,000 or \$4,000 for it.

Again, many of those things are in a job. That is our business.

The CHAIRMAN. You see our interest in this case primarily is the fact it is defense housing and we may have been told and led to believe—and I think this is true of everybody—that it was impossible to mortgage out on defense housing. Here we find an instance where in one project, in Dayton, that you did secure approximately \$800,000 more from the proceeds of the mortgage than your total costs, and we are trying to find out how that is possible to do.

Mr. MUSS. Sir, I say if it wasn't possible to do you wouldn't have had any military housing built. I think it is only fair to distinguish between—

The CHAIRMAN. Wait a minute.

Are you saying you have a project at the moment underway, a big one at Limestone, Maine, one at Waukegan, Ill., and that we are going to get into later and other places.

Mr. MUSS. Yes, sir.

The CHAIRMAN. Are you saying you expect to mortgage out in each of those?

Mr. MUSS. We expect—we don't know. No one guarantees us anything. We have to fight weather and rising prices, but it is our hope that we will earn a fee, a builders' fee; it is our hope we can earn a builders' fee; yes, sir.

The CHAIRMAN. Let me ask you this.

The owners of this project were Page Manor, is that correct?

Mr. MUSS. Yes, sir.

The CHAIRMAN. And Page Manor made a contract with Airways, the builder, to build it.

Mr. MUSS. Yes, sir.

The CHAIRMAN. So the owners of the project did make a separate contract with the corporation to build it; is that correct?

Mr. MUSS. Yes, sir.

The CHAIRMAN. Which was Airways?

Mr. MUSS. Yes, sir.

The CHAIRMAN. But the stockholders are the same in Page Manor as in Airways?

Mr. MUSS. Yes, sir.

The CHAIRMAN. Why didn't you just have Page Manor do it?

Why did you go to the trouble of having a second separate corporation?

Mr. MUSS. I am glad you raised that, Senator.

We didn't want the second corporation. We didn't even want to have the Page Manor Corp. We would have preferred doing this job, and owning this property in our own individual names, so that we personally could take advantage of the heavy depreciation that accrues out of ownership of this property.

However, FHA, through its regulations, insists that each corporation—that each project, have a separate corporation; that the owning corporation may not do anything except own it.

The CHAIRMAN. Couldn't they build it?

Mr. MUSS. No, sir.

The CHAIRMAN. You are saying that FHA denied Page Manor, the owners, the right to build this building?

Mr. MUSS. Yes, sir.

The CHAIRMAN. You are saying that?

Mr. MUSS. Yes, sir.

I say that and I guess we discussed it with them a dozen times.

The CHAIRMAN. Are you saying that FHA in every instance, in the United States, have forced the project owner to organize a separate corporation to build the project or enter into a contract with a third party to build it?

Mr. MUSS. They have forced them to enter into a separate contract for the construction work, with either the same people, under a dif-

ferent name or with an existing corporation, except for the line of mortgages under \$200,000—

The CHAIRMAN. We have had a number of witnesses in executive sessions—

Mr. SIMON. Public, too.

The CHAIRMAN. And in public hearings, where what you say is not according to the facts, at least according to the testimony.

Mr. MUSS. There may be exceptions. Several years ago they did have so-called regulatory agreements, in which, on small mortgages, the Federal Housing Commissioner, owning a hundred shares of preferred stock, they had a regulatory agreement which set forth the rights of the FHA. But that has not been practiced for many years. As a matter of fact, we tried to get them to change it. We wanted to have sponsorship and ownership in individual names and they said it couldn't be done under the law.

The CHAIRMAN. Just one other question: you made a contract or Page Manor made a contract with Airways to build these buildings.

Mr. MUSS. Yes, sir.

The CHAIRMAN. And the same stockholders of Airways were in Page Manor.

Mr. MUSS. Yes, sir.

The CHAIRMAN. And Airways built the buildings and had had about \$800,000 more than the total costs from the proceeds of the mortgage?

Mr. MUSS. That is correct.

The CHAIRMAN. Is that correct?

Mr. MUSS. That is correct, sir.

The CHAIRMAN. That \$800,000 has since been loaned to the stockholders.

Mr. MUSS. Yes, sir, except I am not sure when you said Airways—when the stock goes to Airways, it belongs to the sponsoring company.

The CHAIRMAN. This approximately \$800,000 which you received, which was less than the total amount of the proceeds of the mortgage, was that a profit?

Mr. MUSS. Yes, sir, we say that that is our builders' fee.

The CHAIRMAN. Was it a profit and did you pay corporation taxes on that \$800,000?

Mr. MUSS. We haven't filed return on that yet. I don't think it is due.

The CHAIRMAN. Why?

Mr. MUSS. You have four corporations. I don't think there is any profit involved in it, sir, because it is—

The CHAIRMAN. You were the building corporation, and wasn't that a profit?

Mr. MUSS. No, sir, because the consolidated returns and on advice of our accountants, that these for the purpose—

The CHAIRMAN. You have these four companies, so you filed a consolidated return; is that right?

Mr. MUSS. Yes, sir.

The CHAIRMAN. What I am trying to find out is if that approximately \$800,000 is a profit and if it is a profit if you expect to or have you paid corporation taxes on it.

Mr. MUSS. No, because the \$800,000 is turned over back to Page Manor, 1, 2, 3 and 4, and since they still owe the money, they haven't made any profit.

The CHAIRMAN. Then it isn't a profit?

Mr. MUSS. Well, not accountingwise. It would not be considered a profit.

The CHAIRMAN. What is it?

Mr. MUSS. It is mortgage proceeds if that is what you mean.

The CHAIRMAN. You still own—Page Manor still owns all of those buildings?

Mr. MUSS. Yes, sir. May I complete my answer. While it is still part of the mortgage proceeds the mere fact, if we had paid it to an outside contractor, it wouldn't be mortgage proceeds even though it came from the same source; if we would follow your suggestion there, Senator, we would have to distinguish between a bona fide builder like ourselves who build for ourselves. It is all right if we turn around and give the contract to Joe Jones.

The CHAIRMAN. What are you eventually going to do with that \$800,000?

Mr. MUSS. We are going to distribute it, sir.

The CHAIRMAN. To whom?

Mr. MUSS. To stockholders.

The CHAIRMAN. Of Airways?

Mr. MUSS. Of Page Manor, sir, or we are going to use it for other investments.

The CHAIRMAN. Are you going to pay corporation taxes upon it?

Mr. MUSS. Yes, sir.

We will probably pay corporation taxes on it in this instance, because some of it will be paid out as dividends to other corporations, but I can't really say on that, sir. What you want to remember is you said it is essentially mortgage proceeds. You must also remember, sir, that to an investor, this particular type of arrangement was particularly attractive.

The CHAIRMAN. What I am trying to get at is this Airways—it is Airways, the builder?

Airways was organized for just one purpose, to be a builder; is that right?

Mr. MUSS. Airways was only organized to do this job.

The CHAIRMAN. To be a builder, a contractor.

Mr. MUSS. Yes, sir.

The CHAIRMAN. Not to own the project when it was through, just to build it?

Mr. MUSS. Yes, sir.

The CHAIRMAN. And the same stockholders in Airways were the same stockholders in Page Manor?

Mr. MUSS. That is right.

The CHAIRMAN. When they finished they had \$800,000 more than their total cost; is that right?

Mr. MUSS. That is correct.

The CHAIRMAN. And Airway is a corporation; is that right?

Mr. MUSS. That is right.

The CHAIRMAN. Now, I will get back to my question: Why haven't you paid corporation tax on that \$800,000?

Mr. MUSS. Because Airway did the job for Page Manor at cost.

The CHAIRMAN. But Airway is a separate corporation.

Mr. MUSS. We didn't treat it as such.

The CHAIRMAN. Are they a separate corporation?

Mr. MUSS. They are a separate corporation but the only reason for being in existence was because FIIA insisted on it.

The CHAIRMAN. Are they incorporated?

Mr. MUSS. Yes, sir, a separate corporate entity.

The CHAIRMAN. Why shouldn't they pay taxes on \$800,000?

Mr. MUSS. Because it was not a closed transaction. It was a deal between—where they had a contract to do at cost for the sponsoring company. As you pointed out, if FHA permitted us, the sponsoring company would have built this job itself.

The CHAIRMAN. I don't care much about what FHA did or didn't do. The fact still remains you are a corporation, that you are a builder and that you actually built these projects for \$800,000 less than you received for them. Therefore, I don't see how it can be anything other than profit.

Mr. MUSS. I will have to leave that to my accountants.

The CHAIRMAN. There is no use of laboring that point because the Internal Revenue Service and your lawyers ought to know whether it is or is not. But it is one of the things that we are vitally interested in in this investigation.

Mr. MUSS. If I may, I do not think I completed one answer.

The CHAIRMAN. You go ahead.

Mr. MUSS. It was just that I think you have to look at military housing slightly differently from other rental housing.

Mr. SIMON. Mr. Muss, you mentioned this Limestone project in which you said you hoped to mortgage out. Do I understand your position correctly to be that you want to make a builder's profit on building the building, and then you still will end up owning the building?

Mr. MUSS. That is correct, sir, and then perhaps I ought to enlarge on that.

Mr. SIMON. Let me ask you one question in connection with it and I will be glad to have your remark. In section 803 of the Housing Act, Congress uses at least 3 times in the 1 paragraph—and I think it probably is more than 3—the phrase “the actual cost of the mortgagor.” And then they say you have to pay back anything in excess of such actual cost.

Can you tell me how under the English language you can include in actual cost anything that you have not paid out to somebody?

Mr. MUSS. You read something else a little while ago. I do not have the section in front of me but you said they make allowance for such other services. Is there something like that in there?

Mr. SIMON. No; I will read it again:

And to include only the amounts actually paid for labor and materials and necessary services.

The words “necessary services” that you refer to are preceded by the phrase “only the actual amounts paid.” How can you get into that something that is not paid?

Mr. MUSS. Sir, we did not make the regulations.

Mr. SIMON. I am not talking about the regulations. I am talking about an act of Congress.

Mr. MUSS. I have not looked at the committee's report on that legislation. It may be there is something in there which would justify

the regulation by FHA, but all of their regulations permit both under section 908—it might be wise to go back to section 908, which title VIII certification followed—

Mr. SIMON. This Dayton project is under title VIII, section 803?

Mr. MUSS. Yes, sir.

Mr. SIMON. Your Limestone project is under section 803?

Mr. MUSS. Yes.

Mr. SIMON. Can you conceive of any way under which actual cost and actual amounts paid can include anything that you do not pay out to anybody?

Mr. MUSS. All I can tell you is before we start a job, that we have a certificate on, we sign a certificate that the builder's fee will not be in excess of X dollars and everything else unexpended will be repaid on the mortgage.

Mr. SIMON. Who are the stockholders of Airway Heating Co.?

Mr. MUSS. I do not know. I think that is Mr. — a man named Albert McGee, of Detroit, a very fine heating man.

Mr. SIMON. Whose office is 519 Calhoun Building?

Mr. MUSS. It used to be our office before it started.

Mr. SIMON. Is there any coincidence that Airway Heating is in that same office?

Mr. MUSS. We may have taken the office over.

Mr. SIMON. Going to San Antonio, Billy Mitchell Village, Inc., Billy Mitchell Village II, and Billy Mitchell Village III, are projects you built?

Mr. MUSS. That is right.

Mr. SIMON. Billy Mitchell Village, Inc., is a section 608 and Village II and Village III are Wherry Acts under section 203?

Mr. MUSS. That is right.

Mr. SIMON. In Billy Mitchell Village, Inc., was the common stock \$3,000?

Mr. MUSS. I believe that is correct.

Mr. SIMON. Who were the stockholders?

Mr. MUSS. Norman K. Winston, David Muss, Louis N. Kaplan, and Henry W. Penn.

Mr. SIMON. How much did Mr. Winston own?

Mr. MUSS. Mr. Winston owned 155 shares, representing percentage-wise, I think it was—I have $33\frac{1}{3}$ percent, still have it, Mr. Kaplan had 10 percent, and Mr. Penn had 10 percent, and Mr. Winston the balance amounting to I think $52\frac{1}{3}$ or $51\frac{1}{3}$.

Mr. SIMON. Did Mr. Penn not have 5 percent?

Mr. MUSS. I said 5 percent, Mr. Penn.

Mr. SIMON. Who are the stockholders in Village II?

Mr. MUSS. The same stockholders.

Mr. SIMON. Who are the stockholders in Village III?

Mr. MUSS. Same stockholders.

Mr. SIMON. Did some Swiss interests not own some part of this?

Mr. MUSS. The records indicate Mr. Winston is holding half of his stock in all of these companies on behalf of—there is a notation, I looked at that—on the stockbook he is holding it as an agent for a Swiss corporation.

Mr. SIMON. He owns 51 percent in each case, and half of that is owned by a Swiss corporation?

Mr. MUSS. According to the notation on the record, sir.

Mr. SIMON. After the buildings were built, and out of the excess of mortgage proceeds over cost, how much was distributed out of Billy Mitchell Village, Inc., to the common-share holders?

Mr. MUSS. Would you repeat that question, sir?

Mr. SIMON. After the buildings were built, out of the proceeds of the mortgage over and above the cost of the buildings, how much was distributed to the common-stock holders of Billy Mitchell Village, Inc.?

Mr. MUSS. It is a little difficult for me to tell you how much was out of mortgage proceeds and how much was out of operating profit, but we did make a distribution of \$501,000.

Mr. SIMON. When was the \$501,000 distributed?

Mr. MUSS. I believe it was somewhere around September of 1950.

Mr. SIMON. When was the building completed?

Mr. MUSS. About July 1950.

Mr. SIMON. So within 60 or 90 days of completion of building 1, project I, you distributed \$500,000?

Mr. MUSS. Approximately those dates, yes.

Mr. SIMON. How about building 2, project II?

Mr. MUSS. I will have to get the information on that.

Mr. SIMON. Was that \$467,000?

Mr. MUSS. You are talking now about distributions.

Mr. SIMON. Yes.

Mr. MUSS. I cannot find the figure readily. Would you give me the figure again?

Mr. SIMON. \$467,000.

Mr. MUSS. That sounds approximately correct, as distribution.

Mr. SIMON. What was the distribution in No. III? Was that \$269,250?

Mr. MUSS. That is correct, I understand.

Mr. SIMON. The total on the three projects was \$1,236,250, is that right?

Mr. MUSS. I believe that is right, sir.

Mr. SIMON. Then I believe you had another Wherry Act nearby at Lackland Village which did not turn out to be so profitable, is that right?

Mr. MUSS. It is a good job. I think we had \$78,000 left out of that one?

Mr. SIMON. There was no distribution there?

Mr. MUSS. No, sir.

Mr. SIMON. Of the three corporations that you distributed this \$1,236,250 to, there was \$3,000 capital stock in each company, is that right?

Mr. MUSS. No, sir. That was the common stock. There was also preferred stock.

Mr. SIMON. \$3,000 common stock?

Mr. MUSS. Yes.

Mr. SIMON. Preferred stock in the first corporation was \$53,000?

Mr. MUSS. That is correct.

Mr. SIMON. The second and third were \$35,000 each?

Mr. MUSS. I think one was—that is correct.

Mr. SIMON. Who owned the preferred stock?

Mr. MUSS. The construction company in each case, Southwest Homes, Texas, Inc., owned that, and Billy Mitchell, Inc.

Mr. SIMON. In the first case the preferred stock was owned by Southwest Homes, Texas, Co.?

Mr. MUSS. That is right.

Mr. SIMON. Its capital stock was \$100?

Mr. MUSS. That is right.

Mr. SIMON. Has that \$53,000—

Mr. MUSS. I do not know what its capital stock was. It was \$1,000, sir. It was nominal.

Mr. SIMON. In the second case the preferred stock was owned by Lackell Construction Corp.?

Mr. MUSS. That is right.

Mr. SIMON. Its capital stock is \$1,000?

Mr. MUSS. That is approximately correct.

Mr. SIMON. In the third case the preferred stock was owned by Kellack Construction Co.?

Mr. MUSS. Yes.

Mr. SIMON. Its capital stock was \$1,000?

Mr. MUSS. That is right.

Mr. SIMON. In each of these cases you have not formerly redeemed the preferred stock. Do the owners of the preferred stock owe an amount approximately equal to the preferred stock to the issuing corporation?

Mr. MUSS. Yes.

Mr. SIMON. Which is in lieu of distribution?

Mr. MUSS. No. They did not get any distribution. These companies did not get any distribution. They got a dividend on the stock when the distribution was made.

Mr. SIMON. Why did the construction companies owe an amount approximately equal to the preferred stock?

Mr. MUSS. They owed it to the individual owners.

Mr. SIMON. That is what you said, is it not?

Mr. MUSS. I think that is about right.

Mr. SIMON. Why is it owed to individual owners instead of the corporation?

Mr. MUSS. Because they did not have the money and had to get it from us. I do not know if you follow me or if I do not follow you.

Mr. SIMON. Southwest Texas Homes bought \$53,000 of preferred stock in Billy Mitchell Village, is that right?

Mr. MUSS. Yes.

Mr. SIMON. When Billy Mitchell Village got the proceeds of the mortgage, they loaned that \$53,000 to some one didn't they, instead of redeeming the preferred stock?

Mr. MUSS. Let me find out. I do not think they made any loans. They made a distribution to the stockholders of record on Billy Mitchell Village, Inc.

Mr. SIMON. Southwest Texas Homes has no current business, does it?

Mr. MUSS. No, sir.

Mr. SIMON. Its only assets are the fact that it holds \$53,000 of preferred stock in Billy Mitchell Village and it owes somebody an approximate amount?

Mr. MUSS. That is correct.

Mr. SIMON. I take it, Mr. Muss, out of this \$1,236,250 that you got one-third?

Mr. MUSS. Well, that is correct, sir.

Mr. SIMON. And Mr. Kaplin got 10 percent?

Mr. MUSS. That is correct, sir.

Mr. SIMON. And Mr. Penn got 5 percent?

Mr. MUSS. That is correct.

Mr. SIMON. And Mr. Winston got 51 and a fraction percent, half of which he paid over to these Swiss people?

Mr. MUSS. Half of which he was entitled to or the whole of it that he and the Swiss people were entitled to.

The CHAIRMAN. How much was that in dollars? What did they pay them in stock? What was the amount of investment, \$3,000?

Mr. MUSS. You refer of course to permanent capital.

The CHAIRMAN. Yes, \$3,000?

Mr. MUSS. That is correct. Well, no—I guess it is around that.

Mr. SIMON. Nine thousand dollars in the three corporations. Did the Swiss people put up any of the preferred-stock money?

Mr. MUSS. No, sir.

Mr. SIMON. So the Swiss people put up or bought a quarter—

Mr. MUSS. Let me say I am not sure. When Mr. Winston put it up he might have put up some for them.

Mr. SIMON. For the common stock they put up about \$2,250?

Mr. MUSS. I would say that is correct, sir.

The CHAIRMAN. How much have they taken out in dividends?

Mr. MUSS. They are entitled to one-fourth.

Mr. SIMON. \$310,000.

Mr. MUSS. Something around that figure, about \$300,000.

Mr. SIMON. As far as you know, did they buy any of the preferred stock?

Mr. MUSS. Not to my knowledge.

Mr. SIMON. What contribution did they make to the project outside of putting up \$2,250?

Mr. MUSS. They shared the risk with Winston.

The CHAIRMAN. What risk?

Mr. MUSS. Sir, we had—here we were going far away from home, to San Antonio, from New York. We were starting a \$4,000,000 job. Nobody guarantees that—

The CHAIRMAN. I can see now we are going to have to recess until 10 o'clock tomorrow morning and we will ask you if you will come back. Our witnesses tomorrow morning will be—possibly a few more questions for you and then Mr. Winston and Mr. Murchison. Let me say this: We are going to have an executive session of the committee at this time, which I think will last about 15 minutes, and after which we may have an announcement to make.

We will now stand in recess until 10 o'clock tomorrow morning, the open hearing. We will go into executive session. It will last about 15 minutes.

(Whereupon, at 12:17 p. m., the committee proceeded in executive session.)

FHA INVESTIGATION

TUESDAY, JULY 20, 1954

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, at 10 a. m. in room 301, Senate Office Building, Senator Homer E. Capehart (chairman) presiding.

Present: Senators Capehart, Bricker, Bush, Goldwater, Maybank, Sparkman, and Frear.

Also present: Mr. William Simon, general counsel, FHA investigation.

The CHAIRMAN. The committee will please come to order.

If you do not mind, Mr. Muss, if you will just sit over there. Our first witness is going to be Mr. Pine for just about 3 minutes, if you please.

Mr. Pine, will you come here, please? Mr. Pine, do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PINE. I do.

TESTIMONY OF ROBERT L. PINE, PAGE MANOR, DAYTON, OHIO

The CHAIRMAN. Thank you very much. Will you please give your full name to the reporter?

Mr. PINE. Robert L. Pine, P-i-n-e.

Mr. SIMON. What is your address and occupation, Mr. Pine?

Mr. PINE. 141 Squirrel Road, Dayton, Ohio.

Mr. SIMON. What is your business, Mr. Pine?

Mr. PINE. I am a realtor and contractor, builder.

Mr. SIMON. How long have you been a realtor and contractor?

Mr. PINE. I have been a realtor since 1923.

Mr. SIMON. Are you acquainted with the property on which Page Manor, sections I and II were built?

Mr. PINE. Yes, sir.

Mr. SIMON. Had you ever acquired an option to own that property?

Mr. PINE. Yes.

Mr. SIMON. When did you acquire it?

Mr. PINE. In March of 1950.

Mr. SIMON. Did you later sell it or assign it to Link Cowan, of Shawnee, Okla.?

Mr. PINE. Yes.

Mr. SIMON. Did you have any conversations with Mr. Cowan about assigning that option to him?

Mr. PINE. Yes, sir.

Mr. SIMON. And what was that conversation and when did it take place?

Mr. PINE. Practically 2 weeks after acquiring the option, Mr. Cowan called from Oklahoma and said that he would like to have the option and would I please write him a letter setting forth the terms which I would be willing to assign it to him for.

Mr. SIMON. Did he then send someone up from Oklahoma to talk to you about it?

Mr. PINE. Yes, sir.

Mr. SIMON. Who was that?

Mr. PINE. A Mr. Brundige.

Mr. SIMON. Who was Mr. Brundige?

Mr. PINE. As I understand he was an agent or employee of Mr. Cowan's.

Mr. SIMON. Mr. Cowan's?

Mr. PINE. That is right.

Mr. SIMON. What was his first name?

Mr. PINE. I cannot recall.

Mr. SIMON. Prior to the time you transferred the option to Mr. Cowan did you have any conversations with Colonel Griggs about this project?

Mr. PINE. Yes, sir.

Mr. SIMON. Was Colonel Griggs your long-time friend?

Mr. PINE. Yes, sir. I had known him for 30 years.

Mr. SIMON. What was his first name or what is his first name?

Mr. PINE. John.

Mr. SIMON. What was his position at the Air Force base?

Mr. PINE. He was a colonel at that time in charge of, I think what they call air installations. In other words, he had charge of the buildings and of all the airfields of the Air Force.

Mr. SIMON. What did he tell you about the property?

Mr. PINE. You mean this particular piece that I had the option on?

Mr. SIMON. Yes. Did he tell you the Air Force wanted you to assign the option to Mr. Cowan?

Mr. PINE. Oh, I understand. Yes. He called and said that it was embarrassing for the Air Force——

Mr. SIMON. I am sorry.

Mr. PINE. It was embarrassing to the Air Force and to him and would I please assign the option to Mr. Cowan.

Mr. SIMON. What was embarrassing to the Air Force?

Mr. PINE. That I don't know.

Mr. SIMON. Do you mean it was embarrassing to the Air Force that you had the option instead of Mr. Cowan?

Mr. PINE. That is correct.

Mr. SIMON. Did he tell you why it was embarrassing to the Air Force?

Mr. PINE. No, sir. He did not.

Mr. SIMON. Did he specifically mention this option?

Mr. PINE. Yes.

Mr. SIMON. Did he ask you as a personal favor to him to assign it to Cowan?

Mr. PINE. That is right.

Mr. SIMON. And you did?

Mr. PINE. That is right.

Mr. SIMON. Mr. Pine, do you know a Col. J. C. D. Elliott?

Mr. PINE. No, sir.

Mr. SIMON. You do not know what position he might have had with the Air Force?

Mr. PINE. I have a faint recollection that he was a man in Washington who had something to do with housing for the Air Force, after it was taken from Colonel Griggs.

Mr. SIMON. Do you know whether he ever said that the Air Force would deal only with Cowan and Winston?

Mr. PINE. That I do not know.

Mr. SIMON. Thank you very much.

The CHAIRMAN. You took an option on this land? This is the land that the two projects, I and II, were eventually constructed upon?

Mr. PINE. Yes. There was a hundred acres additional.

The CHAIRMAN. How much did you pay for the option?

Mr. PINE. Five hundred dollars an acre.

The CHAIRMAN. You paid \$500 an acre for the land?

Mr. PINE. That was the price the option called for, \$500 an acre for the raw land.

The CHAIRMAN. The option called for you to pay \$500 an acre for the raw land?

Mr. PINE. That is right.

The CHAIRMAN. Do you remember how long the option ran?

Mr. PINE. As I recall it (in the first hundred acres, it ran for 1 year, and on the second hundred acres for 2 years.

The CHAIRMAN. Is this the same land that Mr. Cowan had previously had an option on which he failed to exercise?

Mr. PINE. That is right.

The CHAIRMAN. And then when his option expired you stepped in and picked up the option, or an option?

Mr. PINE. That is correct.

The CHAIRMAN. Then a couple of weeks later at the suggestion of the Air Force, you turned the option back to Mr. Cowan?

Mr. PINE. Yes, sir.

The CHAIRMAN. How much did Mr. Cowan pay you at that time for turning the option back to him?

Mr. PINE. The amount that I had paid to Mr. Gross, the owner.

The CHAIRMAN. How much was that?

Mr. PINE. One thousand dollars.

The CHAIRMAN. You made no profit on the deal at all?

Mr. PINE. That is correct.

The CHAIRMAN. And you were glad to do it for \$1,000? I mean you were glad to do it without any compensation?

Mr. PINE. No, I was not glad to, but in view of the circumstances, I thought it was the thing to do.

The CHAIRMAN. Is that because the Air Force put real pressure upon you?

Mr. PINE. We had had more pressure than the Air Force put on us and we refused to assign the option.

The CHAIRMAN. How is that?

Mr. PINE. I say we had more pressure than the Air Force put on us and we refused to assign the option. The reason we assigned it

was because Colonel Griggs had sent Mr. Cowan into our office originally, and Mr. Naas, who was my attorney was an attorney for Mr. Cowan, and so when Colonel Griggs asked me to sign it over, I did it, naturally.

The CHAIRMAN. What did you mean when you said more pressure had been put on you?

Mr. PINE. Some young attorney from Washington came out there while I was out of the office, and saw Mr. Naas.

The CHAIRMAN. Mr. Naas is your attorney?

Mr. PINE. That is correct, and he at that time, or before that and as far as he knew, was still Mr. Cowan's attorney, and he threw \$5,000 down on the desk.

The CHAIRMAN. Threw what?

Mr. PINE. Threw \$5,000 in cash on the desk, Mr. Naas' desk—this is what Mr. Naas told me; I was not present—and he said, "Here's the \$5,000. We want the option," and Mr. Naas says, "Well, I can't assign the option to you. It is Mr. Pine's option. It is my client's option." He said, "We know better than that. We know that this is your deal. Go ahead and assign the option to us."

The CHAIRMAN. This young attorney was from Washington, D. C.?

Mr. PINE. That is right.

The CHAIRMAN. What was his name?

Mr. PINE. That I don't know. I never met the man. I was not present.

The CHAIRMAN. In other words, what you are testifying now is what Mr. Naas said?

Mr. PINE. Naas, N-a-a-s.

The CHAIRMAN. You are testifying what he told you?

Mr. PINE. That is right.

The CHAIRMAN. You are testifying that Mr. Naas said a young attorney from Washington came out there, threw \$5,000 on the desk and said, "We want the option," and Mr. Naas at that time was your attorney and also Mr. Cowan's attorney?

Mr. PINE. That is right.

The CHAIRMAN. This young man from Washington—who did he represent?

Mr. PINE. That I don't know, but I think it was some loan brokers.

The CHAIRMAN. Some what?

Mr. PINE. Loan broker as near as I can understand.

The CHAIRMAN. Here in Washington?

Mr. PINE. Yes.

The CHAIRMAN. Was his name McIntosh or would you know?

Mr. PINE. Yes, I believe that was the name.

The CHAIRMAN. Do you remember his first name?

Mr. PINE. No, sir, I don't.

The CHAIRMAN. His name was McIntosh and he was a young lawyer here in Washington?

Mr. PINE. That is right, so when he threw the money there, Mr. Naas threw the money back at him and told him to get out, he didn't sell his clients down the river.

The CHAIRMAN. Then you, because of all these conversations and knowing this colonel for 30 years in the Air Force, wanted Mr. Cowan to have the option rather than yourself and you turned it over to him?

Mr. PINE. That is right.

The CHAIRMAN. Any further questions?

Senator FREAR.

Senator FREAR. You say you were a real-estate broker?

Mr. PINE. Yes, I was and still am.

Senator FREAR. Is the idea of a real-estate broker to make a profit on real-estate deals, if he can?

Mr. PINE. I am also a builder and I buy, build for my own account.

Senator FREAR. I am unable to thoroughly get in my mind the reason why you paid \$1,000 for an option and gave it up for like amount. As I understand from your testimony, you realized that that area would probably increase in value.

Mr. PINE. That is the reason I wanted the option.

Senator FREAR. It was your opinion it would increase in value?

Mr. PINE. Yes.

Senator FREAR. But yet you gave it up for the same amount that you had placed down to bind the bargain as an option; is that right, sir?

Mr. PINE. That is right.

Senator FREAR. And you had severe pressure put on you not only by the Air Force but by other people?

Mr. PINE. That is right.

Senator FREAR. That is the reason you gave it up for the same amount?

Mr. PINE. That is correct.

Senator FREAR. Thank you.

Mr. CAHILL. Mr. Chairman, may I ask a few questions on behalf of Mr. Cowan?

The CHAIRMAN. You can ask me to ask them.

Mr. CAHILL. May I ask you to ask the witness has he ever testified before on this subject under oath?

The CHAIRMAN. Put them in writing.

Yes, he has testified in executive session.

Mr. CAHILL. I mean has he testified before another committee in Congress in public session on this very same subject under oath.

The CHAIRMAN. Have you testified before on this subject?

Mr. PINE. Not under oath.

Mr. CAHILL. Did he testify even though not under oath, Mr. Chairman, on this same subject before another committee of Congress?

The CHAIRMAN. Did you testify before another committee of Congress on this same subject?

Mr. PINE. Yes.

Mr. CAHILL. Would he identify the time and place of that testimony on the subject?

The CHAIRMAN. Was your testimony the same there as it is here today?

Mr. PINE. Yes, sir.

Mr. CAHILL. Mr. Chairman, may I ask to see a copy of the option agreement?

The CHAIRMAN. Have you a copy of it?

Mr. PINE. I have not.

Mr. CAHILL. May I ask if he has shown this committee a copy of the option agreement?

The CHAIRMAN. He has not.

Mr. CAHILL. Was the option in his name or not?

The CHAIRMAN. Was it in your name?

Mr. PINE. It was not in my name.

The CHAIRMAN. Whose name was it in?

Mr. PINE. John D. Naas.

Mr. CAHILL. May I ask the witness did he know at the time that the option was in the name of the attorney for Mr. Cowan, that Mr. Naas was the attorney for Mr. Cowan?

The CHAIRMAN. Did you know at the time Mr. Naas was attorney for Mr. Cowan as well as your own attorney?

Mr. PINE. Not at the time we took the option because Mr. Cowan had stated that he had no further interest in the property, and let the option expire.

The CHAIRMAN. There is no question but what Mr. Cowan permitted the option to expire?

Mr. PINE. That is correct, and we did not go out and negotiate for the option until a week or 10 days had passed by.

The CHAIRMAN. You secured a new option in the name of your attorney, Mr. Naas?

Mr. PINE. That is correct. I negotiated the option.

The CHAIRMAN. You personally negotiated the option?

Mr. PINE. That is right.

Mr. CAHILL. Did he know that Mr. Naas had been an attorney for Mr. Cowan in this option transaction?

The CHAIRMAN. Prior to the time?

Mr. CAHILL. A day or two before.

The CHAIRMAN. You have heard the question. You may answer.

Mr. PINE. Yes.

Mr. CAHILL. What was the interval of time that elapsed between the time that the option of Mr. Cowan expired and his attorney, Mr. Naas, took up the option in Mr. Naas' name, may I ask, Mr. Chairman?

The CHAIRMAN. You may answer.

Mr. PINE. Mr. Naas didn't take up the option in his name. That was done at the request of Mr. Gross, the owner, because Mr. Gross did not know me but he did know Mr. Naas.

Mr. CAHILL. I thought I understood the testimony of the witness to be that the option was taken up thereafter in the name of Mr. Cowan's attorney, Mr. Naas. Am I mistaken in that?

Mr. SIMON. He did not say that. He said it was taken in the name of Mr. Naas but Mr. Naas no longer represented Mr. Cowan.

Mr. CAHILL. May I ask when did Mr. Naas begin to represent the witness in this transaction?

The CHAIRMAN. You may answer the question if you know.

Mr. PINE. About 10 years before Mr. Cowan ever showed up in Dayton.

Mr. CAHILL. No, this transaction.

Mr. PINE. No.

Mr. CAHILL. When did he begin to represent the witness in this transaction?

Mr. PINE. After Mr. Cowan had given up the option.

Mr. CAHILL. Were there conversations about reports to the bar association in regard to the taking of this option in the name of Mr. Cowan's attorney? Does the witness know that?

Mr. PINE. Yes, I do. That was part of the pressure that was put on us.

Mr. CAHILL. Did you have a well-known attorney in your city tell you that he considered it improper for Mr. Cowan's attorney to take the option in his own name, and to represent you within so brief a time after the transaction had occurred?

Mr. PINE. Yes. He made some statement of that kind.

Mr. CAHILL. Would you tell the committee who was the attorney who had this conversation with you?

Mr. PINE. A man named Wall.

Mr. CAHILL. Would you repeat the conversation for the benefit of the committee, the conversation you had with Mr. Wall, a member of the law firm of Becker, Wall & Wood?

Mr. PINE. I was not present at all—

The CHAIRMAN. Do you understand the question?

Mr. PINE. Yes. He wants to know what Mr. Wall said to us.

All I know is he came up there and threatened to take it before the grievance committee of the bar association and Mr. Naas said "Well, since when have you been representing Mr. Cowan?" And he said, "I have been employed by this young attorney from Washington," whatever his name was, and he said, "Don't you think in talking about ethics, don't you think you should see that I have been discharged and paid before you come in and make statements of that kind?"

Mr. CAHILL. Did the conversation also include the statement by Mr. Wall that unless the option was transferred, and you consented to the assignment that an action would be begun in court to decree that you held the option in trust, constructive trust, for Mr. Link Cowan, by reason of the existing relationship between Mr. Naas and his client, Mr. Cowan?

Mr. PINE. I do not know about your constructive trust business.

The CHAIRMAN. Let me ask a couple of questions here. It is not quite clear to me what you are trying to do here. Is it a fact, Mr. Cowan held an option on this land?

Mr. PINE. That is right.

The CHAIRMAN. Is it a fact the option expired?

Mr. PINE. That is correct.

The CHAIRMAN. Is it a fact your attorney, Mr. Naas—you through your attorney, Mr. Naas—took an option on the land?

Mr. PINE. That is correct.

The CHAIRMAN. In Mr. Naas' name?

Mr. PINE. That is right.

The CHAIRMAN. Is it a fact you later then turned the option back to Mr. Cowan?

Mr. PINE. That is correct.

The CHAIRMAN. And you did that because of pressure that was put on you by the Air Force and others?

Mr. PINE. And others, that is correct.

The CHAIRMAN. What is the connection? I might ask this attorney what is the connection between this and the questions that you were asking?

Mr. CAHILL. The connection, Mr. Chairman—

The CHAIRMAN. Let me ask you this: Are you denying the fact that Mr. Cowan had an option and permitted it to expire?

Mr. CAHILL. No. I am not.

The CHAIRMAN. Are you denying the fact that this gentleman here through his attorney did not take an option?

Mr. CAHILL. No. I am taking the position—may I speak to that?

The CHAIRMAN. Are you denying that Mr. Cowan did get the option back?

Mr. CAHILL. No. I am not. May I speak to these points? I am taking the position that this witness went to Mr. Cowan's attorney a day or so after the option had expired, when the fiduciary and confidential relationship between an attorney and client existed between Mr. Cowan and Mr. Naas, and I am taking the further position that when he testified earlier, that he took the option, that the fact of the matter is, and I will demonstrate it by the written instrument that the option was taken in the name of Mr. Cowan's attorney, Mr. Naas and thereupon Mr. Cowan went to another attorney—

The CHAIRMAN. Why did Mr. Cowan permit the option to expire?

Mr. CAHILL. As he said one of his partners died, another one was taken ill. He was represented by counsel. Nobody brought the fact to his attention.

The CHAIRMAN. What happened within such a short period of time that made him want the option so badly again?

Mr. CAHILL. The next he knew of it his own attorney had gone out and taken the option in the attorney's right.

Mr. SIMON. That is not quite right.

Mr. CAHILL. As I understand the facts.

Mr. SIMON. Mr. Naas communicated with Mr. Cowan in the space of time before it expired and warned him it was about to expire and sent him a telegram and Cowan knew 3 days before it was going to expire and consequently let it expire. He said he did not have any more interest.

Mr. CAHILL. The option was taken in Mr. Cowan's name. When this witness testifies it was his name, I have seen the option agreement.

Mr. SIMON. He said it was taken in counsel's name.

Mr. CAHILL. When the option was executed it was executed by Mr. Naas.

The CHAIRMAN. I do not think it is fair to permit you as an attorney for Mr. Cowan to be questioning this gentleman any further when he has not an attorney of his own and has not been given the opportunity to question Mr. Cowan. If this is important enough we will call Mr. Cowan back maybe tomorrow or the next day with this gentleman. He ought to have an attorney if Mr. Cowan is going to have one. I think it is very unfair to this gentleman who has no attorney to have you questioning him.

Mr. CAHILL. I appreciate your courtesy. May I ask leave to insert in this record the written option agreement about which this witness is testifying?

The CHAIRMAN. Without objection, it will be made a part of the record.

(The information referred to follows:)

KNOW ALL MEN BY THESE PRESENTS, that we, WALTER C. GROSS and KATHERINE E. GROSS, husband and wife, of Mad River Township, County

of Montgomery and State of Ohio, being the owners of the within described property, in consideration of the sum of \$1,000.00, receipt whereof is hereby acknowledged, hereby give and grant to JOHN P. NAAS, of Dayton, Ohio, his heirs, executors, administrators or assigns the exclusive right and option to purchase at any time prior to the 1st day of March, 1951, the following described property, to wit:

Beginning at the Southeast corner of Section 17, Town 2, Range 7, between the Miami Rivers running thence North $\frac{1}{4}$ of one degree East 119.7 poles to a planted stone; thence North 89.25 minutes West 164.5 poles to a stone in the western boundary of said quarter section; thence south $\frac{1}{4}$ of one degree West with Western boundary line of said quarter section 119.7 poles to a stake in the South boundary of said section; thence South 89 $\frac{1}{2}$ degrees East 164.5 poles to the place of beginning, containing 120.5 acres and 11 perches, more or less, and being the same property as described in deed from William C. Oldt, Sheriff of Montgomery County, to Mary F. Gross in 2 tracts, the first of which contains 40 acres and the second 83 acres and 11 perches, said deed being recorded in Book 390, at page 228, of the Deed Records of Montgomery County, Ohio, reserving from the above premises a private road 24 feet wide from the West line of Greene County to the Shakertown Road along the North line of the school section, said road to be for the common use of Arthur Gerlaugh, Henry H. Gerlaugh, Jonathan Gerlaugh and R. W. Gerlaugh, their heirs and assigns forever.

The purchase price of said property to be SIXTY-FIVE THOUSAND DOLLARS (\$65,000.00) payable as follows: ONE THOUSAND DOLLARS (\$1,000.00) upon the execution of this option and the balance of SIXTY-FOUR THOUSAND DOLLARS (\$64,000.00) upon the delivery to said JOHN P. NAAS, his heirs, executors, administrators or assigns of a good and sufficient Warranty Deed for the same.

In consideration of the foregoing and in addition thereto, we hereby give and grant unto said JOHN P. NAAS, his heirs, executors, administrators or assigns the exclusive right and option to purchase at any time between the 1st day of March, 1951, and the 1st day of March, 1952, the following described property:

Situated in the Township of Mad River, County of Montgomery and State of Ohio, viz:

The east part of the Northeast quarter of Section Sixteen (16) Town two (2) Range Seven (7) between the Miami Rivers, containing Seventy-eight (78) acres more or less; being a portion of the premises described by Sheriffs Deed in partition proceedings brought in the Common Pleas Court of Montgomery County, State of Ohio by Arthur Gerlaugh et al., Case No. 15608 and which Deed is recorded in Volume 201, Page 325 of the Deed Records of Montgomery County, Ohio.

The purchase price of said property to be at the rate of FIVE HUNDRED DOLLARS (\$500.00) per acre payable upon the delivery to said JOHN P. NAAS, his heirs, executors, administrators or assigns of a good and sufficient Warranty Deed for the same, provided, however, that in the event said JOHN P. NAAS, his heirs, executors, administrators or assigns does not exercise his option in the year 1950, but does so in the year 1951 for the purchase of the first above-mentioned tract, then and in that event he shall not be privileged to exercise his option to purchase the second above-mentioned tract during the year 1951, but that his right to purchase said tract can only be exercised in the year 1952.

It is further provided that we reserve the right to retain possession of the premises first above-mentioned until March 1st, 1951, even though the purchaser has exercised his option; that if possession is desired by the purchaser prior to such date, then the purchaser is obligated to pay a fair market value for all crops which we may have in the ground at the time. This provision shall likewise apply to the second above-mentioned tract, that is to say, if the purchaser exercise his option in the year 1951, we reserve the right to retain possession of the premises until March 1st, 1952, and that if purchaser desires possession prior to that time, he is obligated to pay us for all crops which we may have in the ground.

We also reserve the right upon the sale of said premises to remove all buildings now located thereon.

IN WITNESS WHEREOF we have hereunto set our hands to duplicates hereof this 6th day of March, 1950.

In the presence of:

(Signed) WALTER C. GROSS.
KATHARINE E. GROSS.
GUY W. LANGSTAFF.
ROBERT L. PINE.

For value received the within option contract is hereby assigned and set over unto LINK COWEN of Shawnee, Oklahoma.

WITNESS my hand at Dayton, Ohio this 28th day of March, 1950.

In the presence of :

(Signed) JOHN P. NAAS.
H. J. T. HERZOG.
MARY E. BORNS.

I hereby consent to the above assignment.

(Signed) ROBERT L. PINE.

The CHAIRMAN. Thank you very much, unless there are further questions.

Senator BRICKER. Just one question: You said pressure was put on by the Air Force and others. Who were the others?

Mr. PINE. The others were these people from Washington that were tied up with Mr. Cowan in this deal.

Senator BRICKER. Who, namely?

Mr. PINE. Well—

The CHAIRMAN. Mr. McIntosh, is that the name?

Mr. PINE. Mr. McIntosh sent a young attorney out who offered my attorney cash to sell the option, without my knowledge, back, or assigning the option back to them.

Senator BRICKER. How much cash?

Mr. PINE. Five thousand.

The CHAIRMAN. He has already testified to that.

Mr. BRICKER. I am sorry, if it is already in the record.

The CHAIRMAN. Thank you very much.

Our next witness is Mr. David Muss, if you please.

**TESTIMONY OF DAVID MUSS, PAGE MANOR, DAYTON, OHIO, ACCOMPANIED BY JOHN T. CAHILL AND LOFTUS E. BECKER, COUNSEL—
Resumed**

The CHAIRMAN. Mr. Muss, this is a continuation of your testimony of yesterday?

Mr. MUSS. Yes, sir.

Mr. SIMON. Mr. Muss, I am not sure I correctly understood you yesterday, but did you understand that title VIII of the Housing Act permits a 100-percent mortgage or merely 90-percent mortgages?

Mr. MUSS. I understand that title VIII provides for a 90-percent mortgage. However, the fact after construction might change it into a 100-percent mortgage.

Mr. SIMON. You understood it was a 90-percent mortgage, didn't you?

Mr. MUSS. Well, I do not follow the question.

Mr. SIMON. The statute provides for a 90-percent mortgage.

Mr. MUSS. The statute provides for a 90-percent mortgage, but I think that you will also find, either in the statute or the regulations, that however the mortgage—the mortgage may not exceed the entire cost, the actual cost of the construction—actual cost of the project.

Mr. SIMON. I have your application for an FHA commitment on section 1 of Page Manor, and under the application, apparently having in mind that the mortgage could not exceed 90 percent of the estimated cost and that you would have to put in 10 percent of equity to make up the difference between 90 and 100 percent, you said that

part of your equity was to be builders and architects fees of \$469,000 for section 1, is that right?

Mr. MUSS. Yes; because as you show that was for purposes of meeting the FHA requirements for the 10-percent equity.

Mr. SIMON. On the contrary, wasn't it for the purpose of meeting the statutory requirement that Congress set up that the mortgage be 90 percent of the estimated cost?

Mr. MUSS. Well, sir, I do not want to argue about the law. I know that the regulations of FHA and the instructions that we had and followed permitted us to use—to waive the builders' or architects' fee and as they were set up in the FHA project analysis and use that for part of the so-called 10-percent or equity payment.

Mr. SIMON. Is it true, then, that you put in the builder's fee and part of the architect's fee as part of this 10 percent equity?

Mr. MUSS. We put it in as part of the 10 percent equity requirement, sir.

Mr. SIMON. Yes, and that is true in all four Page Manors; is it?

Mr. MUSS. Yes, but I wish to distinguish between the term "equity" and "equity requirement."

Mr. SIMON. What is the difference?

Mr. MUSS. Well, sir, all the basis of the FHA project analysis, in the rental housing projects, the total replacement cost, as estimated by FHA, includes builder's fee and architect's fee. It includes land when that land is available, or where it is included in the mortgage, and FHA would want to give the project analysis set forth in its commitment the amount of cash required for closing, and then the commitment itself says:

Of this sum blank dollars, representing the architect's and builder's fees, may be paid in items other than cash.

Mr. SIMON. Do you think for 1 minute that FHA could have given you a commitment if you had put in your application that you were going to pay the builder's fees out of the mortgage and that there would be no equity put into the project?

Mr. MUSS. Well, sir, let me say it this way: Had we not used the builder's fee for the equity requirement, and had we said that we wished to pay the builder's fee in cash, we would have put up at the time of closing an equal amount in cash and then drawn it down in stage payments at every time we proceeded with the construction work.

Mr. SIMON. Mr. Muss, isn't it true that you told FHA in the 4 Page Manor applications and also in the 3 Billy Mitchell applications, that the builder's fee and part of the architect's fee was to be a part of the 10 percent equity capital?

Mr. MUSS. We said we—equity requirement, yes, or equity capital. Yes.

Mr. SIMON. As I understood you yesterday in addition to getting credit for the 10 percent equity that the law required there be over and above the mortgage on account of builder's fees, having received the full builder's fee and the full architect's fee by way of your equity requirement over and above the 90 percent mortgage, I understood you yesterday to suggest that you were also entitled to a second builder's fee out of the cash proceeds of the mortgage; is that correct?

Mr. MUSS. Well, sir, I did not say a second builder's fee. I said a builders' fee. There are two builders' fees here.

Mr. SIMON. Do I understand you to say you should get a builder's fee out of the cash proceeds of the mortgage and also permit the builder's fee to be the 10 percent equity over and above the mortgage?

Mr. MUSS. No, sir. I did not say that. If I did, what I meant to say is that in arriving at the closing of this mortgage, we waived the builder's fee or as much of it as was necessary to help us close with a minimum of cash payment at the time of closing.

However, the fee itself accrued, not from the mortgage, or from the amount of the mortgage, but from the savings that we may have made during construction. If there was a construction fee, we are entitled to it. If there was not a construction fee available, that we would be taking the chance and we would not get it.

Mr. SIMON. In your sworn application, didn't you take the position that the builder's fee was going to be your 10 percent equity, part of your 10 percent equity?

Mr. MUSS. Sir, in our application, we set forth that we would use as other equity this additional cash——

Mr. SIMON. About \$2 million of builder's fee?

Mr. MUSS. It said "other equity, builder's and architect's fee, \$469,000."

Mr. SIMON. And there were four of those at Page Manor?

Mr. MUSS. That is correct.

Mr. SIMON. Now as it turned out, after getting credit for the builder's and architect's fee for the 10 percent equity in the 4 Page Manors and the 3 Billy Mitchells, you had approximately \$2 million of cash of the mortgage proceeds left over after all the construction costs that were incurred had been paid, is that right?

Mr. MUSS. That is correct, sir. But that was not set up of course as a builder's fee and I think where I am a little confused with you is what I have said here is that FHA allowed a greater amount for builder's fees than was available to us out of the proceeds of this mortgage.

Mr. SIMON. Going to the Limestone project, what is the amount of that mortgage?

Mr. MUSS. I think it totaled somewhere around fourteen million three hundred or five hundred thousand dollars.

Mr. SIMON. When was the commitment issued.

Mr. MUSS. The commitment on that was—I believe the commitment was issued sometime in February or early March of 1953, or at any rate in the spring of 1953.

Mr. SIMON. When was construction started?

Mr. MUSS. We had a ground breaking on May 22.

Construction was started about June 23, 1953.

Mr. SIMON. And of course, there has been no final endorsement of the mortgage because you have not completed it?

Mr. MUSS. We are still under construction, sir.

Mr. SIMON. Is it your position today that the 1953 amendment to section 803 of the Housing Act permits you to mortgage out the Limestone Manor project?

Mr. MUSS. Would you repeat that question, sir?

Mr. SIMON. Yes. It is still your position today or is it your position today, that the 1953 amendment which Congress passed to section 803 of the Housing Act, which requires certification of actual cost and provides that anything in excess of actual cost has to be

applied on the mortgage, and which defines actual cost as "the actual amounts paid for labor and materials and services"—amounts actually paid—is it still your position that you can mortgage out on the Limestone project?

Mr. MUSS. Sir, it is my position, and that of course is the position of our attorneys who have advised us on this matter, that the 1953 legislation does not apply.

The CHAIRMAN. To this Limestone project?

Mr. MUSS. Yes.

Mr. SIMON. Now the Lakeland—

Senator BRICKER. That is because it had been started prior to enactment of the law.

Mr. MUSS. Yes.

The CHAIRMAN. Is it your attorney's opinion that prior to enactment of this amendment it was permissible to mortgage out on defense housing? When we talk about mortgaging out we are talking about when the proceeds of the mortgage loan are greater than all the costs, actual costs of the project.

Mr. MUSS. I would say yes, sir. Our agreement with FHA is limited to our charter and such agreements as we may execute during closing, Senator.

The CHAIRMAN. To the best of your knowledge in discussing this matter with the FHA officials, is that the way you understand it?

Mr. MUSS. I didn't follow you, Senator.

The CHAIRMAN. Did FHA officials tell you it is permissible to mortgage out on defense housing?

Mr. MUSS. Why I would say, not using exactly those words, I would say that is so.

I could probably cite testimony before this committee, as well as testimony given before the Rains committee, that I appeared before 2 years ago on this Page Manor deal where responsible members of FHA said as much.

Senator BRICKER. Who in FHA told you that?

Mr. MUSS. Well, sir, they didn't tell me directly in the instance I referred to but in the testimony before the Rains committee, a statement was made in answer to a question by the Chairman:

How much do you think the builder will make?

And the official said:

We have no provision for a profit for any builder in our applications. However, we don't know whether he is going to break even, whether he is going to go broke, or whether he is going to make 10 or 15 percent. We estimate on what we think are actual costs.

You have raised the Limestone question, sir, and in connection with the Limestone job I would like to point out that while we started that job in June of last year, and it is 1,500 families, we ought to complete it in the next couple of months. Limestone, as you know, is one of our northernmost outposts. It is far away from all of the rest of the United States. We have worked through a winter with 20° and 30° weather—20° and 30° minus weather.

We believe we are hanging up some kind of a record and we would like to invite this committee to come up and compare the military housing produced by this company, at no cost to the Government, except through—and using the FHA mortgage insurance program, with

250 or 240 units of appropriate housing that was built directly alongside of our projects.

We believe, and we know the Air Force will agree with us that the units that we produce are at least 30 to 40 percent superior than were those built with appropriated funds. The cost to the Government in appropriated funds for these 240 units, which took 2 years to build, was in excess of \$15,000 or \$16,000 per unit.

Our costs will run somewhere around \$8,000, \$11,000, or \$12,000.

Mr. SIMON. Were any of the plans in the Lakeland project in Texas used on the Page Manor project in Ohio?

Mr. MUSS. You mean Lackland project. No. They were revised and considerably different.

Mr. SIMON. Were they basically the same plans?

Mr. MUSS. I would say "No." they were not, because at Lackland we designed our buildings, for instance our living rooms to run from the front to the rear, to take advantage of prevailing breezes there.

Mr. SIMON. You said they were revised.

By that do you mean the architect took the Lackland plans and revised them for Page Manor plans?

Mr. MUSS. No, sir. If I said revised I am wrong.

Each plot has to have its own plot plan and its own plans, but even the floor plans were different.

Mr. SIMON. Did the same architect do them all?

Mr. MUSS. Yes, sir, the same architect.

Mr. SIMON. You say there is no connection between the Lackland plans and Page Manor plans?

Mr. MUSS. Well, I would say that elevationwise, they appear to look alike from the outside. They are essentially row-type houses, which means that each family has a front and rear entrance and they have the bedrooms upstairs, living room, dining room, kitchen downstairs, and they are also of stucco and they are in groups of 6 or 4, but the floor plans of the units in Dayton are larger, and they are differently oriented. They are different.

Mr. SIMON. Mr. Muss, do you know Col. J. C. D. Elliott?

Mr. MUSS. I know Colonel Elliott, yes, sir.

Mr. SIMON. I have here a newspaper clipping of June 1, 1951, from a Dayton, Ohio, newspaper which says in part:

Col. J. C. D. Elliott, head of that office in the Capital, said the Air Force would deal only with the Cowan Construction Co. of Shawnee, Okla., and its associate, the K. N. Winston Co., of New York

Do you know anything about that?

Mr. MUSS. I won't comment on the correctness of the quotation.

Mr. SIMON. Do you know whether Colonel Elliott did say that?

Mr. MUSS. I think Colonel Elliott said something to that effect at a meeting held in Congressman Brehm's office here in Washington somewhere around that time when a delegation of Dayton citizens, including builders, came to his office and he arranged for a meeting with us and the representatives of the Air Force.

We had received our commitment, we were getting ready to start construction, and as far as I know the comment should have read the colonel said, "We have an outstanding certificate and we shall only deal with these people," to the best of my recollection.

Mr. SIMON. How well do you know Clyde Powell?

Mr. MUSS. I know Clyde Powell very well, sir.

Mr. SIMON. The newspapers or the trade press have carried stories in the spring of this year, your firm employed him. Would you tell us what the facts are on that?

Mr. MUSS. That is not so.

We never employed Mr. Powell.

Mr. SIMON. Will you tell us what the facts are?

Mr. MUSS. In the early part of March of this year, Mr. Winston talked to me on the telephone—I don't remember whether I was in San Antonio or in Dayton—and he said that he had had a conversation with Mr. Powell, that Mr. Powell had said to him:

I have gotten my notice. I have to get out. I want a job and I am looking for a connection.

Mr. Winston said to me:

I think that you would find it might be a good idea for us to hire Powell, to take some of the workload off your back. He knows more about rental housing than anybody in the country. He is an old conventional mortgage man. He has got 19½ years of reputation, he is second or third in command of the FHA and I think we ought to consider him.

I said, "Well, let's talk about it when I get back." I believe I saw him a day or two later, and we talked a little bit more and I said, "Next time I am in Washington I will talk to Powell."

Well, I think about a week after that, I was in Washington on some business in connection with one of our projects, in the Air Force, and I talked to Mr. Powell. I can't recall whether it was in his office or whether it was over a cup of coffee and I said, "Mr. Winston tells me you are going to be free and out of your job, and that you will be interested in coming with us. What is it all about?"

So he told me that he had been requested to leave and he showed me a letter which purported to be a letter from Commissioner Hollyday, and to the best of my recollection the letter said:

DEAR MR. POWELL—

OR—

DEAR CLYDE: I am enclosing for your consideration a letter from the Republican National Committee and my answer to them—

and attached to his letter were two other letters. I don't recall whether the heading or the name was printed. I believe it was typed in, and the best of my recollection was, the letter from the Republican National Committee said in substance: When is Mr. Powell going to leave? Would you let us know. We have been waiting for some time.

The CHAIRMAN. What was the date of that?

Mr. MUSS. I can't recall, sir.

The CHAIRMAN. Was it March or April of this year?

Mr. MUSS. He had told me this letter was 2 or 3 days before I had seen him. That was the early part of March of 1954.

The CHAIRMAN. I see.

Mr. MUSS. Then Hollyday's answer said:

I have talked to Mr. Powell and he has assured me that he will leave somewhere around April the 1st. I have no reason to doubt but that he will keep his word and leave about that time.

I had an additional talk with Mr. Powell and we talked about—

The CHAIRMAN. Did Mr. Powell tell you or Mr. Hollyday tell you that Powell would leave about April 1?

Mr. MUSS. No. I am quoting from these letters.

The CHAIRMAN. In other words, you gathered that from Mr. Powell or Mr. Hollyday?

Mr. MUSS. These were letters shown to me by Mr. Powell of which I know nothing else except Mr. Powell showed them to me.

The CHAIRMAN. In other words, Mr. Powell had copies of the letters that the Republican National Committee had written Mr. Hollyday?

Mr. MUSS. That is what he showed me.

The CHAIRMAN. That is very interesting, isn't it?

Mr. MUSS. Sir, I know nothing about it except what he showed me at the time.

The CHAIRMAN. In other words, the Republican National Committee had asked Mr. Hollyday when he was going to secure Mr. Powell's resignation, and then Mr. Hollyday proceeds to give Mr. Powell copies of those letters. Is that what you are testifying to?

Mr. MUSS. I can only testify that that is what I saw and that is what Mr. Powell told me were the facts.

The CHAIRMAN. Mr. Powell told you and you saw copies of the letters?

Mr. MUSS. I didn't say—I said I saw what purported to be copies of letters.

I said to Mr. Powell, Winston and I had talked to him and what did he have in mind. He said he thought he could be very useful to us and he could possibly originate some work, that he could help in our general work.

Senator BRICKER. He had had a good bit of experience in that field.

Mr. MUSS. He had a great deal of experience.

Senator BRICKER. In originating work.

Mr. MUSS. He also had some previous mortgage experience, as far as we know, in St. Louis. We had met him several times at mortgage bankers' meetings, home builders' meetings. He had been the guest speaker. He had been a man talked about in the operations of FHA.

The CHAIRMAN. There is no question about it.

For 20 years he had been with FHA and since 1940 he had been the top man in the rental housing field. That is the same gentleman that now refuses to come before this committee, after having been there 20 years, 14 years the top man, and tell this committee about the subject matter we are interested in.

Mr. MUSS. Of course, all this conversation had occurred before that time. We had a tentative arrangement with Mr. Powell where I asked him what his salary was and I think he said \$12,200 or 12,300, and I asked him what he wanted, and he said, "I don't know." He said he had been offered a job by a New York bank, but he didn't care about it. He had to be in second or third position; that he was 56 or 57 years old, and he didn't want to get behind a desk any more and work from 9 to 5, that he would like to be out in the field doing about what I am doing, and learning a little bit more about the building business. He thought he could originate some business and we finally, or I finally said, "We have talked it over, Mr. Winston and myself."

I said, "Now, of course, Mr. Powell"—or "Clyde"—I called him Clyde—"we have done a lot of business with FHA. We have been doing business with FHA since 1935. We have never had a default.

We have never had a complaint that we know of. We have never been criticized or blacklisted. Now, we think that before we take or agree for you to come with us, or you might be handling some matters for us later that you passed on in your official position, that you clear this with Mr. Hollyday or whoever you think you should, and if it is satisfactory with them, we will agree to pay you \$12,000 a year."

However, he said, "Well, I have to have a chance to make some more money, too."

I said, "I think you can originate some business, whether conventional or housing business, and if you can originate some business we find profitable or think is good there is no reason why you shouldn't have a small percentage interest in that, which might mean extra money to you."

I said, "However, it is important that you get clearance and if that is all right when do you expect to leave?"

"Well," he said, "I think I will put in my resignation in a few days and take it up with Mr. Hollyday at that time."

I said, "All right."

And he said, "I will probably want to take a couple of weeks off. I would like to start somewhere around May 1."

"Well, you go ahead and find out how you stand with the Commissioner, and when you let us know, Mr. Norman Winston will go down and check with the Commission, the powers that be, and if it is all right with them then we will work out this deal."

The CHAIRMAN. Did you ever put him on the payroll?

Mr. MUSS. No, sir.

The CHAIRMAN. Did you ever give him anything of any value?

Mr. MUSS. No, sir.

The CHAIRMAN. Did he ever ask for anything of any value?

Mr. MUSS. No, sir.

The CHAIRMAN. Did you ever give any FHA employees anything of any value, other than maybe just small gifts from time to time, at Christmastime?

Mr. MUSS. No, sir.

May I complete my story about Powell, sir?

The CHAIRMAN. Yes. I thought you had finished.

Mr. MUSS. I guess the first week in April, he called me to tell me that he had submitted his resignation, and that Mr. Hollyday had said it was all right for him to come to work for us and I said, "Well, when Mr. Winston gets a chance he will be down and check with Mr. Hollyday," and of course the investigation began shortly after that and that was the end of any talk about his coming to work for us.

The CHAIRMAN. He never did come to work for you?

Mr. MUSS. No, sir.

The CHAIRMAN. You understand the newspapers carried the story that he was an employee of your firm. That is why we bring it up at this hearing.

Mr. MUSS. That is right. I understand it was also carried in one of the magazines.

The CHAIRMAN. The fact is you didn't hire him?

Mr. MUSS. No.

The CHAIRMAN. You did discuss it?

Mr. MUSS. Yes.

The CHAIRMAN. You talked with him about it.

Mr. MUSS. Yes.

The CHAIRMAN. You even arrived at the salary and compensation you would pay.

Mr. MUSS. That is right.

The CHAIRMAN. Possibly had it not been for this hearing you would have hired him?

Mr. MUSS. There would have been no reason not to hire him, sir.

Senator BRICKER. Do you know whether Mr. Winston ever talked to Mr. Hollyday or not?

Mr. MUSS. Mr. Winston never did talk to Mr. Hollyday about it because in the interim—I think this is only a week or 10 days before this investigation began.

The CHAIRMAN. You testified that you knew Mr. Powell quite well.

Mr. MUSS. Yes.

The CHAIRMAN. You knew him well enough to call him Clyde.

Mr. MUSS. Yes, sir.

The CHAIRMAN. Did he ever spend any time in your home or were you on vacations together?

Mr. MUSS. He was never in my home. He was never on vacation with me although we did meet socially.

Mr. SIMON. Did you say, Mr. Muss, why you didn't end up hiring Mr. Powell?

Mr. MUSS. Because of the investigation, sir, and all of those facts that have been coming out.

Mr. SIMON. With respect to Northridge Cooperative Apartments in New York, that is a section 213 cooperative, is it?

Mr. MUSS. Yes, sir.

Mr. SIMON. Am I correct that there were 3 cooperative corporations, Northridge Cooperative, sections 1, 2, and 3?

Mr. MUSS. Yes, sir, that is correct.

Mr. SIMON. Then there were 3 corporations that you and Mr. Muss controlled which had contracts to build the cooperative? You and Mr. Winston, that is?

Mr. MUSS. That is correct.

Mr. SIMON. And without getting all those names, before construction work started, you and Mr. Winston assigned the construction contracts to 3 other companies controlled by members of your family?

Mr. MUSS. That is correct.

Mr. SIMON. Those contracts were assigned prior to the start of any construction; is that right?

Mr. MUSS. That is correct, sir.

Mr. SIMON. And did you receive a profit on the assignment of the contracts of \$786,093?

Mr. MUSS. We received a profit of \$786,000; that is correct.

Mr. SIMON. I take it that the section 1 corporation still owes you—\$25,000, and there is \$93,000 up in escrow?

Mr. MUSS. Which has already been included in these figures.

Mr. SIMON. So the \$786,000 is after deducting those figures?

Mr. MUSS. No, sir.

Mr. SIMON. Before deducting them?

Mr. MUSS. Before deducting them.

Mr. SIMON. So the \$786,000 may be reduced somewhat just before you are through?

Mr. MUSS. That is right.

Mr. SIMON. Who were the stockholders of the three corporations that received this \$786,000?

Mr. MUSS. David Muss, Norman K. Winston and Mika Stiftung.

Mr. SIMON. How much did you own?

Mr. MUSS. 40 percent.

Mr. SIMON. How much did Mr. Winston own?

Mr. MUSS. Mr. Winston—let me correct that—I believe it was 30 percent, sir.

Mr. SIMON. Mr. Winston owned 30 percent?

Mr. MUSS. Yes, sir.

Mr. SIMON. How much did Mika Stiftung own?

Mr. MUSS. The balance, sir, which would be 30 percent.

Mr. SIMON. That is the Swiss Corp. you were talking about?

Mr. MUSS. That is right.

Mr. SIMON. So they got approximately \$250,000 out of this \$786,000?

Mr. MUSS. Well, they may not have gotten that much, because as I pointed out, there is still some \$119,000 that we haven't received, and, again, there is a lawsuit now pending by the cooperatives against ourselves, against Winston and myself in these companies for some \$2,500,000.

Mr. SIMON. Would it be conservative to say that they got in excess of \$200,000?

Mr. MUSS. I would say so, sir; yes, sir.

Mr. SIMON. What was the capital investment in those three corporations?

Mr. MUSS. You mean the permanent capital stock investment without regard to the moneys that we had invested in setting up this transaction?

Mr. SIMON. Yes.

Mr. MUSS. I am sorry, we don't have those figures here but I am quite sure that that was nominal, sir.

Mr. SIMON. Probably \$1,000 for each one?

Mr. MUSS. It might have been \$10,000 but it was still nominal.

Mr. SIMON. There couldn't have been any substantial advances because you hadn't started construction: isn't that true?

Mr. MUSS. There was substantial advances, sir, because you see these companies not only advanced moneys for architectural fees, but they advanced the filing fees at FHA. Actually, my auditor says we had advanced almost \$500,000 in setting up this job. I might also say that all the moneys collected from the cooperatives in the sale of these apartments during this time, and all the time that construction was pending was held in a separate trust account.

Mr. SIMON. When your brothers purchased this contract from you for the \$786,000 did they also reimburse you for all your advances?

Mr. MUSS. You mean—yes, sir.

Mr. SIMON. So that the \$786,000 was profit after reimbursement for all advances?

Mr. MUSS. That is correct, sir.

Mr. SIMON. You have some projects in North Chicago—

Mr. MUSS. May I carry on about Northridge, since this is a cooperative in New York and in order that we may be—we may put our best foot forward on the record, sir?

Mr. SIMON. So far as construction is concerned, we understand it was done by your brothers and your brother is coming in Thursday, and we were going to get from him the information on construction.

Mr. MUSS. The fellow coming in Thursday has no knowledge of this job. It is another branch of the family?

Mr. SIMON. Isn't the one coming in Thursday your brother?

Mr. MUSS. No. We are a family of builders. When we were 12, 13, and 14, we spent our summers working around the job.

Mr. SIMON. Who were the brothers that bought you out in this job?

Mr. MUSS. My brothers each have their own corporation and I think you will find I testified it was my brothers Charles and Hyman and Alexander.

Mr. SIMON. Wasn't your brother Alexander involved at all in this corporation?

Mr. MUSS. No, sir.

Mr. SIMON. But he has been in a number of section 213's?

Mr. MUSS. He has never had a section 213.

It is the other brother who did the section 213.

Mr. SIMON. Which brother has the section 213?

Mr. MUSS. Charles.

I would like to point out for the benefit of the press that in this case Northridge Cooperatives FHA estimated replacement cost, covering all expenses, on the total three projects was \$12,351,780, plus off-site requirements of \$71,986, making a total FHA replacement cost and off-site cost of \$12,423,766. The cost of the cooperatives for which we produced all of these buildings was \$11,280,690, which included mortgage proceeds, plus \$846,000 paid by the cooperatives. In other words, the total saving of approximately \$1,200,000 under the FHA replacement cost.

Senator BRICKER. Who made the FHA replacement cost figure?

Mr. MUSS. FHA.

Senator BRICKER. What person?

Mr. MUSS. I think it takes about 30 or 40 people in their office to come up with the figures.

Senator BRICKER. Who originated them?

Mr. MUSS. The New York office.

Senator BRICKER. Who in the New York office?

Mr. MUSS. I wouldn't know, the architectural section, underwriting section.

Senator BRICKER. You don't know the personnel at all?

Mr. MUSS. I know the personnel.

Senator BRICKER. Who were they?

Mr. MUSS. I don't recall having a personnel meeting at this time. The chief architect was a man named Hammond. The chief underwriter was a man named Miles, but I wouldn't know who processed the case down at the bottom. I might also—

Mr. SIMON. Mr. Muss before you leave that, do I understand you correctly, this building was finally built for \$1,200,000 less than the FHA estimate, and in spite of that your brothers thought it was a good enough deal to pay you \$786,000 for your contract; is that right?

Mr. MUSS. That is—

Mr. SIMON. Is that right.

Mr. MUSS. I would prefer to put it this way: After all, they knew construction, they organized the corporation and were setting up all

the items. All they participated in was construction end of it. We indemnified completion of this job. I would say there was total fees paid to us of less than 10 percent.

These, by the way, were contractors' fees that were paid to us. They were paid to us as contractors' fees and not as mortgage proceeds.

Mr. SIMON. The only point I was making, if you build the building for \$1,200,000 less than the FHA estimates and your brothers would still pay you \$786,000 for the privilege of building it, it made FHA look pretty bad.

Mr. MUSS. I wouldn't say that. It made the builders look pretty good. I mean, I want to point out something, sir. I am strictly a builder, or an operating builder and my father was before me. We build for a profit. We take the risks that go with it. You will notice that you haven't a general contractor up here as distinguished from operator-builders. You are not going to have many general contractors.

Mr. SIMON. We have had dentists, lawyers.

Mr. MUSS. You are dealing with builders now.

I admire the work of this committee, but I think that I would like to be put in as good a light as it is possible under the circumstances.

The CHAIRMAN. You have testified and there is no question but what you have been a builder all your life.

Mr. MUSS. That is correct.

The CHAIRMAN. That is now part of the record and has been from the very beginning.

Mr. MUSS. Thank you, sir.

Mr. SIMON. Mr. Muss, going to North Chicago, can you tell us what that project is?

Mr. MUSS. We have a 1938 title IX project, defense housing, now under way at Waukegan, Ill.

Mr. SIMON. What is the mortgage commitment there?

Mr. MUSS. I would say the total mortgage is roughly, an aggregate of \$13 million.

Mr. SIMON. Who are the interests that are interested in that project?

Mr. MUSS. Norman K. Winston and myself—you are talking about essentially persons——

Mr. SIMON. Yes.

Mr. MUSS. Murchison, of Dallas, and Centex Construction.

Mr. SIMON. Each of you has roughly a 25 percent?

Mr. MUSS. Yes, about 25 percent.

Senator BRICKER. Did Mr. Winston hold half of his interest of these companies for the Swiss companies?

Mr. MUSS. No, sir; as I recall, it was in the San Antonio and in this Northridge cooperative.

Mr. SIMON. Do you have a project in Connecticut?

Mr. MUSS. Sir?

Mr. SIMON. Do you have a project in Connecticut?

Mr. MUSS. We have a title IX project, with Winston—when I say "I" I am referring to Winston and myself—have a title IX project just completed at Norwich, Conn., consisting of 145 single-family title IX.

Mr. SIMON. Who are the interests in that project?

Mr. MUSS. That is owned by a corporation in which Norman K. Winston and myself are the stockholders or are nominees of the stockholders. I hold 47-percent interest; Mr. Winston holds 53.

Mr. SIMON. Then you have a project in Newington, do you?

Mr. MUSS. We have just started a 180-unit project at Newington, sir, also title IX, rental, defense housing.

Mr. SIMON. And the North Chicago project, that is Lake County Gardens Management Co.?

Mr. MUSS. That is correct, sir.

Mr. SIMON. And 25 percent of that stock is owned by Tecon; is that right?

Mr. MUSS. That is part of the Murchison Co.

Mr. SIMON. Tecon is Murchison?

Mr. MUSS. That is right.

Mr. SIMON. And 25 percent is owned by Mucon?

Mr. MUSS. That is my family company.

Mr. SIMON. And 25 percent by First Gardens?

Mr. MUSS. That is Mr. Winston's company.

Mr. SIMON. And the remainder by Centex?

Mr. MUSS. That is a separate construction company of Dallas.

Mr. SIMON. Who owns that out of Dallas?

Mr. MUSS. That is a group of Dallas builders; a man named Lippert and his associates.

The CHAIRMAN. So there are four separate corporations in this Waukegan, Ill., project?

Mr. MUSS. I think that is right, except that you will find individual sponsors have guaranteed the completion of construction of items like that.

The CHAIRMAN. My point is the stockholders in the sponsoring company are four separate corporations?

Mr. MUSS. Yes, sir.

The CHAIRMAN. One is your company, one is Mr. Winston's company, one is Mr. Murchison's company and the fourth one is a Dallas concern, headed by whom?

Mr. MUSS. By a man named Lippert, and Lively.

Mr. SIMON. Mr. Muss, as I understand it, the only other FHA project that you have ever been interested in is a section 608 built in New York, about 1947, called Terrace Gardens; is that correct?

Mr. MUSS. That is the only other section 608. That is the only other section 608 project. I have been interested in many other FHA projects in the single family, and others.

Mr. SIMON. Single-family sale houses?

Mr. MUSS. Yes, sir.

Mr. SIMON. Did you mortgage out in Terrace Gardens?

Mr. MUSS. I don't recall, sir. I don't believe so. I am not sure.

Mr. SIMON. Can you give us any explanation for this? It seems that all the projects we inquire into back in 1946 and 1947 and even in 1948, there was little or no mortgaging out. Then comes 1949 and 1950 and most of them mortgage out. Is there any reason for that?

Mr. MUSS. Well, sir, there were two reasons for it: the first one was that in 1947, price controls were removed, and builders throughout the country were hit with price increases.

You couldn't obtain a firm contract from a subcontractor. You couldn't buy materials on a firm basis from a supplier. I think all of

us in the building industry recall that every time we got an invoice, or an estimate, it said:

Price prevailing at time of shipment will be the price and not the quoted price.

In addition to that sir—and I would say that successive wage increases in that time caught builders unaware and generally speaking throughout the country builders who had programed construction work on the basis of early 1947 costs, found themselves faced with 25 to 30 percent increase in construction.

Now, in 1948, this Congress, and this august body, recognized those facts, changed the law and instead of having mortgages limited to \$1,800 per room—I think that is the amount—increase it or changed the method of computing the maximum amount of mortgage to be \$81,000 for 1-family units, or in effect, after the 1948 legislation, larger mortgages were possible for a little bit more square-foot area.

Then——

Mr. SIMON. During the period of rising costs, are you aware of the fact that FHA entertained many mortgage applications for increased commitments by reason of increased costs?

Mr. MUSS. I have heard of that. I am not too familiar with it.

Mr. SIMON. Have you ever heard of anybody applying for a decrease in the mortgage because of decreased costs?

Mr. MUSS. No, sir. Would you like that explained?

Mr. SIMON. Sure.

Mr. MUSS. I have of course known of cases where builders have gone into FHA, and I don't recall any particular case of my own, but where they have quarreled with FHA on the basis of their evaluation being too high but the purpose of that, of course, was to reduce the amount of cash required for closing by the FHA.

I have heard it said on several occasions: Why didn't you take the mortgage proceeds, the balance of the mortgage proceeds you got and use it to reduce the mortgage.

I think what we have all overlooked here is that in all of these companies, in all of these rental housing projects, on rents that are controlled, they are limited by FHA, and in the case of the military housing, by both the military and FHA. That the only equity that exists in those houses is what the net income that can accumulate to the builders during the year can capitalize on. Let me explain it: If we had a mortgage of \$8 million and reduced it to \$7 million, and wanted to sell it, the eventual purchaser—and I of course am talking of the first 10 or 15 years of the mortgage period—the eventual purchaser wouldn't pay one cent more for the equity in that project if the mortgage was \$6 million than if it was \$7 million because his return is fixed by the rents and the operating expenses and that return will not justify any more than a small capitalization, so a purchaser is not—takes it subject to the mortgage and only pays what he thinks he can get a fair return on, so I don't see that that would be good business on the part of any builder-owner.

Mr. SIMON. Excepting the Government's position would be materially changed if we should have a little adverse condition and had to take back some of these buildings.

Mr. MUSS. I am a great believer in the future prosperity of the United States and I think those arrangements started in 1935 or 1936 when FHA first came into the picture.

The best answer I can give you to that is if the mortgage was soundly conceived with regard to its location, it has increased, or probably has increased in value and will continue; that essentially as far as we as builders are concerned, and this committee should be concerned, is that—of course, I don't really mean it that way, but let me say that we look on it as long as your mortgage is 90 percent of value or cost it is a good loan.

Mr. SIMON. We all hope there are no risks in any of these, but to the extent there are risks it is the Government which takes the risk.

Mr. MUSS. I think so, but I think the results achieved by the efforts of this committee and its companion committee in the House, in the legislature, warrants the risk as being taken.

The CHAIRMAN. Unless there are further questions of Mr. Muss we will excuse him.

Senator BRICKER. Have you done any building in recent years except through the mortgage operations of FHA?

Mr. MUSS. I personally have built some—in cooperation with others, some conventional shopping centers. Mr. Winston himself, though, with other associates, has just completed or did complete about a year ago a 15-story, 20-story, building in New York and I might point out, that his rentals in those buildings are not controlled, and the rentals prevailing in that building are somewhere around \$70 a room per month, as compared with an average of \$22 per room in FHA housing in the same area.

The CHAIRMAN. Thank you very much, Mr. Muss.

We may want you a little later if you will just remain around, please.

Mr. MUSS. Thank you.

The CHAIRMAN. Our next witness will be Mr. Norman K. Winston of New York.

Mr. CAHILL. May I offer the option? I have the option.

Mr. Chairman, with your kind permission may I identify for the record this option agreement?

The CHAIRMAN. Yes. The option agreement has been made part of the record. (See p. 784.)

Mr. CAHILL. It is from Walter Gross and Katherine Gross to John P. Naas and it bears date, March 4, 1950, and Mr. Chairman, I would like to call your particular attention to the fact that it is witnessed by the Witness Pine, and the chairman knows it is familiar law that an interested witness—

The CHAIRMAN. We have made it part of the record.

Mr. CAHILL. I just wanted to call your attention to the fact that an interested party does not customarily witness an option to anybody else.

Mr. SIMON. Mr. Cahill is there a word in yesterday's transcript that is "no" that you want to change to "yes?"

Mr. BECKER. Yes, there is one.

Mr. SIMON. Could you give it to us?

Mr. CAHILL. Can we give it to you a little later?

We will have to—

The CHAIRMAN. In other words, you want to change your testimony of yesterday?

Mr. Muss wants to change his testimony?

Mr. CAHILL. I don't know whether it is a typo or change, Mr. Chairman. We will give it to you. (See p. 813.)

The CHAIRMAN. Mr. Winston, do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God!

TESTIMONY OF NORMAN K. WINSTON, PAGE MANOR, DAYTON, OHIO, ACCOMPANIED BY JOHN CAHILL AND LOFTUS BECKER, COUNSEL

Mr. WINSTON. Yes.

The CHAIRMAN. Will you give your full name and address to the reporter?

Mr. WINSTON. Norman K. Winston, 77th Place, New York City.

The Chairman. And Mr. Cahill is your lawyer?

Mr. CAHILL. And my partner, Mr. Becker.

The CHAIRMAN. And this gentleman is your accountant?

Mr. WINSTON. Accountant.

The CHAIRMAN. The other gentleman, has he been identified?

Mr. CAHILL. Mr. Carr, who is house counsel for Norman K. Winston.

The CHAIRMAN. You may proceed.

Mr. SIMON. Mr. Winston, what is your business?

Mr. WINSTON. Builder.

Mr. SIMON. Are you a stockholder in the three Billy Mitchell corporations in Texas?

Mr. WINSTON. Yes, sir, I am.

Mr. SIMON. How much stock do you own?

Mr. WINSTON. I think 51 $\frac{2}{3}$ percent, I believe.

Mr. SIMON. Is that stock all registered in your name?

Mr. WINSTON. Yes, sir.

Mr. SIMON. Do you own any of it in trust for anyone?

Mr. WINSTON. Yes, sir, I do.

Mr. SIMON. Who is it held in trust for?

Mr. WINSTON. It is held in trust for a Swiss company, investors. Half of mine is held in trust in that particular project.

Mr. SIMON. Half of your 51 $\frac{2}{3}$ percent stock is held in trust for the Swiss corporation?

Mr. WINSTON. Yes, sir.

Mr. SIMON. What is the name of the Swiss corporation?

Mr. WINSTON. Mika Stiftung.

Mr. SIMON. M-i-k-a—

Mr. WINSTON. S-t-i-f-t-u-n-g.

Mr. SIMON. And that is a Swiss corporation?

Mr. WINSTON. Yes, sir.

A Swiss company.

Mr. SIMON. Who are the stockholders, of Mika Stiftung?

Mr. WINSTON. Well, I only know 1 or 2 of the people that I met. I didn't know who the other syndicate or investors consist of.

Mr. SIMON. Who are the 1 or 2 you have met?

Mr. WINSTON. I know one man Savy that I met a few years ago and a Dr. Gerber.

Mr. SIMON. Do you know his first name?

Mr. WINSTON. He is an attorney, a doctor's name is used in Europe.

Mr. SIMON. Do you know his first name?

Mr. WINSTON. I think Dr. M. Gerber.

Mr. SIMON. Where does he reside?

Mr. WINSTON. He resides in Bern.

Mr. SIMON. Bern, Switzerland?

Mr. WINSTON. Yes, sir.

Mr. SIMON. Who is the other man you mentioned?

Mr. WINSTON. Savy, S-a-v-y.

Mr. SIMON. Do you know his first name?

Mr. WINSTON. William.

Mr. SIMON. Do you know where he resides?

Mr. WINSTON. He resides in Geneva.

Mr. SIMON. Geneva, Switzerland.

Mr. WINSTON. Yes, sir.

Mr. SIMON. Do you know what percentage of the stock of Mika Stiftung they own?

Mr. WINSTON. Well, they have half of mine.

Mr. SIMON. But what percentage of the stock of Mika Stiftung do those two gentlemen own?

Mr. WINSTON. I have no idea.

Mr. SIMON. You wouldn't know whether their holdings are merely 10 percent of that company or 90 percent?

Mr. WINSTON. No, sir, Mr. Simon, I wouldn't.

Mr. SIMON. What is the par value of the stock in the Billy Mitchell Village Corp.?

Mr. WINSTON. \$10 common stock; \$10 par value.

Mr. SIMON. How much was paid for that stock? Did you pay par value for it?

Mr. WINSTON. \$3,000, yes, sir.

Mr. SIMON. \$3,000 was for all of the stock; is that correct?

Mr. WINSTON. In each corporation.

Mr. SIMON. And you paid \$1,550 for your 51 $\frac{2}{3}$ percent in each corporation?

Mr. WINSTON. Yes, sir.

Mr. SIMON. Does that mean that Mika Stiftung paid you \$725 in each corporation?

Mr. WINSTON. Yes, sir.

Mr. SIMON. The dividends there were \$1,236,250; is that right?

Mr. WINSTON. Approximately, yes, sir.

Mr. SIMON. Does that mean that Mika Stiftung received dividends of approximately \$310,000?

Mr. WINSTON. Yes, sir.

Mr. SIMON. There was preferred stock in the Billy Mitchell Village Corp., was there not?

Mr. WINSTON. Yes, sir.

Mr. SIMON. Was that stock in Billy Mitchell Village, Inc., owned by Southwest Homes Texas Co.?

Mr. WINSTON. Yes, sir.

Mr. SIMON. Who were the stockholders of Southwest Homes Texas Co.?

Mr. WINSTON. Norman K. Winston, David Muss, Louis H. Kaplan and Henry W. Penn.

Mr. SIMON. Did Mika Stiftung have any stock interest in Southwest Homes, Texas Co.?

Mr. WINSTON. No, sir, it didn't.

Mr. SIMON. Southwest Homes Texas Co., apparently built this project?

Is that right?

Mr. WINSTON. Yes, sir.

Mr. SIMON. I gather its stockholders advanced the moneys with which to proceed with the construction?

Mr. WINSTON. Yes, it did.

Mr. SIMON. Did anybody other than its stockholders advance it any money for this construction?

Mr. WINSTON. Not that I know of.

Mr. SIMON. Then Mika Stiftung didn't advance any of the money?

Mr. WINSTON. Yes, sir, it did. I advanced money and when I advanced it was for both Mika and myself.

Mr. SIMON. How much money did you advance to Southwest Homes Texas Co.?

Mr. WINSTON. I don't know but I had \$100,000 from them. I don't know—

Mr. SIMON. When did you get the \$100,000 from them?

The CHAIRMAN. From whom did you get \$100,000?

Mr. WINSTON. From Mika Stiftung.

The CHAIRMAN. They sent you \$100,000?

Mr. WINSTON. Yes, sir. I had it available for any of these.

The CHAIRMAN. By check or how?

Mr. WINSTON. Transferred by checks I presume in most cases.

The CHAIRMAN. They sent you \$100,000 to invest for them?

Mr. WINSTON. Yes, sir. It might have been a little over—\$110,000, maybe.

The CHAIRMAN. And you invested in the Billy Mitchell project, \$1,550?

Mr. WINSTON. I did, Senator Capehart.

The CHAIRMAN. \$1,550 for them in the Billy Mitchell project?

Mr. WINSTON. Yes.

Mr. SIMON. They put up \$725 in each of the 3 corporations?

Mr. WINSTON. I put it up for them because I had their money. I put up for them and myself.

The CHAIRMAN. Out of the \$100,000 they sent you?

Mr. WINSTON. Yes, sir.

The CHAIRMAN. Did they send you that in cash or how?

Mr. WINSTON. They transferred some of it through some of the Swiss banks, in some way or another. I didn't keep track. They are on our books as to how it came.

Mr. SIMON. How did the rest of it come?

Mr. WINSTON. By transfer from Switzerland.

Mr. SIMON. All of it?

Mr. WINSTON. All through banks, yes, sir.

Mr. SIMON. When was that?

Mr. WINSTON. Either the end of 1949 or the early part of 1950. The early part—the end of 1949, I believe.

Mr. SIMON. In addition to the \$310,000 they got out of Billy Mitchell they participated in Northridge Apartments?

Mr. WINSTON. Yes, sir.

Mr. SIMON. Did they get somewhere around \$225,000 out of that?

Mr. WINSTON. They got \$160,000 or \$162,000.

Mr. SIMON. What did the Swiss people contribute, either to the Northridge project or the Billy Mitchell project?

Mr. WINSTON. Well, my contract with them was they made \$150,000 available for that job, for Northridge, in addition. It had nothing to do with the other one.

Mr. SIMON. Is that the same money they originally sent over?

Mr. WINSTON. No, sir, new money.

Then sent over \$150,000 in new money.

Mr. SIMON. When did they send that over?

Mr. WINSTON. I think that was in 1951.

Mr. SIMON. And was——

Mr. WINSTON. 1951 or 1952.

I am sorry; may I refer a second?

Mr. BECKER. 1951.

Mr. WINSTON. Late 1951.

Mr. SIMON. When was the Northridge Cooperative contract sold by you and Mr. Muss to his brothers?

Mr. WINSTON. I think that is a matter of record here.

I don't recall that. I don't know the date, Mr. Simon, but I will look it up if you want me to. In 1951.

Mr. SIMON. In 1951.

Mr. WINSTON. Yes, sometime in 1951, the middle or early part of it I think.

Mr. SIMON. You said the contract was sold in the middle of 1951, and the money didn't come over from the Swiss until the latter part of 1951, which would mean they didn't give you the money until after the profit had accrued.

Mr. WINSTON. No, sir. I had my contract with them and I called on money as I needed it and I also had money for them from Billy Mitchell Village.

Mr. SIMON. Well then, you didn't get any new money from them for Northridge until after you had sold the project and had a profit; is that right?

Mr. WINSTON. No, sir, that is not so. I must have given you—the contract was May 1951, with Northridge, the sales contract——

Mr. SIMON. The sale of Northridge was in May 1951.

Mr. WINSTON. Yes, sir.

Mr. SIMON. And on that sale you and Mr. Muss and Mika Stiftung had a profit of about \$750,000?

Mr. WINSTON. Yes, sir.

Mr. SIMON. When did they send you the money for Northridge?

Mr. WINSTON. January 14, I got \$70,000.

Mr. SIMON. January 14?

Mr. WINSTON. January 14, 1951.

Mr. SIMON. \$70,000.

Mr. WINSTON. Yes. That was transferred by check.

The CHAIRMAN. Mr. Winston, do you own any stock in this Mika Stiftung Co.?

Mr. WINSTON. No, sir, Senator.

The CHAIRMAN. You do not own any stock?

Mr. WINSTON. No, sir.

The CHAIRMAN. Any of your family?

Mr. WINSTON. No, sir, no connection at all.

The CHAIRMAN. You have no connection whatsoever?

Mr. WINSTON. None at all.

Mr. SIMON. Did they send you a total of \$250,000?

Mr. WINSTON. Yes, sir, 250.

Mr. SIMON. And they had a profit of about \$480,000 to \$500,000. Does that mean they still have \$750,000 in this country?

Mr. WINSTON. They have, I think, when we get a distribution, and we didn't need all the money I think we returned some, I think maybe \$150,000. The rest of it is still here.

Mr. SIMON. So about \$600,000 is still here?

Mr. WINSTON. Yes, because of contingent liabilities.

The CHAIRMAN. Why would you for a small amount of \$2,175 take in these people as a partner, knowing that they were going to get \$310,000 profit within a very short time? I am interested as a businessman.

Mr. WINSTON. I tried to touch my mouth and all these gentlemen jumped at me. That is why I am laughing.

The CHAIRMAN. They will get your pictures.

Mr. WINSTON. I have never been in front of a camera.

The CHAIRMAN. Would you like them to step aside?

Mr. WINSTON. No, sir.

The CHAIRMAN. My point is for \$2,175 you sold a 25 percent interest in Billy Mitchell, which is about a \$16 million project, isn't it? and they still own 25 percent of the equity in those 4 projects. They invested \$2,175. You say, of course, the Southwest Building Corp. built the projects and you did have to loan them, of course, considerable money.

Mr. WINSTON. That is right.

The CHAIRMAN. But when it was all finished, the loans were repaid out of the proceeds of the mortgage.

Mr. WINSTON. Yes, sir.

The CHAIRMAN. My point is why would you cut these Swiss people in for a fourth interest in a \$16 million project, on which they made in a very short time \$310,000 on a \$2,175 investment, plus possibly some loans out of the \$100,000 to the construction company which loans were later repaid out of the proceeds of the mortgage?

My point is why would you cut them in on that basis?

Mr. WINSTON. There were several reasons.

The CHAIRMAN. I want to get cut in.

Mr. WINSTON. There were several reasons. The main reason of course that on the very first project we had no assurance that we would make anything or that we would come out. I also felt that the location was not a good permanent investment, so that from that point of view—secondly of course—

Senator BRICKER. Move up a little closer to the microphone.

Mr. WINSTON. Every job I had was with a partner. I do not have any jobs alone. I have 2, 3, or 4 partners. Some job I think Mr. Simon wants to ask me about is only \$600,000 total construction and we have 5 or 4 partners there, but more important, I met these people in 1949 and I knew they were heavy buyers of capital stocks in this country.

The CHAIRMAN. You take partners in for their know-how as well as their capital? Is that your business?

Mr. WINSTON. Yes.

The CHAIRMAN. Taking people in for their know-how and capital?

Mr. WINSTON. It just grew that way. I did not start out by taking people in; people that we know asked if they could join us.

Senator BUSH. What was the basis of your acquaintance with these Swiss people? Was this on a basis of friendship, or had you had previous business connections with them?

Mr. WINSTON. I knew them in 1948. I knew they were heavy investors, making a lot of money in stock in this country. At that time foreigners were coming over here and helped turn the stock market. There was a flight of capital from Europe then. They seemed to have more confidence than we had then. When I saw them I asked them why they did not put part of their money in real estate. They thought it was not liquid. We kept talking and about a year later they agreed they would try it out.

Senator BUSH. I am curious as to why you go to Switzerland. There are people in this country, too, who would be equally anxious to make profits in ventures of this kind. Why do you go to Switzerland? Is it on a basis of friendship over there?

Mr. WINSTON. I spend a great deal of time in Europe. I know a great many people. I have a business in France also and part of my family came from there.

Senator BUSH. Were these two people particular friends of yours?

Mr. WINSTON. No, not particular friends. I met them at dinner. On the other hand, I do not ask everyone to join us. If anyone came to me and asked to invest a quarter of a million dollars and I had a project, I would explain it and see if they wanted to join us. I heard Mr. Muss testify about how good a builder and how old he was when he started, but his father went broke and his whole family went broke and for years, when things turned against him, I bought some tax liens on some property that probably his father lost a few million dollars. I wondered, when he said how good a builder he is. He is, but on the other hand he cannot fight time. The same happened with me. I bought a lot of New York property and saw it go down to nothing.

Mr. BUSH. I do not want to pursue this if you do not but I am still very serious. I don't understand the background of the relationship between these Swiss people and yourself.

Mr. WINSTON. I expect to work in Canada next year. Would it seem unusual for the people in Canada, would they look different because they came from here? I met a man in London when I received Senator Capehart's cable, not cable, but rather his announcement about my coming back and right, at that dinner, that evening, I met a man who had just bought—I better not get his name involved, one of the big tractor companies in Europe and he asked me my business, and I explained it to him and he said "We are building a city of 35,000."

The CHAIRMAN. Will you talk closer to the mike?

Mr. WINSTON. "We are building a city of 35,000 in Canada. Why don't you come up?"

The CHAIRMAN. A British concern?

Mr. WINSTON. Canadian, apparently, and I said "Is it underway?" "Yes; we are building it right now and it will be about 35,000 people"

and he asked me to call him, to come and see him in Toronto, and he was pretty sure we could make a deal. I expect to go.

Senator BUSH. I can understand that.

Mr. WINSTON. I just met the man once. How is it you can understand it and you cannot understand my inviting other people in? I met the man once at dinner by accident the day I was coming back and he invited me up and he said "I hear you are experienced. Why don't you come up and build with us in Canada?"

Senator BUSH. Come up where?

Mr. WINSTON. Toronto.

Senator BUSH. Is that the Swiss people?

Mr. WINSTON. No.

Senator BUSH. I am interested in the Swiss people.

Mr. WINSTON. The Swiss people I met and they showed me stocks they were buying, millions of dollars they were buying on the market and I said "Why don't you put some of that in real estate." That is how it all started. They didn't think it was all liquid, and after a year and a half or so—

Senator BUSH. You had met them more or less on a social basis and you fell into discussing these business affairs and you interested them in investing some of their money?

Mr. WINSTON. Yes; mailed them some of my booklets when I got back, showed them what we had built, sent them photographs, etc

Mr. CAHILL. Mr. Chairman, could I hand up these booklets describing the activities of the Winston Co.?

The CHAIRMAN. Yes.

Mr. SIMON. Mr. Winston, I believe you had nine section 608 projects in New York.

Mr. WINSTON. Yes, Mr. Simon.

Mr. SIMON. What is "Housing Enterprises, Inc."?

Mr. WINSTON. It is a company in which we bought some tax liens.

Mr. SIMON. You bought real estate in that company?

Mr. WINSTON. Real estate tax liens.

Mr. SIMON. You sold that real estate to sponsoring corporations in section 608 projects?

Mr. WINSTON. Yes.

Mr. SIMON. What is "Utopia, Inc."?

Mr. WINSTON. Utopia Gardens. It is a construction company and built in Albandale. All these places you mentioned are built in one section.

Mr. SIMON. What is that section?

Mr. WINSTON. Albandale, N. Y.

Mr. SIMON. Who are the stockholders of Housing Enterprises?

Mr. WINSTON. There are seven, I think.

Mr. SIMON. Do you own 25 percent?

Mr. WINSTON. Yes.

Mr. SIMON. Rosita Winston, is that your wife?

Mr. WINSTON. Yes.

Mr. SIMON. Does she own 12½ percent?

Mr. WINSTON. Yes.

Mr. SIMON. Arnold Holzer, does he own 25 percent?

Mr. WINSTON. Yes.

Mr. SIMON. Who is he?

Mr. WINSTON. He is my partner in that group of nine.

Mr. SIMON. What is his business?

Mr. WINSTON. He has been about 15 or 16 years with me. He is in the building business. He joined me.

Mr. SIMON. Norbert Holzer owns 12½%?

Mr. WINSTON. That is a brother of Arnold Holzer.

Mr. SIMON. What is his interest?

Mr. WINSTON. In the building business with us.

Mr. SIMON. Natalie Weindling, does she own 6¼ percent?

Mr. WINSTON. Yes.

Mr. SIMON. Who is she?

Mr. WINSTON. She is a relative of Holzer's, I don't know.

Mr. SIMON. You do not know except she is a relative?

Mr. WINSTON. I am sure she is a relative, but I do not know what relationship—sister of Holzer.

Mr. SIMON. Arnold Weindling, who is he?

Mr. WINSTON. A brother-in-law of Arnold Holzer.

Mr. SIMON. He owns 6¼ percent?

Mr. WINSTON. Yes.

Mr. SIMON. And E. Sloan Smith owns 12½ percent?

Mr. WINSTON. Yes.

Mr. SIMON. Who is E. Sloan Smith?

Mr. WINSTON. E. Sloan Smith is my sister-in-law.

Mr. SIMON. Were the Weindlings and Mrs. Smith—let me ask it differently—did the Weindlings and Mrs. Smith contribute anything to this construction project other than the capital stock they bought?

Mr. WINSTON. They did not contribute experience, no, sir; loans to the company.

Mr. SIMON. Was this another friendship case where they were friends?

Mr. WINSTON. It is a family relative case.

Mr. SIMON. Going to the first of these section 608's, which is Breachwood Village, Inc., is it correct—

Mr. WINSTON. We made an analysis of it.

Mr. SIMON. Is it correct that Utopia purchased the land and then sold it to Breachwood Village at a profit of \$39,000?

Mr. WINSTON. Yes.

Mr. SIMON. And then Breachwood caused the building to be built by another one of these corporations and the cost of construction was \$55,000 less than the mortgage, is that right?

Mr. WINSTON. Yes.

Mr. SIMON. Who is or what is Skyline Lake Corp.?

Mr. WINSTON. That is a corporation that negotiated the mortgage for these and got a premium.

Mr. SIMON. The same stockholders owned the stock in Skyline Lake Corp. that owned the stock in the building, is that right?

Mr. WINSTON. Yes—no, other stockholders, I am sorry, Mr. Simon. There are other stockholders in the building corporation.

Mr. SIMON. I have a list here that says the stockholders of Skyline Lake Corp. are Norman K. Winston, 25 percent, Rosita Winston, 12½ percent, Arnold Holzer, 25 percent, Norbert Holzer, 12½ percent, Natalie Weindling, 6½ percent, Arnold Weindling, 6½ percent, E. Sloan Smith, 12½ percent.

Mr. WINSTON. That is right.

Mr. SIMON. Is that the Housing Enterprise stockholders you read?

Mr. WINSTON. Yes.

Mr. SIMON. Aren't the stockholders of Skyline Lake Enterprises the same as Housing Enterprises, Inc.?

Mr. WINSTON. Yes.

Mr. SIMON. Did Skyline Lake, Inc., negotiate these mortgages?

Mr. WINSTON. Sir?

Mr. SIMON. All that Skyline Lake Corp. did was to negotiate the mortgages and get the premiums?

Mr. WINSTON. Yes. They arranged for the mortgage and got the premium and declared it as straight income.

Mr. SIMON. Did they have any other business?

Mr. WINSTON. It is a real estate corporation; it is a development in Peekskill, N. Y.—I am sorry, it is Jersey.

Mr. SIMON. Why didn't the premium—

Mr. WINSTON. Greenwood, N. J.

Mr. SIMON. Why didn't the premiums go to the sponsoring corporation?

Mr. WINSTON. I don't know. I didn't handle that end of the business. I honestly do not know why they didn't.

Mr. SIMON. And yet the premium on Breachwood Village was \$30,000.

Mr. WINSTON. Yes.

Mr. SIMON. Going to Birchwood Manor, the land was acquired from Housing Enterprises who made a profit of \$84,000. Is that right?

Mr. WINSTON. \$77,874 is the correct figure.

Mr. SIMON. \$77,800 was the profit on the land?

Mr. WINSTON. That is right.

Mr. SIMON. Was the cost of construction \$30,000 less than the mortgage?

Mr. WINSTON. I am sorry, Mr. Simon—

Mr. SIMON. Was the cost of construction \$30,000 less than the mortgage?

Mr. WINSTON. Yes.

Mr. SIMON. Was the premium \$66,000?

Mr. WINSTON. Yes.

Mr. SIMON. Going to Oak Tree Village, was there a profit on the acquisition of the land from Housing Corp. to the building corporation of \$16,000?

Mr. WINSTON. Approximately, yes.

Mr. SIMON. Was the mortgage proceed \$58,000 more than the total cost of construction?

Mr. WINSTON. Yes.

Mr. SIMON. And was there a \$40,000 premium on the mortgage?

Mr. WINSTON. Yes.

Mr. SIMON. Going to Auburndale Village, was there a profit on the land of \$8,000?

Mr. WINSTON. Yes.

Mr. SIMON. Was there a \$25,000 premium?

Mr. WINSTON. Yes.

Mr. SIMON. And in that case, the mortgage exceeded the cost of construction by \$17,000, is that correct?

Mr. WINSTON. Yes.

Mr. SIMON. So that the land profit and the premium on the insurance—premium on the mortgage—resulted in a net profit there of only \$8,000?

Mr. WINSTON. Yes.

Mr. SIMON. Going to Auburndale Gardens, was there a profit on the transfer of the land of \$20,000?

Mr. WINSTON. Yes.

Mr. SIMON. A premium of \$22,000?

Mr. WINSTON. Yes.

Mr. SIMON. And did the mortgage exceed the cost of construction by approximately \$20,000?

Mr. WINSTON. It did.

Mr. SIMON. These are all section 608's? Is that right?

Mr. WINSTON. That is right.

Mr. SIMON. Going to Auburndale Terrace Apartments, Inc., was there a profit on the acquisition of the land of \$24,000?

Mr. WINSTON. Yes, there was.

Mr. SIMON. A premium on the mortgage of \$20,000?

Mr. WINSTON. Yes.

Mr. SIMON. And no windfall on the mortgage money, is that right?

Mr. WINSTON. No, sir.

Mr. SIMON. In Auburndale Development Co., I believe you made no money there at all out of the construction, is that right?

Mr. WINSTON. No, sir, they did not.

Mr. SIMON. The same is true—you made no money in Pine Terrace?

Mr. WINSTON. No, sir, we did not.

Mr. SIMON. Going to Maple Manor, was there a profit of \$32,000 on the transfer of the land?

Mr. WINSTON. Yes.

Mr. SIMON. Did the mortgage proceeds exceed the cost of construction by \$18,000?

Mr. WINSTON. Yes.

Mr. SIMON. And was there a premium of \$72,000?

Mr. WINSTON. \$22,000.

Mr. SIMON. Excuse me, \$22,000. The 3 figures total \$72,000.

Mr. WINSTON. That is right.

Mr. SIMON. In these 9 projects that we have just referred to, the figures I have mentioned make no reference to any profit that you might have made out of subsequently operating the buildings, or any profit that you might have made on a subsequent sale of these buildings? Is that right?

Mr. WINSTON. That is correct, sir.

The CHAIRMAN. I would like to ask this question.

Mr. SIMON. One more question.

The CHAIRMAN. Go ahead.

Mr. SIMON. If my mathematics are correct, when the buildings were completed, you had reimbursed yourselves for all of the costs in connection with the buildings out of the mortgage proceeds, had a profit of some \$600,000, and still owned all the buildings; is that right?

Mr. WINSTON. That is correct.

The CHAIRMAN. Did you have a single section 608 where you did not get more mortgage proceeds than the total cost?

You had one, did you not?

Mr. WINSTON. I think Mr. Simon mentioned it.

The CHAIRMAN. Two?

Mr. WINSTON. Two or three.

Mr. SIMON. I believe the record is there were 2 of the 9 but even in those 2 if you put in the premium on the land and mortgage you would have mortgaged out.

Mr. WINSTON. That is right.

The CHAIRMAN. On your section 213's, cooperative housing, how many projects did you have?

Mr. WINSTON. Just this North Ridge one.

The CHAIRMAN. Just one?

Mr. WINSTON. Yes. We are working on one.

The CHAIRMAN. There you sold the project before it was constructed?

Mr. WINSTON. Yes.

The CHAIRMAN. For \$700,000 profit?

Mr. WINSTON. That is right, Senator Capehart.

The CHAIRMAN. Then in defense housing, you were interested in Billy Mitchell and Page Manor at Dayton?

Mr. WINSTON. Yes.

The CHAIRMAN. You are interested in one of the Lakeland projects?

Mr. WINSTON. Lakeland Gardens, Waukegan, Ill.

The CHAIRMAN. That one is not finished, is it?

Mr. WINSTON. No, sir, it is just underway. That is single houses.

The CHAIRMAN. The one in Maine is not finished?

Mr. WINSTON. No, sir, it is not.

The CHAIRMAN. Are there any questions?

Senator Sparkman.

Senator SPARKMAN. Mr. Winston, Mr. Muss testified about some conversations that he and you at different times had with Mr. Powell relating to his connection with your company. You heard his testimony?

Mr. WINSTON. Yes, sir. I heard a little bit.

Senator SPARKMAN. Was that correct so far as you were involved?

Mr. WINSTON. Yes, sir.

Senator SPARKMAN. Did you ever see these letters that he referred to?

Mr. WINSTON. No, sir. I was not present.

Senator SPARKMAN. You did not see the letter that he referred to from the Republican National Committee?

Mr. WINSTON. No, sir, I did not. I was not present at this conversation or meeting.

Senator SPARKMAN. Is Mr. Muss still here?

Mr. MUSS. Yes, sir.

Senator SPARKMAN. Mr. Muss, did you state why the Republican National Committee was interested in Mr. Powell's job?

Mr. MUSS. I can't recall the exact wording of the letter, but it indicated that it had the job for somebody else.

Senator SPARKMAN. You said something a while ago about their waiting a good while. Just what was that?

Mr. MUSS. I don't recall the exact wording of the letter, Senator, but the impression I got and what I remember, in general form, the letter was a letter which in effect said:

When is Powell leaving? We have been waiting for some time for the job to be vacant.

Senator SPARKMAN. That was in the early part of this year.

Mr. MUSS. That was in the early part of March of this year; yes, sir.

Senator SPARKMAN. Was that a month or so before this investigation got under way?

Mr. MUSS. Just about exactly a month.

The CHAIRMAN. Was the Senator present when he testified on this subject this morning?

Senator SPARKMAN. Yes. I started off by asking Mr. Winston—

The CHAIRMAN. The testimony was that Mr. Muss saw a letter that Mr. Powell showed him, supposedly written by the Republican National Committee to Mr. Hollyday, inquiring of Mr. Hollyday when he was going to replace Mr. Powell.

Senator SPARKMAN. I understood.

Mr. MUSS. I also said I know nothing about the validity of the letter.

Senator SPARKMAN. I understand that. Mr. Powell showed you the letter.

The CHAIRMAN. Or what he said was a copy of that letter?

Mr. MUSS. Yes.

The CHAIRMAN. My question was why would Mr. Hollyday, the head of the Department, show such a letter to Mr. Powell, whom he was asked to get rid of? Why would he show it to Mr. Powell? Why would Mr. Hollyday show that letter to Mr. Powell?

Senator SPARKMAN. I understand he sent him a copy of it.

Mr. MUSS. I couldn't answer that except the letter from Hollyday said:

I am enclosing these copies. Please guide yourself accordingly.

Senator SPARKMAN. In other words, Mr. Hollyday was trying to get Mr. Powell to hurry up his resignation?

Mr. MUSS. I think Mr. Hollyday was a very polite gentleman about it.

Senator SPARKMAN. Mr. Hollyday?

Mr. MUSS. I think Mr. Hollyday was a very polite gentleman.

Senator SPARKMAN. I have found him to be so in his appearance before this committee and he apparently was trying to make it as easy and graceful as possible for the vacancy to occur.

Mr. MUSS. That is my belief, sir.

The CHAIRMAN. It would seem to me as though he were sort of cooperating with Mr. Powell.

Mr. MUSS. I would say I don't know. The letters would indicate that he was treating him as a fellow worker might treat another one.

Senator BRICKER. In the light of subsequent events, I think it was a wholesome public service that was rendered.

Senator SPARKMAN. That didn't seem to be the motivating purpose at that time, thought, did it?

Mr. MUSS. No, sir; not according to those letters. I know nothing about it, sir.

The CHAIRMAN. There would be no question but what the Attorney General of the United States, the FBI, and the Republican National Committee knew a lot about Mr. Powell and they were asking Mr. Hollyday to discharge Mr. Powell. Mr. Hollyday, according to this

gentleman's testimony, was cooperating with Mr. Powell by telling him and showing him copies of the letters that the Republican National Committee was sending.

That seems to sum up the situation, I think.

Senator SPARKMAN. It seems to me if they had known as much about Mr. Powell as later it was disclosed that they knew, they would have gone about it in a little more direct manner.

The CHAIRMAN. I think they did go at it rather directly after a period of time. Keep in mind the man who should have discharged him was Mr. Hollyday, the head of the FHA. Mr. Powell was working directly under him.

In fact, he was a Deputy Commissioner to Mr. Hollyday.

Senator BRICKER. In the light of the FBI record, he should have been fired many years ago.

Senator BUSH. He should never have been hired.

The CHAIRMAN. In the light of the record, he never should have been hired; that is correct.

Mr. BECKER. Mr. Chairman, we had requested earlier the opportunity to make a correction in the record of yesterday's transcript.

The CHAIRMAN. Yes.

Mr. BECKER. It relates to a question that was asked by Mr. Simon at page 1325 of the record, in which he asked Mr. Muss, referring to the Billy Mitchell cases:

In each of these cases you have not formerly redeemed the preferred stock. Do the owners of the preferred stock owe an amount approximately equal to the preferred stock of the issuing corporations?

Mr. Muss inadvertently made an error in answering "No"—

The CHAIRMAN. You intended to say "Yes"?

Mr. MUSS. Yes.

The CHAIRMAN. The facts prove the answer should have been "Yes"?

Mr. MUSS. Yes.

The CHAIRMAN. We are very happy to have you change the record. (See p. 801.)

Mr. SIMON. The eighth line, page 1325 of the transcript, you want to change the first word to "yes," instead of "no"?

Mr. BECKER. Yes, and strike the remainder of the answer.

The CHAIRMAN. If there is no objection, the record will be so altered. If there is no objection, we will recess until 2:30, at which time our first witness will be Mr. Murchison, followed by Mr. Ross.

(Whereupon, at 12 o'clock noon, the committee recessed until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will please come to order.

Our first witness will be Mr. Murchison—Clint Murchison, Jr.

Will you be sworn? Do you solemnly swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth?

STATEMENT OF CLINT MURCHISON, JR., PAGE MANOR, DAYTON, OHIO, ETC., ACCOMPANIED BY LOFTUS E. BECKER AND JOHN T. CAHILL, COUNSEL

Mr. MURCHISON. I do.

The CHAIRMAN. Thank you, sir. Will you please be seated? Will you give your name to the reporter?

Mr. MURCHISON. Clint Murchison, Jr., 1201 Main Street, Dallas, Tex.

The CHAIRMAN. And Mr. Cahill and Mr. Becker are attorneys?

Mr. CAHILL. That is right.

Mr. SIMON. Mr. Murchison, what is your business?

Mr. MURCHISON. Investor.

Mr. SIMON. Are you connected with Tecon Co.?

Mr. MURCHISON. I am the president.

Mr. SIMON. What is the business of Tecon Co.?

Mr. MURCHISON. Construction; generally heavy construction.

Mr. SIMON. When you say your business is that of an investor do you mean to include your business activities in Tecon or do you mean exclusive of Tecon?

Mr. MURCHISON. I would say I spend about 10 percent of my time with Tecon Corp., and the balance of my time with my other interests.

Mr. SIMON. Were you a participant in the Page Manor project in Dayton, Ohio?

Mr. MURCHISON. Yes, through Tecon Corp.

Mr. SIMON. Through Tecon Corp.?

Mr. MURCHISON. Yes.

The CHAIRMAN. How do you spell Tecon Corp.?

Mr. MURCHISON. T-e-c-o-n.

The CHAIRMAN. T-e-c-o-n?

Mr. MURCHISON. Yes.

Mr. SIMON. How did you happen to become associated with that project?

Mr. MURCHISON. An associate of mine, a vice president of Tecon Corp., Bob Thompson, met Lind Cowan, and Lind invited us to participate with him in the sponsorship of that project.

Mr. SIMON. Did you do so?

Mr. MURCHISON. Yes.

Mr. SIMON. At that time did Mr. Cowan show you any plans and specifications?

Mr. MURCHISON. I don't recall. I don't believe so.

Mr. SIMON. Do you know whether those plans and specifications that he had were any good?

Mr. MURCHISON. I don't know. I don't think he had any plans at that time.

Mr. SIMON. Did you bring the project to the attention of Mr. Muss and Mr. Winston?

Mr. MURCHISON. I did.

Mr. SIMON. Between the time you came into the project and the time Mr. Winston and Mr. Muss came into the project were any plans and specifications drawn?

Mr. MURCHISON. Yes.

Mr. SIMON. Who drew them?

Mr. MURCHISON. I don't remember, an Oklahoma architect.

Mr. SIMON. Did you ever see them?

Mr. MURCHISON. I believe I saw them rolled up. I never saw them laid out on the table.

Mr. SIMON. So you don't know whether those plans were any good or not?

Mr. MURCHISON. No. I have no idea.

Mr. SIMON. Do you know why Mr. Muss decided to redraw the plans?

Mr. MURCHISON. Mr. Muss said the plans weren't any good.

The CHAIRMAN. May I ask this question? Had you seen them in detail and spent lots of time looking at them, are you experienced enough to know whether they were or were not good plans?

Mr. MURCHISON. I don't believe so.

The CHAIRMAN. You are not an architect or engineer?

Mr. MURCHISON. No, sir.

Mr. SIMON. What contribution did you or Tecon make to the construction of Page Manor?

Mr. MURCHISON. Our contribution was largely financial.

Mr. SIMON. Financial?

Mr. MURCHISON. Yes.

Mr. SIMON. And your participations did not include any engineering or construction know-how?

Mr. MURCHISON. We had a subsidiary company, the Technic Engineering Co.

Mr. SIMON. Technic?

Mr. MURCHISON. T-e-c-h-n-i-c, which did a certain amount of engineering work for the project, the site planning, et cetera. I don't think that that work was ever used. Maybe they used a topographical map or something like that. I don't recall.

Mr. SIMON. Other than the possible use of that map your contribution consisted of financing, or helping finance?

Mr. MURCHISON. Yes.

Mr. SIMON. Was Mr. Cowan able financially to finance the project without your help?

Mr. MURCHISON. I don't know, possibly so. I am sure his main idea, to get partners in the project was to spread the risk.

Mr. SIMON. What other FHA projects are you interested in in association with either Mr. Cowan, Mr. Winston, or Mr. Muss?

Mr. MURCHISON. With Mr. Winston and Mr. Muss, the project at Limestone Air Force Base, with them and the Centex Construction Co., the defense housing project at Waukegan, Ill.

Mr. SIMON. How do you spell Centex?

Mr. MURCHISON. Centex. C-e-n-t-e-x.

The CHAIRMAN. Is that a company owned by you?

Mr. MURCHISON. No. It is a group of home builders in Dallas with whom we have no direct association.

Mr. SIMON. Who are they?

Mr. MURCHISON. Mr. Tom Lively—

Mr. SIMON. How do you spell that?

Mr. MURCHISON. L-i-v-e-l-y, Fletcher Lippet.

I think Mr. Lippet's father and a man named Ira Rupley.

Mr. SIMON. Any other projects that you are associated with any of these people?

Mr. MURCHISON. With Mr. Winston and Mr. Muss, you mean?

Mr. SIMON. Yes.

Mr. MURCHISON. No.

The CHAIRMAN. Just the three projects—Dayton, Limestone Air Base in Maine, and Waukegan, Ill.?

Mr. MURCHISON. Yes. I believe that is correct.

The CHAIRMAN. Just the three?

Mr. MURCHISON. Yes.

Senator SPARKMAN. I think Mr. Simon included in his original question Mr. Cowan also.

Mr. MURCHISON. Mr. Cowan is only in the one project at Page Manor, Dayton, Ohio.

The CHAIRMAN. Do you have any other FHA projects of any type or description?

Mr. MURCHISON. Yes. We have the Wherry project at Randolph Air Force Base, with the Centex Construction Co.

Mr. SIMON. How many corporations are there in that project?

Mr. MURCHISON. Two corporations.

Mr. SIMON. What are their names?

Mr. MURCHISON. Randolph Village No. 1 and Randolph Village No. 2, Inc.

Mr. SIMON. Are they the sponsor corporations?

Mr. MURCHISON. They are the sponsoring corporations.

Mr. SIMON. What is the name of the construction company?

Mr. MURCHISON. The Texas Management Co.

Mr. SIMON. Is that the construction company for both of them?

Mr. MURCHISON. Yes.

Mr. SIMON. Who are the stockholders of Texas Management Co.?

Mr. MURCHISON. Tecon Corp. and Centex Construction Co.

Mr. SIMON. Each owns 50 percent?

Mr. MURCHISON. Correct.

Mr. SIMON. What is the capital stock of Texas Management?

Mr. MURCHISON. I don't recall. I didn't bring that information since it is not a sponsor corporation. It is nominal.

Mr. SIMON. Is it nominal stock?

Mr. MURCHISON. Yes.

Mr. SIMON. What is the stock of Randolph Village No. 1? Let me ask you first, who owns the stock of Randolph Village?

Mr. MURCHISON. Texas Management Co. Common stock is \$5,000, common stock in Randolph Village No. 1; \$5,000 in common stock in Randolph Village No. 2.

Mr. SIMON. Five thousand in each?

Mr. MURCHISON. Yes.

Mr. SIMON. That is wholly owned by Texas Management?

Mr. MURCHISON. Yes.

Mr. SIMON. Which you and Tecon and Centex each own half of?

Mr. MURCHISON. Yes.

Mr. SIMON. What about the first preferred stock? That is \$100 to the FHA Commissioner?

Mr. MURCHISON. Yes.

Mr. SIMON. What about second preferred stock?

Mr. MURCHISON. There is authorized \$369,900 second preferred in No. 1, and \$419,900 second preferred in No. 2.

Mr. SIMON. How much of that is issued?

Mr. MURCHISON. I do not have the figure that is issued. I believe it is about \$175,000.

Mr. SIMON. Some sheets of paper you gave us last week shows 666 shares of second preferred stock issued to Randolph Village No. 1, and 868 shares—

Mr. MURCHISON. That is correct. I didn't see that. That is at the bottom of this page.

Mr. SIMON. Is that correct?

Mr. MURCHISON. Yes.

Mr. SIMON. What was paid for those shares?

Mr. MURCHISON. \$100 per share.

Mr. SIMON. That would be \$66,600 in No. 1 and \$6,800 in No. 2?

Mr. MURCHISON. Yes.

Mr. SIMON. What are the terms of the construction contract between the two Randolph Village corporations and Texas management?

Mr. MURCHISON. I have got that information from the accountant. The construction contract in No. 1 calls for payment of \$2,224,420 in cash, plus an amount of preferred stock, plus \$226,000 worth of preferred stock.

In No. 2, \$2,622,883, plus \$262,500 in preferred stock, second preferred stock.

Mr. SIMON. What is the FHA mortgage commitment in No. 1?

Mr. MURCHISON. \$2,359,800.

Mr. SIMON. What is the mortgage commitment in No. 2?

Mr. MURCHISON. \$2,782,300.

Mr. SIMON. How far has construction proceeded?

Mr. MURCHISON. It has been completed for about a year now.

Mr. SIMON. What was the construction cost of Texas Management in the construction of Village No. 1?

Mr. MURCHISON. The cost was \$570,000, less than the commitment.

Mr. SIMON. And the contract price was about \$125,000 less than the commitment?

Mr. MURCHISON. Yes, there were certain direct costs of interest, interest charges that were paid directly by—directly by the owning company.

Mr. SIMON. Does that account for the difference?

Mr. MURCHISON. Yes, that accounts for the difference.

Mr. SIMON. In other words your contract price was intended to be the amount of the mortgage less the direct cost that the sponsoring—

Mr. MURCHISON. Had to pay, that is correct.

Mr. SIMON. And I take it the management had a profit of \$570,000?

Mr. MURCHISON. Yes.

Mr. SIMON. What about Randolph Village No. 2?

Mr. MURCHISON. I included both in that \$570,000 figure. I don't have a breakdown of the cost. We didn't keep it that way.

Mr. SIMON. Then what happened is that after you had built these projects, there was \$570,000 left out of the mortgage proceeds after paying all the costs?

Mr. MURCHISON. That is correct.

Mr. SIMON. Is this built on Government land or on land you own?

Mr. MURCHISON. On Government land.

Mr. SIMON. You have a 99-year lease?

Mr. MURCHISON. I believe the period is 75 years. I am not certain.

Mr. SIMON. 75 years?

Mr. MURCHISON. Yes. It is standard. I think it is 75.

Mr. SIMON. Is the rent \$1 a year?

Mr. MURCHISON. Yes. I believe that is correct.

Mr. SIMON. And of course, being on Government land you pay no real-estate taxes on the real estate, is that right?

Mr. MURCHISON. That is a question which is of great concern to the Air Force. Actually, we contend that that statement you made is correct. I say it is a great concern to the Air Force, because our FHA commitment allows for no payments of those taxes.

Mr. SIMON. I take it it is an even greater concern to you?

Mr. MURCHISON. No. The provision of our original certificate of necessity is that if these taxes are assessable, we must raise our rent in order to pay them.

Mr. SIMON. I take it you may raise your rent.

Mr. MURCHISON. We may; yes.

Mr. SIMON. What happened to the \$570,000?

Mr. MURCHISON. It was declared out as a dividend from Texas Management Co.

Mr. SIMON. To the two stockholders?

Mr. MURCHISON. Yes.

Mr. SIMON. Was it treated by them as a long-term capital gain?

Mr. MURCHISON. No. As a dividend income.

Mr. SIMON. And normal taxes paid on it?

Mr. MURCHISON. Normal taxes on that type of income; yes, sir. I don't know exactly what the taxes were, but they are the normal corporate taxes.

Mr. SIMON. The normal——

Mr. MURCHISON. On dividend income.

Mr. SIMON. Normal corporate taxes are roughly 52 percent and the long-term capital gain is roughly 26 percent?

Mr. MURCHISON. It was not treated as capital gain.

Mr. SIMON. It was treated as normal income?

Mr. MURCHISON. Yes. There is a dividends received credit on that income, however.

Mr. SIMON. What do you mean by that?

Mr. MURCHISON. I am not certain exactly how those provisions work in the tax laws. However, my understanding is that a certain percentage of it under certain conditions are credited against taxes.

Mr. SIMON. What is the next project that you have built for FHA?

Mr. MURCHISON. We built a project at Walter Air Force Base in Roswell, N. Mex.

Mr. SIMON. How many corporations were there in that sponsoring group?

Mr. MURCHISON. Two.

Mr. SIMON. What were their names?

Mr. MURCHISON. Texidell Homes, Inc., and Roswell Garden Homes, Inc.

Mr. SIMON. Who owns the stock of those corporations?

Mr. MURCHISON. Tecon Corp. owns all the stock.

Mr. SIMON. All the stock of both corporations?

Mr. MURCHISON. Yes.

Mr. SIMON. What is the issued capital stock of those two corporations? Is there \$100 worth of preferred to the FHA commissioner?

Mr. MURCHISON. Yes; and \$4,900 no par value common stock.

Mr. SIMON. Did Tecon pay \$4,900 for that stock?

Mr. MURCHISON. That is my recollection. It just says here on this sheet "No par value." I believe we paid \$4,900. It wasn't less than that.

Mr. SIMON. Is that the same with respect to Roswell Garden Homes?

Mr. MURCHISON. Yes.

Mr. SIMON. So that there was roughly \$5,000 of capital in each of those companies?

Mr. MURCHISON. Correct.

Mr. SIMON. Who built that project?

Mr. MURCHISON. Tecon Corp. built it in joint venture with "A. H. Ewing Sons" of Richmond, Va.

Mr. SIMON. How do you spell the Ewing?

Mr. MURCHISON. E-w-i-n-g's Sons.

Mr. SIMON. What was the mortgage commitment in Roswell Gardens?

The CHAIRMAN. I would like to ask a question: It just occurred to me that we find in these section 608 projects in Defense housing a sort of a marriage, with different corporations and people spread all over the United States. My curiosity is aroused as to how this Richmond, Va., concern got interested with you in a Texas and New Mexico project.

Mr. MURCHISON. We have various business interests in Richmond, Va., and they were through personal friends.

The CHAIRMAN. You knew them?

Mr. MURCHISON. Yes.

The CHAIRMAN. They are builders?

Mr. MURCHISON. Yes.

The CHAIRMAN. Did they build any section 608 projects in Richmond, to your knowledge?

Mr. MURCHISON. I believe they did but not to my direct knowledge, no.

The CHAIRMAN. Are they big builders under FHA titles?

Mr. MURCHISON. I wouldn't say they were big in the sense that some of the other builders who have been before this committee are big.

The CHAIRMAN. They are builders?

Mr. MURCHISON. They are a company.

The CHAIRMAN. In Richmond, Va.?

Mr. MURCHISON. Yes.

The CHAIRMAN. You had other interests in Richmond and you came in contact with them?

Mr. MURCHISON. Yes.

The CHAIRMAN. I can't help but notice how these companies, and individuals, scattered all over the world as a matter of fact, even in Switzerland—how they get together.

Mr. MURCHISON. Construction takes you far afield.

Mr. SIMON. This was a title VIII project; wasn't it, Mr. Murchison?

Mr. MURCHISON. At Roswell?

Mr. SIMON. Yes.

Mr. MURCHISON. That is correct.

Mr. SIMON. Was the reason that you took in Ewing's son that you didn't consider your company adequately experienced to do a housing project?

Mr. MURCHISON. I believe we could have done it. I felt we could have done a better job with the Ewing people.

Mr. SIMON. What was the mortgage commitment in Roswell Garden Homes?

Mr. MURCHISON. I don't have a breakdown of those two. It was almost equally divided however, and the total commitment was \$6,893,300.

Mr. SIMON. What was the construction contract between these two corporations and the joint venture?

Mr. MURCHISON. The contract was rather involved, but it called for a payment of the commitment amount.

Mr. SIMON. In other words, these two sponsoring corporations got a commitment from the Government that was supposed to be 90 percent of the replacement cost of the property and then they made a contract with this joint venture to produce the entire structure for the amount of the commitment; is that correct?

Mr. MURCHISON. That is right.

Mr. SIMON. What was the profit to the construction joint venture?

Mr. MURCHISON. The actual cost was about \$70,000 in excess of the commitment.

Mr. SIMON. So the joint venture lost \$70,000?

Mr. MURCHISON. That is correct, although we had rental income of approximately \$100,000, so that we broke even on the job.

Mr. SIMON. Does that mean Ewing & Sons did all this work and didn't get any profit out of it?

Mr. MURCHISON. Ewing & Sons did all this work and didn't make any money on it; that is correct.

Mr. SIMON. That is on Government land; is it?

Mr. MURCHISON. That is.

Mr. SIMON. What is the next one, Mr. Murchison?

Mr. MURCHISON. These aren't in chronological order but the next one I have here is Texas Terrace, Inc.

Mr. SIMON. Where is that?

Mr. MURCHISON. That is in Kingsville, Tex.

Mr. SIMON. That is just one corporation?

Mr. MURCHISON. One corporation. The stock in it is owned by Texas Management Co.

Mr. SIMON. What is the capital?

Mr. MURCHISON. The capital is 100 shares—no, that is preferred stock. FHA preferred—\$292,400 in second preferred and \$5,000 of common stock.

Mr. SIMON. Just a minute. You didn't issue any second preferred there; did you?

Mr. MURCHISON. Our contract in that case calls for—it is not issued at the present time. The project is not completed.

Mr. SIMON. There has been no second preferred stock issued?

Mr. MURCHISON. None has been issued. Our contract calls for payment of an amount slightly less than the commitment amount, plus \$182,300 worth of second preferred stock.

Mr. SIMON. Mr. Murchison, is the capital stock of that company \$100 of preferred held by the FHA Commissioner and \$5,000 common?

Mr. MURCHISON. Yes.

Mr. SIMON. And the owner of that stock is—common stock—is Texas Management?

Mr. MURCHISON. Yes.

Mr. SIMON. And Texas Management is owned 50 percent by Tecon and 50 percent by Centex? Is that correct?

Mr. MURCHISON. Yes, that is right.

Mr. SIMON. Who is the construction contractor for Texas Terrace?

Mr. MURCHISON. Texas Management Co.

Mr. SIMON. They are also the contractor?

Mr. MURCHISON. They are the contractor.

Mr. SIMON. Is that a construction company?

Mr. MURCHISON. Texas Management Co. is a company—is a joint-venture corporation, organized to construct and manage these companies, these projects as a joint venture. It is the vehicle we use in our corporate partnership for Centex.

Mr. SIMON. What is the amount of the mortgage commitment there?

Mr. MURCHISON. \$2,253,800.

Mr. SIMON. Is that a title VIII project?

Mr. MURCHISON. Title VIII?

Mr. SIMON. What is the construction contract?

Mr. MURCHISON. \$2,145,820 plus \$192,300 worth of second-preferred stock.

Mr. SIMON. I take it the difference between contract price and the mortgage is the expenditures you contemplate the sponsors making directly for interest and taxes, et cetera.

Mr. MURCHISON. Yes.

Mr. SIMON. So again you contemplate that the contract price to the sponsoring corporation would be exactly the amount of the mortgage?

Mr. MURCHISON. Yes, in effect.

Mr. SIMON. Is the project completed?

Mr. MURCHISON. It is not.

Mr. SIMON. So you don't know what the profit, if any, would be?

Mr. MURCHISON. No, I don't know.

Mr. SIMON. What is the next one, Mr. Murchison?

Mr. MURCHISON. The Lakeland Management Co. That is the Waukegan project where we have 1,000 shares of common stock, \$1,000. That is the one I discussed this morning.

Mr. SIMON. That is the one where you are partners with Mr. Winston and Mr. Muss?

Mr. MURCHISON. Yes.

Mr. SIMON. What is the next one?

Mr. MURCHISON. There are a series of corporations—Claremont Village, Inc., Mission Village, Inc., Pepper Tree Lane Housing Co., Ocean Heights Development Co. That is the—Bayview Village, Inc., No. 1. No, I take that back.

Mr. SIMON. You have four of them here to go, have you?

Mr. MURCHISON. Yes. Claremont, Mission Village, Pepper Tree Lane, and Ocean Heights: those four.

Mr. SIMON. Where are they located?

Mr. MURCHISON. They are located at San Diego, Calif.

Mr. SIMON. Is that a title VIII?

Mr. MURCHISON. Title IX, section 903.

Mr. SIMON. How many units?

Mr. MURCHISON. The total is approximately 1,300.

Mr. SIMON. 1,300 units in the four corporations?

Mr. MURCHISON. Yes; 585, 204, 252, and 300.

Mr. SIMON. What is the capital stock of Claremont Village?

Mr. MURCHISON. Claremont Village is \$5,000 common stock.

Mr. SIMON. Who owns the common stock?

Mr. MURCHISON. It is owned by Centex, 50 percent by Centex Construction Co., 50 percent by Tecon Corp.

Mr. SIMON. Isn't the common stock owned by California Management Co.?

Mr. MURCHISON. Yes, you are right. I am speaking of California Management Co. Common stock, 5,000 shares is all owned by California Management Co., and the common stock in California Management Co. is owned 50-50 by Centex and Tecon.

Mr. SIMON. Is that true of Mission Village?

Mr. MURCHISON. That is true of the other three corporations I just mentioned.

Mr. SIMON. In each case there is \$5,000 of common, and it is owned by California Management.

Mr. MURCHISON. Yes.

Mr. SIMON. And California Management in turn is owned 50 percent by Centex and 50 percent by Tecon?

Mr. MURCHISON. Yes.

Mr. SIMON. What is the capital stock of California Management?

Mr. MURCHISON. It is a nominal amount. I don't have it.

Mr. SIMON. What is the amount of the mortgage commitment in the four cases?

Mr. MURCHISON. In the first, approximately—well, I will read exactly—\$4,799,650. Mission Village \$1,761,600; Pepper Tree Lane Housing Co., \$1,935,700; Ocean Heights Development Co., \$2,325,600.

Mr. SIMON. Between \$10 and \$11 million total? Is that right?

Mr. MURCHISON. I didn't understand the question.

Mr. SIMON. Do you have the total of the four there?

Mr. MURCHISON. I have it approximately. It is approximately \$10,800,000.

Mr. SIMON. \$10,800,000?

Mr. MURCHISON. Yes.

Mr. SIMON. Who is the contractor on that project?

Mr. MURCHISON. California Management Co.

Mr. SIMON. And has the project been completed?

Mr. MURCHISON. It has.

Mr. SIMON. What was the construction profit?

Mr. MURCHISON. \$980,000.

Mr. SIMON. Has that been distributed to the stockholders?

Mr. MURCHISON. It has.

Mr. SIMON. What was the construction profit?

Mr. MURCHISON. \$980,000.

Mr. SIMON. Has that been distributed to the stockholders?

Mr. MURCHISON. It has.

Mr. SIMON. Each of them received 50 percent?

Mr. MURCHISON. Yes.

Mr. SIMON. And is that built on Government land?

Mr. MURCHISON. No. It was built on private land.

Mr. SIMON. Do the corporations own the lands?

Mr. MURCHISON. The corporations do own the land; yes.

Mr. SIMON. They do own it?

Mr. MURCHISON. They do own the land.

Mr. SIMON. This \$980,000, is that after payment of purchase price of the land?

Mr. MURCHISON. Yes.

Mr. SIMON. Is that a defense-housing project?

Mr. MURCHISON. Yes.

The CHAIRMAN. Title IX?

Mr. MURCHISON. Title IX.

Mr. SIMON. The last of them is Bayview Village?

Mr. MURCHISON. Yes, Bayview Village No. 1 and Bayview Village No. 2, both incorporated.

Mr. SIMON. Is that title IX?

Mr. MURCHISON. No, title VIII.

Mr. SIMON. Where is that?

Mr. MURCHISON. San Diego, Calif.

Mr. SIMON. What is the capital stock of Bayview Village No. 1?

Mr. MURCHISON. \$5,000 worth of common stock.

Mr. SIMON. What is the capital of No. 2?

Mr. MURCHISON. \$5,000 common stock.

Mr. SIMON. Who owns the stock?

Mr. MURCHISON. Texas—my sheet here says Texas Management Co., but I am almost certain it is California Management Co., since it is in California, but I am not certain of that. The stock ownership in those two companies is the same.

Mr. SIMON. That stock is owned 50 percent by Centex and 50 percent by Tecon?

Mr. MURCHISON. Yes.

Mr. SIMON. Who is the contractor?

Mr. MURCHISON. Since it says Texas Management, I will go along with it—Texas Management Co.

Mr. SIMON. What is the construction contract?

Mr. MURCHISON. The construction contract on No. 1 is \$3,400,000—it is for the commitment amount in each case.

Mr. SIMON. What is the commitment amount?

Mr. MURCHISON. In the first case, \$3,358,500; in the second case, \$3,532,700.

Mr. SIMON. And in each case the contractor has agreed to build the building for the amount of the commitment; is that right?

Mr. MURCHISON. Yes.

Mr. SIMON. These are on Government land or do you own the land?

Mr. MURCHISON. These are on Government land.

Mr. SIMON. You have a 99-year lease?

Mr. MURCHISON. Again, I think it is 75, but there was a revision of the law in this particular case it may be cut down to 33 years, 4 months, or whatever—for a shorter period, I think it is a shorter period in this case.

Mr. SIMON. Have the buildings been built?

Mr. MURCHISON. No.

Mr. SIMON. So you don't know yet what the profit, if any, is?

Mr. MURCHISON. I do not.

Mr. SIMON. I take it the rent is \$1 a year?

Mr. MURCHISON. Yes.

Mr. SIMON. Does that cover all of the FHA-financed projects you have, Mr. Murchison?

Mr. MURCHISON. We have just been awarded—we have just received a commitment at Mountain Home Air Force Base in Idaho.

The CHAIRMAN. In Idaho?

Mr. MURCHISON. Idaho; yes.

Mr. SIMON. What is the amount of that commitment?

Mr. MURCHISON. That is so late, I don't have that information. My recollection is it was 500 units, probably about \$4 million. No work has been begun on that. They are having a little trouble getting the land.

Mr. SIMON. Who are your partners in that one?

Mr. MURCHISON. Again, the Centex Construction Co.

Mr. SIMON. Just Tecon and Centex?

Mr. MURCHISON. Yes.

Mr. SIMON. You say they are having trouble getting the land. Is the Government acquiring the land?

Mr. MURCHISON. That is my understanding. I am not certain exactly what the holdup is, but I think they are having trouble clearing title to it.

The CHAIRMAN. I haven't noticed how many defense housing projects you have, but it is 6 or 8 or 10?

Mr. MURCHISON. I would say six—eight.

Mr. BECKER. One more, nine. These are two.

Mr. MURCHISON. Nine.

The CHAIRMAN. Under those housing projects, first the Defense Establishment decides that they desire a project, and then they direct FHA to guarantee the mortgage and to issue the commitment. Were you in competition with other builders on these projects?

Mr. MURCHISON. Generally, yes. In the early law, the various builders who were interested in the projects submitted proposals, and they were—there was a rather elaborate system for evaluating those proposals. The law was changed later, I believe in 1952 or 1953, and the responsibility for planning the project was then let independently and bids were taken on them. We have some under both cases.

The CHAIRMAN. You have some where it was competitive bidding and others where it was by negotiation?

Mr. MURCHISON. Yes.

The CHAIRMAN. And even under the competitive bidding system, you were able to get a hundred percent mortgage and make a little profit?

Mr. MURCHISON. We haven't completed any of those projects but we certainly hope that will be the case.

The CHAIRMAN. You hope that will happen on those that are not completed?

Mr. MURCHISON. Yes.

The CHAIRMAN. So far, those that are completed, you have been able to get a hundred percent mortgage plus a little more?

Mr. MURCHISON. Yes.

The CHAIRMAN. And you say that on some of those projects there was competitive bidding?

Mr. MURCHISON. Yes, we were successful bidders at the San Diego Naval Base, and at Mountain Home Air Force Base. I think there was a spread of maybe \$1 million between our bid and the others.

The CHAIRMAN. I don't want to leave any inference that I think there is anything wrong in respect to competitive bidding, but I do want to say we are going to call on the officials in the Government who handle the bidding and who negotiated the contracts—not only with you on these defense housing developments, but several others, so we may get a pattern of what happened here. We were always under the impression that the defense housing was impossible to mortgage out and we will call the officials of the Government, the Defense Establishment, whether it be the Navy, Air Force or Army, whoever handled it.

I don't want to leave any inference there is anything particularly wrong with your conduct. We are going to do it to see how the pattern is, of how they, the Army and FHA, handled these projects.

Why do you feel that these corporations and projects that you were interested in were able to have money left over from the proceeds of the mortgage after paying all the expenses?

Mr. MURCHISON. I think—

The CHAIRMAN. Was it good management?

Mr. MURCHISON. I think it was because it was efficient.

I know if I understand—I don't say I know this first-hand—but that on the title IX housing in San Diego, where we made a good deal of money, some other builders lost money, with virtually the same plans and the same commitment.

Another thing, on the San Diego naval project, we were \$200,000 low bidder, but actually the high bidder was approximately \$1 million, as I recall, above our bid, so there certainly is a discrepancy in what different builders estimate their cost to be.

The CHAIRMAN. It certainly was the intention of the law and the Congress that every builder of one of these projects would at least have 10 percent of his own money in it.

Are there any questions, gentlemen?

Senator Sparkman?

Senator SPARKMAN. I don't have any, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Murchison.

Mr. MURCHISON. Thank you.

The CHAIRMAN. Our next witness will be Mr. Charles Rose, Jefferson Village, Washington, D. C.

Mr. Rose, will you please be sworn?

Do you solemnly swear the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

TESTIMONY OF CHARLES ROSE, JEFFERSON VILLAGE APARTMENTS, FALLS CHURCH, VA., ACCOMPANIED BY JULIAN JAWITZ AND SIMON W. LEVITAN

Mr. ROSE. I do.

The CHAIRMAN. Thank you, sir. You may be seated and we will proceed.

Mr. SIMON. Will you give the reporter your full name and address, please, Mr. Rose?

Mr. ROSE. Charles Rose, 1107 19th Street NW.

Mr. SIMON. Where?

Mr. ROSE. 19th Street NW.

Mr. SIMON. In Washington, D. C.?

Mr. ROSE. Washington, D. C.

Mr. SIMON. What is your occupation, Mr. Rose?

Mr. ROSE. Builder.

Mr. SIMON. Are you connected with the Jefferson Village Apartments?

Mr. ROSE. I am.

Mr. SIMON. How many corporations are there by that name?

Mr. ROSE. Nine.

Mr. SIMON. They are numbered 1 to 9?

Mr. ROSE. 1 to 9.

Mr. SIMON. They built a section 608 project in the district, did they?

Mr. ROSE. Yes.

Mr. SIMON. Where was that project?

Mr. ROSE. The Quebec House.

Mr. SIMON. Where is that?

Mr. ROSE. In the District. You are talking about the one we built in the District besides Jefferson Village?

Mr. SIMON. Jefferson Village. Where is Jefferson Village?

Mr. ROSE. That is in Falls Church, Va.

Mr. SIMON. Virginia?

Mr. ROSE. Virginia.

Mr. SIMON. Who are the stockholders of the Jefferson Village Apartments Corporation?

Mr. ROSE. Marshall Coyne, Arthur Hamburger, Irving Rosoff, Samuel Rosoff, and myself.

Mr. SIMON. Do you own 25 percent?

Mr. ROSE. Yes, I own 25 percent.

Mr. SIMON. Mr. Coyne owns 25 percent?

Mr. ROSE. Yes, Hamburger 25 percent, Irving Rosoff and Samuel Rosoff 12½.

Mr. SIMON. Who are the Rosoffs?

Mr. ROSE. They are builders.

Mr. SIMON. Are you engaged in any of their projects? Are you with them in other than this one?

Mr. ROSE. I am.

Mr. SIMON. Are you engaged or interested in a project of theirs in Iowa?

Mr. ROSE. No.

Mr. SIMON. What other projects?

Mr. ROSE. We are associated in a construction company.

Mr. SIMON. What is the name of the company?

Mr. ROSE. Ajax Construction Co.

Mr. SIMON. Is Ajax doing any construction for them in Iowa?

Mr. ROSE. No.

Mr. SIMON. Who owned the land that Jefferson Village is built on before your corporation acquired it?

Mr. ROSE. It was Eakin Properties.

Mr. SIMON. E-a-k-i-n?

Mr. ROSE. Yes.

Mr. SIMON. What did you pay Mr. Eakin for the land?

Mr. ROSE. \$68,628.90.

Mr. SIMON. And your FHA application, what value did you put on the land in your FHA application?

Mr. ROSE. Thirty-five cents a square foot.

Mr. SIMON. How many square feet were there?

Mr. ROSE. A little less than 40 acres, I think. It was nine different corporations.

Mr. SIMON. Do you know what the value was in dollars?

Mr. ROSE. It was over \$200,000.

Mr. SIMON. Was it close to \$300,000?

Mr. ROSE. Yes, I imagine it was.

The CHAIRMAN. You don't know exactly? Don't you have the figures?

Mr. ROSE. No.

Mr. JAWITZ. We don't have our copies of application for mortgage.

Mr. SIMON. What value did FILA put on the land?

Mr. ROSE. \$269,000.

Mr. SIMON. Your own valuation was above that; wasn't it?

Mr. ROSE. That is right.

Mr. SIMON. They valued at \$269,000 the land you bought for \$68,000?

Mr. ROSE. That is right.

Mr. SIMON. How long an interval was there between your purchase and their valuation?

Mr. ROSE. Well, the land actually cost \$90,825.

Mr. SIMON. Would you please answer the question? How long was it between the time—between the purchase of the land and when the valuation was put on?

Mr. JAWITZ. It was a period of some months.

Mr. ROSE. A little less than a year.

Mr. SIMON. The \$90,000 figure you are talking about, that was interest, taxes, and other things?

Mr. ROSE. That is right.

Mr. SIMON. So as of the time you turned it over to the corporations, your cost was \$90,000 and they valued it at \$269,000?

Mr. ROSE. That is right.

Mr. SIMON. What is the capital stock of Jefferson Village Apartments, Section 1, Inc.?

Mr. ROSE. \$600; 200 shares at \$3 par value.

Mr. SIMON. And \$600 worth of common stock and \$100 worth of preferred stock to the FHA Commissioner; is that right?

Mr. ROSE. That is right.

Mr. SIMON. Is the same true of each of the nine corporations?

Mr. ROSE. Each of the nine corporations.

Mr. SIMON. So you had a total stock investment of \$5,400 in the nine corporations?

Mr. ROSE. That is right.

Mr. SIMON. What was the FHA commitment in the nine corporations?

Mr. ROSE. \$4,852,500.

Mr. SIMON. Who built the buildings?

Mr. ROSE. Leland Construction Co.

Mr. SIMON. Who are the stockholders of Leland Construction Co.?

Mr. ROSE. Same stockholders.

Mr. SIMON. Was Leland Construction Co. organized for the express purpose of building this project?

Mr. ROSE. No.

Mr. SIMON. Had it been engaged in building?

Mr. ROSE. They had engaged in construction work before this.

Mr. SIMON. What construction work had they done before this?

Mr. ROSE. We built some homes right in the same neighborhood.

Mr. SIMON. Single-family houses?

Mr. ROSE. Yes.

The CHAIRMAN. For sale?

Mr. ROSE. Yes, about 650 homes.

The CHAIRMAN. For sale?

Mr. ROSE. For sale.

Mr. SIMON. Had they ever done any other construction work?

Mr. ROSE. They are still active in the construction business.

Mr. SIMON. What did they build since Jefferson Village?

Mr. ROSE. Well, they do a lot of excavating—not actually building. They have got a lot of equipment and do a lot of contracting work.

Mr. SIMON. What kind of contracting?

Mr. ROSE. Government contracting work.

Mr. SIMON. What type?

Mr. ROSE. Foundation work, trench digging, things of that type, sort of heavy construction.

Mr. SIMON. What was the contract between Jefferson Village Corp. and the Leland Co.?

Mr. ROSE. Cost plus \$300 per apartment.

Mr. SIMON. What did \$300 an apartment turn out to be?

Mr. ROSE. \$153,900.

Mr. SIMON. Is that \$153,000 the builder's fee?

Mr. ROSE. That is right.

Mr. SIMON. What was the total construction price to the Jefferson Village Corp.?

Mr. ROSE. I don't have that, I don't think—\$4,571,065.88.

Mr. SIMON. Does that include the contractor's fee?

Mr. ROSE. Yes.

Mr. SIMON. Does that include the land?

Mr. ROSE. Yes.

Mr. SIMON. So that the total cost to the sponsoring corporations of the land and the buildings and everything else they paid for, including the builder's fee, was \$180,000 less than the mortgage; is that right?

Mr. JAWITZ. \$280,000.

Mr. SIMON. \$280,000 less than the mortgage?

Mr. ROSE. That is right.

Mr. SIMON. In your construction cost have you also included a number of items such as interest and taxes which, for your own corporate purposes, you treated as operating expense?

Mr. ROSE. Yes, that is right.

Mr. SIMON. But even after treating all those as construction costs, you still had \$280,000 mortgage money left over?

Mr. ROSE. That is right.

Mr. SIMON. How much was distributed to the stockholders as dividends?

Mr. ROSE. \$281,434 plus.

Mr. SIMON. That \$281,000 is the total distribution?

Mr. ROSE. That is right.

Mr. SIMON. And that was the difference between the mortgage and the total cost of the project?

Mr. ROSE. Yes.

Mr. SIMON. Each stockholder got his proportionate share?

Mr. ROSE. That is right.

Mr. SIMON. In addition, I take it you each received a proportionate share of the builder's fee, which the Leland Co. received?

Mr. ROSE. That is right.

Mr. SIMON. Now going to Quebec House, who are the stockholders there? I might ask you, when did you finish this project, the Jefferson Village project?

Mr. ROSE. January 1950.

Mr. SIMON. When did you make this distribution?

Mr. ROSE. I don't have the exact date. I think it was between 1949 and 1950.

Mr. SIMON. 1949 or 1950?

Mr. ROSE. Yes.

Mr. SIMON. Did you take it as a long-term capital gain?

Mr. ROSE. Yes.

The CHAIRMAN. Let me ask you 1 question here: The difference between all the costs of these 8 or 9 projects—

Mr. ROSE. Nine projects—

The CHAIRMAN. And the proceeds of the mortgage was some \$280,000?

Mr. ROSE. That is right.

The CHAIRMAN. Did you pay corporate tax on that \$280,000?

Mr. SIMON. The Senator's question is whether Jefferson Village or Leland Construction paid it.

Mr. ROSE. I know Leland paid a corporate tax.

Mr. SIMON. On the \$280,000?

Mr. ROSE. No; not on the \$280,000.

The CHAIRMAN. Did you pay a corporation tax? Who made the \$280,000, the construction company?

Mr. ROSE. The owning company, the sponsor.

The CHAIRMAN. The sponsoring company made the \$280,000?

Mr. ROSE. That is right.

The CHAIRMAN. They are a corporation?

Mr. ROSE. Yes.

The CHAIRMAN. My question is: Did you pay corporate tax on that \$280,000?

Mr. ROSE. I don't know.

The CHAIRMAN. Was it a profit?

Mr. ROSE. Yes, sir.

The CHAIRMAN. Was there a profit to the sponsoring corporation?

Mr. ROSE. It was moneys left over from the mortgage.

The CHAIRMAN. I say was it a profit? Did you consider it as a profit?

Mr. ROSE. We distributed to the stockholders a dividend.

The CHAIRMAN. Did you consider it as a profit, that the corporation had made a profit?

Mr. ROSE. That I do not know.

The CHAIRMAN. You do not know whether you paid—who is this gentleman?

Mr. JAVITZ. This is the accountant for the firm.

The CHAIRMAN. Will you give your name to the reporter, please?

Mr. LEVITAN. Yes, Simon W. Levitan, 610 Bond Building, Washington, D. C.

The CHAIRMAN. Did you consider the \$280,000 as a profit?

Mr. LEVITAN. Yes. That was taken by the sponsors individually and reported on a capital-gain basis.

The CHAIRMAN. But did the corporation pay a tax on it?

Mr. LEVITAN. No, sir. There was no corporation. Mr. Rose is confused to this extent: that while there was a sponsor corporation the individual stockholders were the recipients of the excess mortgage money. They did not pay any corporate tax.

The CHAIRMAN. The capital stock of these nine companies was—

Mr. LEVITAN. Fifty-four hundred dollars.

The CHAIRMAN. Of all nine of them?

Mr. LEVITAN. Yes.

The CHAIRMAN. So you paid a dividend of \$250,000 on a \$5,800 investment.

Mr. LEVITAN. That is right.

The CHAIRMAN. My point is that dividend came from earnings of this corporation, did it not?

Mr. LEVITAN. No, sir. They were not considered earnings. They were simply excess mortgage money funds and were distributed.

The CHAIRMAN. In other words, you considered it as the difference between the amount of the mortgage proceeds and all your costs?

Mr. LEVITAN. Yes.

The CHAIRMAN. And therefore, your position is that the corporation should not pay taxes on the \$280,000?

Mr. LEVITAN. Only to the extent of a normal distribution, where no earnings exist.

The CHAIRMAN. I understand. I am talking about the corporation.

Mr. LEVITAN. That is right.

The CHAIRMAN. There is a difference between corporation taxes and individual taxes.

Mr. LEVITAN. If I may make myself a little clearer on that, any distribution made by a corporation, where there are no earnings are normally considered distributions out of capital, or payment of capital and construed as capital gains, and in view of the fact that this distribution was made prior to the time that there were any earnings, they

were considered as a distribution of payment, repayment of capital, and treated as a capital gain to the stockholders.

The CHAIRMAN. In other words, would you consider it as appreciation of the assets?

Is that the basis on which you paid dividends on it?

Mr. LEVITAN. No, sir; it was not considered as appreciation, but it probably may—ordinarily we will say this, that it was considered as a distribution out of reserve for depreciation in effect.

The CHAIRMAN. It is not considered as a surplus, is it?

Mr. LEVITAN. No, sir.

The CHAIRMAN. It is not quite clear to me what it is considered as. You are an accountant and that is why I am asking you these many questions.

Mr. LEVITAN. Yes. In most of the situations there we created a so-called reappraisal surplus, as the mechanics, for the purpose of paying.

In other words, there had to be some bookkeeping charge. When these corporations completed these buildings, the values, as on various—by independent appraisers, appraised these properties in excess of the cost, which created a value there that we felt—

The CHAIRMAN. What is concerning me, we have been listening here for days to previous witnesses, Mr. Murchison had many companies and I think in every instance they made X amount of money, or received X amount of money beyond the total cost of their projects and the proceeds of the mortgage. One of them was \$900,000, another was \$500,000, and last week we had a gentleman from—the big fellow from New York—\$5 million, another \$6 million, and it has been going like that. They are all corporations, with very little capital stock or capital investment. In your case, you have 9 companies, \$5,400. Mr. Murchison testified his companies ran one, two, three, four, five, six, eight, ten thousand dollars. That was the same.

My point is they were all corporations and they received this money and I am trying to find out whether or not they looked upon it as a profit, because in the manufacturing business if you make \$280,000 as a corporation, you pay 52 percent income tax. That is, before you make any distribution to the stockholders.

Mr. LEVITAN. Yes.

The CHAIRMAN. In this case it looks as though no corporation tax was paid by anyone.

Mr. LEVITAN. I think I may clarify it this way, Senator. The amount of the debt was still outstanding.

Consequently, there could be no profit. What we had was cash. Now—

The CHAIRMAN. Shouldn't there have been a law prohibiting you, as long as the FHA were endorsing or guaranteeing these mortgages, from declaring dividends or compelling you to leave it in the corporation?

Mr. LEVITAN. Perhaps.

The CHAIRMAN. In other words, your position is that it was just what you might call an appreciation?

Mr. LEVITAN. Yes, because we did investigate it to that extent, that as a result of the drop in the market, these properties were produced at considerably less than what was originally figured.

The CHAIRMAN. You live here in Washington?

Mr. LEVITAN. Yes.

The CHAIRMAN. Were you close to FHA? Do you have any other clients other than this gentleman?

Mr. LEVITAN. Yes, I have several others.

The CHAIRMAN. Several other section 608's?

Mr. LEVITAN. Yes.

The CHAIRMAN. Were you close to FHA officials here?

Mr. LEVITAN. No. I had no connection with them.

The CHAIRMAN. I know, but you contacted them and handled the business? You are a CPA?

Mr. LEVITAN. Yes. We do not come in contact with them except to the extent we furnish them annual reports.

The CHAIRMAN. Except to the extent you audit the reports of your respective clients?

Mr. LEVITAN. That is right.

I did want to correct one thing. Mr. Rose inadvertently stated that the total distribution out of Jefferson Village was the \$281,000 of excess mortgage money. In addition to that, there was a distribution of \$321,265.88, which represented the distribution out of funds left over from the reserve for depreciation.

The CHAIRMAN. So there was a distribution then of about \$600,000?

Mr. LEVITAN. Yes, over the period from 1949 to 1953.

The CHAIRMAN. That is a 4-year period?

Mr. LEVITAN. Yes.

The CHAIRMAN. In other words, that is cash earnings?

Mr. LEVITAN. There were no cash—

The CHAIRMAN. Plus the windfall of \$280,000 they took out about \$621,000?

Mr. LEVITAN. Included in the \$600,000 is the \$281,000.

The CHAIRMAN. And on a \$5,400 investment?

Mr. LEVITAN. Yes. I can give you those dates—1949, it was \$200,000; 1950, there was \$286,000; 1951, \$45,200; 1952, \$31,500; and 1953, \$40,000.

Mr. SIMON. Mr. Levitan, they paid out \$486,000 by the time the building was completed, didn't they?

Mr. LEVITAN. No, sir, because—the buildings were completed in various stages, Mr. Simon. In other words, the total project was completed in January of 1950.

Mr. SIMON. What I was trying to get at is aren't part of these dividends that you have spoken of attributable to the fact that many items of cost that Mr. Rose has here included as elements of cost were treated on your books for your own purposes as elements of operating expense and thereby you had a greater surplus of mortgage funds?

Mr. LEVITAN. No. You would have less, Mr. Simon, because of the fact that we are dealing with excess cash. Now most of these funds that were used, that we subsequently treated as expenses during construction, which the Internal Revenue permits us to do, such as interest and taxes during construction, actually were paid out in cash.

Mr. SIMON. But to the extent that you reduce your construction costs by charging things like interest and taxes to operating expense, you increase the amount of windfall, don't you?

Mr. LEVITAN. No, sir, you do not because you are dealing with the same dollars of value.

In other words, you receive so many dollars. The mere fact that you may have given it a different name does not necessarily reduce the total expenditure.

Let me put it that way, total expenditure over construction.

Mr. SIMON. If you had a bushel basket full of dollars that came out of the mortgage, the fewer expenses that you pay out of the dollars in that bushel basket, the more dollars remain in, isn't that true?

Mr. LEVITAN. Yes. That might be true if you get the whole story but that did not happen in this case, because out of that so-called bushel basket came not only the total cost of construction, so-called but also the carrying charges, which included the interest and taxes during construction.

Mr. SIMON. But for purposes here of reaching a \$281,000 windfall, you included the interest and carrying charges, which for your own purposes you had not included, isn't that right?

Mr. LEVITAN. You mean so far as cost of construction was concerned?

Mr. SIMON. Yes.

Mr. LEVITAN. That is true.

Mr. SIMON. Therefore, for your purposes the construction cost was a couple of hundred thousand dollars less than the figure Mr. Ross has given us here?

Mr. LEVITAN. It could be. I don't say that figure is accurate.

The CHAIRMAN. It could be something?

Mr. LEVITAN. Something like that, yes.

Mr. SIMON. Going to Quebec House, Mr. Rose, who owns the land that building was built on?

Mr. ROSE. Who owns the land?

Mr. SIMON. Yes.

Mr. ROSE. Mr. Gewirz.

Mr. SIMON. What is his first name?

Mr. ROSE. Morris.

Mr. SIMON. Is he a stockholder in the project?

Mr. ROSE. No, he is not.

Mr. SIMON. He just leased the land to you?

Mr. ROSE. He just leased the land.

Mr. SIMON. How long a lease is it?

Mr. ROSE. 99-year lease.

Mr. SIMON. What is the name of the sponsoring corporations?

Mr. ROSE. Quebec House, section 1, and section 2.

Mr. SIMON. Who are the stockholders?

Mr. ROSE. Bernard Gewirz, 34 shares; Bernard Gewirz, trustee for Carl Gewirz, 33 shares.

Mr. SIMON. How do you spell that?

Mr. ROSE. Carl, C-a-r-l.

Mr. SIMON. How do you spell it?

Mr. ROSE. C-a-r-l G-e-w-i-r-z.

Mr. SIMON. Is that the same family as the man who owns the land?

Mr. ROSE. Yes, the same family owns the land. That is his son. I don't know who Carl is.

Mr. LEVITAN. That is his other son.

Mr. SIMON. What percentage of the stock in Quebec House do the Gewirz's own?

Mr. ROSE. 20 percent.

Mr. SIMON. What valuation was put on the land for the 99-year lease purposes?

Mr. ROSE. That I don't know. I know the recapture price, \$860,000.

Mr. SIMON. Do you know what Mr. Gewirz paid for the land?

Mr. ROSE. No, I don't.

Mr. SIMON. Do you have any idea?

Mr. ROSE. No. I never met Mr. Gewirz before this.

The CHAIRMAN. The recapture clause is \$860,000?

Mr. ROSE. That is right.

The CHAIRMAN. Does that mean if FHA has to repossess the building they will have to pay the land owner \$860,000?

Mr. ROSE. Yes.

The CHAIRMAN. That is the one that gets me the worst. This is the first one of these we have found in Washington. Ordinarily, they are in New York.

Mr. ROSE. There is plenty of them here.

The CHAIRMAN. Plenty of them here. In other words, FHA now is going to have to pay—if FHA must repossess that property they are going to have to pay \$860,000?

Mr. ROSE. They don't have to unless they want to own the land.

Mr. LEVITAN. I don't think so, sir. I think they have the option to purchase the ground for \$860,000 at any time.

Mr. SIMON. The ground lease is ahead of mortgage.

Mr. LEVITAN. Yes.

Mr. SIMON. FHA's \$8 million mortgage here is purely on a leasehold.

Mr. ROSE. That is right.

The CHAIRMAN. Maybe I am wrong. If I am I want to be correct about this matter: If I understand correctly, if the time ever comes when FHA must repossess this property, that they then must pay the owner of that land \$860,000 before they can do so. Isn't that right?

Mr. LEVITAN. I don't think so.

I think they may continue to pay the rental; is the carrying charge.

The CHAIRMAN. You mean FHA?

Mr. LEVITAN. Yes.

The CHAIRMAN. They either have to pay \$860,000 or they have to pay how much rent a year for 99 years?

Mr. ROSE. \$34,400 a year.

The CHAIRMAN. They must pay \$34,400 a year?

If it was the first year of a 30-year mortgage, 30 times 34 is what? That would be about \$1 million.

Mr. ROSE. It is a 99-year lease.

The CHAIRMAN. I mean for the 30 years.

They would pay \$34,000 a year. If FHA had to repossess the first year, and they did nothing else but pay the rent for 30 years, it would run over \$1 million wouldn't it?

Mr. JAWITZ. We haven't the slightest idea. The man is a complete stranger to us. We took it on on the basis that was a fair basis to pay, in consideration of the rental.

The cost, the man kept to himself. We put it on on what we consider a fair rental basis. We don't expect to recapture the land.

The CHAIRMAN. How many acres are there?

Mr. LEVITAN. I think there is close to 10 and I think the District is assessing it at \$65,000 an acre at this time.

The CHAIRMAN. Where is it located?

Mr. ROSE. Connecticut Avenue and Quebec. That would be about thirty hundred—twenty-eight hundred.

Mr. JAWITZ. We could have bought—

Mr. SIMON. As an old real-estate man weren't you curious enough to go down and see the revenue stamps on his deed?

Mr. ROSE. No. I wasn't a real-estate man in the first place.

Mr. SIMON. What were you?

Mr. ROSE. We were builders.

Mr. SIMON. You never went down to even see the revenue stamps?

Mr. ROSE. No.

The FHA fixed the value on this land and land anyplace in that neighborhood right now, I know some land right around the corner there that is bringing \$20 a foot.

Mr. SIMON. Who built—

Mr. JAWITZ. Just to set you straight on that, we could have bought the land for probably \$900,000 but we found it more advantageous to lease it rather than buy it.

The CHAIRMAN. You could have bought it for \$900,000?

Mr. JAWITZ. I think that was the asking price he had on it. Is that correct?

Mr. ROSE. Something like that.

He wasn't too anxious to sell it.

The CHAIRMAN. We can very easily call the owner and find out exactly how much he paid for it.

Mr. SIMON. Who built the building?

Mr. ROSE. Ajax Co., Ajax Construction Co.

Mr. SIMON. What was the contract?

Mr. ROSE. The contract was \$6,919,163.77.

Mr. SIMON. Is that a fixed price contract for the building?

Mr. ROSE. Yes.

Mr. SIMON. What was the amount of the mortgage?

Mr. ROSE. The mortgage was \$7,388,000.

Mr. SIMON. After paying for all the costs to everybody in connection with the project, how much of the mortgage money was left over?

Mr. ROSE. \$468,836.23.

Mr. SIMON. That means the mortgage proceeds exceeded all the costs, including financing and carrying charges and tax and everything else, by \$468,000.

Mr. ROSE. That is right.

Mr. SIMON. That was distributed to the stockholders, was it?

Mr. ROSE. That is right.

Mr. SIMON. What was the capital stock in Quebec No. 1?

Mr. ROSE. 500 shares, \$2 par value, \$1,000.

Mr. SIMON. What was the stock in Quebec No. 2?

Mr. ROSE. The same.

Mr. SIMON. So the \$2,000 investment has brought a dividend of \$468,000, and the stockholders still own the property; is that right?

Mr. ROSE. That is correct.

Mr. SIMON. And any moneys they loaned or advanced have been returned to them?

Mr. ROSE. That is right.

Mr. SIMON. What was the construction profit of Ajax?

Mr. ROSE. \$224,962.37.

Mr. SIMON. That is, of course, in addition to the profit on the proceeds of the mortgage that you have?

Mr. ROSE. Yes.

The CHAIRMAN. Did you ever give any FHA official anything of value or did any of them ever ask you for anything of value?

Mr. ROSE. No, sir.

The CHAIRMAN. Did you ever give them any gifts of any kind?

Mr. ROSE. Well, the office every Christmas contributes little gifts. None of them amount to more than \$5 or \$10 and I don't know just what FHA got. We were in the construction business and have been in it for 40 years.

The CHAIRMAN. Thank you very much, Mr. Rose. We appreciate your testimony.

We are about ready to recess now until 10 o'clock on Thursday. We will give you the witnesses here: Alexander Muss, from New York, will be one of our witnesses; Samuel J. Rodman, from New York will be another one of our witnesses; and Alexander Corman, from New Orleans will be one of our witnesses, and Edward Carmack, from Murfreesboro, Tenn., will be one of our witnesses.

We will now recess until 10 o'clock, on Thursday morning.

(Whereupon, at 3:45 p. m., the committee recessed, to reconvene at 10 a. m., Thursday, July 22, 1954.)

×