

EXECUTIVE SESSION

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IN THE MATTER OF:

SPECIAL INTERVIEW TO INVESTIGATE  
FEDERAL HOUSING ADMINISTRATION

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SPECIAL INTERVIEW TO INVESTIGATE  
FEDERAL HOUSING ADMINISTRATION

Room F-59,  
United States Capitol,  
Washington, D. C.,  
Friday, June 18, 1954.

The hearing reconvened, pursuant to recess, at 2:00  
o'clock p.m., in Room F-59, United States Capitol.

PRESENT: Senators Capehart and Bennett; Mr. William  
Simon, General Counsel, Senate Banking and Currency Committee.

ALSO PRESENT:

Mr. Fred C. Trump, 8931 - 161st Street, Jamaica, New  
York.

Mr. Matthew J. Tosti, 8931 - 161st Street, Jamaica,  
New York.

Mr. Orrin G. Judd, 655 Madison Avenue, New York, New  
York, appearing for Mr. Fred C. Trump and Mr. Matthew J. Tosti.

P R O C E E D I N G S

Mr. Simon. Mr. Trump, what is your connection with Beach Haven Apartments, Inc.?

Mr. Trump. I am President of Beach Haven Apartments.

Mr. Simon. Who are the stockholders of Beach Haven?

Mr. Trump. Fred C. Trump and William Tomasello.

Mr. Simon. Roughly speaking, what proportion of the stock do you own?

Mr. Trump. Fred Trump, 75 per cent; William Tomasello, 25.

Mr. Simon. Does Beach Haven Apartments, Inc., own any other property than the building development that it financed under Section 608 of the Housing Act?

Mr. Trump. Yes.

Mr. Simon. What does it own beside?

Mr. Tosti. What do you mean by "property"?

Mr. Simon. I assume it has a bank account and some office furniture.

Mr. Tosti. Yes.

Senator Bennett. Was the corporation created for purposes of 608?

Mr. Tosti. Yes.

Mr. Trump. And other similar 608's, I would imagine.

Mr. Simon. Does Beach Haven Apartments, Inc., have other 608 projects than the one?

Mr. Judd. If I can interject here, there are several corporations which form the Beach Haven Unit.

Mr. Simon. How many separate corporations?

Mr. Judd. Six separate corporations.

Mr. Simon. Is the stock ownership the same?

Mr. Trump. Same, Beach Haven 1, 2, 3, 4, 5, and 6, stock ownership, the same. That occurred due to the F.H.A. limitation. The mortgage couldn't be a different amount, and due to the suite location, two suites, the lodgings would have been larger than the regulations provided for.

Mr. Simon. You obtained F.H.A. mortgages totalling \$15,922,900 in the six corporations, is that right?

Mr. Trump. Yes.

Mr. Tosti. It is a little more than that. Those figures are wrong.

Mr. Simon. What is the right figure?

Mr. Tosti. I think the right figure is 16 million-something.

Mr. Judd. I have the individual figures.

Mr. Tosti. There was six separate corporations.

Mr. Trump. Approximately 16 million.

Mr. Tosti. About 16 million-some-odd.

Mr. Simon. I would like to come back to that if you could find it. Is the real estate on which these buildings are located owned by the corporations?

Mr. Trump. No, 99-year leasehold.

Mr. Simon. Who owns the real estate?

Mr. Trump. A trust, of which the Bank of Manhattan Company, 40 Wall Street, New York City, is --

Mr. Tosti. One of the trustees.

Mr. Simon. Who are the beneficiaries of the trust?

Mr. Trump. The trust created by me for my children.

Mr. Simon. When did you acquire the land?

Mr. Trump. Before the termination of World War II. I believe 1944 or 1945, the early part.

Mr. Simon. What did you pay for the land?

Mr. Trump. I don't know.

Mr. Simon. What is your best estimate?

Mr. Trump. I don't know. We bought it in 1944. I turned it over to the children, I believe, in --

Mr. Tosti. 1949.

Mr. Trump. 1948 or 1949.

Mr. Judd. Weren't there several purchases?

Mr. Trump. Yes.

Mr. Judd. The major part was bought in 1944, 1945, and the balance up to about 1947?

Mr. Trump. Something like that. We had some bad title, underwater title or creaks or something like that. It took several years to clean up the title.

Mr. Judd. These facts aren't on the books of the corporation. We have had enough of a job assembling facts

about six corporations.

Mr. Simon. What is your best recollection, Mr. Trump, of what you paid for it?

Mr. Trump. I don't know.

Mr. Simon. Is it less than a half million dollars?

Mr. Trump. I don't know what it is. I do know this: The land at the present time is assessed, I believe, at one million six, or one million seven.

Mr. Tosti. \$1,350,000.

Mr. Trump. \$1,350,000.

Mr. Tosti. I think we have a sheet on the assessed valuations.

Mr. Simon. I am trying to get what you paid for it.

Mr. Trump. I don't know. That was while we were in Japan I bought that.

Mr. Simon. You have no recollection?

Mr. Trump. No.

Mr. Simon. You wouldn't know whether it was more or less than a half million dollars?

Mr. Trump. No.

Mr. Simon. In 1949, you gave the land to your children in trust?

Mr. Trump. Yes.

Mr. Simon. Did you file a gift tax return on that?

Mr. Trump. I did.

Mr. Simon. What was the value placed on the land for the gift tax?

Mr. Trump. I don't know.

Mr. Simon. Did you have an independent appraisal made of the land for gift tax purposes?

Mr. Trump. That is right.

Mr. Simon. Do you have any idea what that value was?

Mr. Trump. No, I don't.

Mr. Simon. Do you know whether it was more or less than a half million dollars?

Mr. Trump. I don't have the figures. I wouldn't know.

Mr. Simon. Would you be willing to give us a copy of the gift tax return and a copy of the appraisal?

Mr. Trump. Yes. I think Internal Revenue checked the gift tax return and I believe at that time we paid additional tax, is that right?

Mr. Tosti. That is right.

Mr. Judd. Wouldn't it be better if we give you the figures on which the land value was adjusted by the Bureau of Internal Revenue?

Mr. Simon. I would be happy to have them both.

Mr. Trump. I would say, Mr. Judd, our assessed value is probably more pertinent than anything we bought in 1944. I think the assessed value has more bearing on what land is worth.

Mr. Simon. We would be happy to have that, too, but we

would like to know what you paid for it and what it was valued for at the time of the gift.

Mr. Judd. Can I give you this table of assessed values now?

Mr. Simon. When did you file the application for the F.H.A. commitment?

Mr. Trump. Probably in April or May, 1949.

Mr. Simon. What was the basis on which F.H.A. appraised the land, or what was the F.H.A. appraisal of the land?

Mr. Trump. The basis? I don't know exactly what you mean. Their committee --

Mr. Simon. I take it in the course of your negotiations with F.H.A. the owners of the land gave them an option to purchase at an appraised figure?

Mr. Trump. I don't know.

Mr. Tosti. He means what is the recapture.

Mr. Trump. No, F.H.A. have their own committee who appraises the land and whatever they appraise it for, that is the figure.

Mr. Simon. That is what I am trying to find out. What is that figure?

Mr. Trump. I think it is \$1.13 per square foot.

Mr. Simon. What is the total value F.H.A. put on the land?

Mr. Trump. That I don't know.



Mr. Judd. I can tell you about that. The F.H.A. in its commitments showed the square foot area and the square foot value on each parcel and from that we could compute a total.

Mr. Trump. What is the ground rent, Mr. Judd? Is that in the figures?

Mr. Judd. The ground rent is somewhere in here.

Mr. Trump. Roughly, I would say it is \$50,000 a year. It might be three or four thousand, more or less.

Mr. Simon. Isn't the ground rent four per cent of the F.H.A. appraised value of the land?

Mr. Trump. I think it is based on four per cent, yes.

Mr. Simon. 60,000 would mean --

Mr. Trump. Roughly 60,000. In other words that would be four per cent of 60,000, is roughly one million and a half.

Mr. Tosti. That is right.

Mr. Simon. Who built the building that is on this land?

Mr. Trump. Beach Haven Apartments, 1 to 6.

Mr. Simon. Was there a contractor?

Mr. Trump. No.

Mr. Simon. The corporation was its own contractor?

Mr. Trump. That is right, yes.

Mr. Simon. What amount of money did the corporation expend for construction of the building?

Mr. Trump. We have that. We thought you might ask for it.

We have been reading stories, so we thought that would be very pertinent.

Mr. Judd. I don't know, Senator, I suppose you don't see the Brooklyn Eagle.

Senator Bennett. No, I don't.

Mr. Judd. We got a front-page item about Mr. Trump when the report came out last Saturday which accuses him of pocketing four million dollars, which we thought was a very unfair statement because in the first place he didn't get anything, any money out of these.

Mr. Simon. You were going to give me the figures.

Mr. Judd. Here are figures on the six Beach Haven Apartments.

Mr. Trump. Are they cash investments or loans?

Mr. Judd. No. These are the total costs, computed as --

Mr. Trump. I believe the question was how much cash did we invest in the corporations, is that right?

Mr. Tosti. No.

Mr. Judd. I thought it was how much cash was spent.

Mr. Simon. For the construction of the building.

Mr. Tosti. These figures show the construction, together with the F.H.A. allowable fees.

Mr. Simon. Is the first figure in each case, Mr. Trump, the amount of money which the corporation paid for the construction of the building?

Mr. Trump. The first figure, physical construction expense, is shown on 1951-1952 income tax return.

Mr. Simon. You say, including architect's fees --

Mr. Trump. Yes.

Mr. Simon. Who is the architect on that building?

Mr. Trump. You mean the name of the architect?

Mr. Simon. Yes.

Mr. Trump. Seelig and Finkelstein.

Mr. Simon. How much were they paid as an architect's fee for that building?

Mr. Trump. We paid roughly five-eighths of a point.

Mr. Simon. How much architect fee is included in the figure \$3,216,703?

Mr. Judd. Which one is that?

Mr. Tosti. This is one section. Let's take the entire job.

Mr. Simon. What I am trying to find out is whether you included architect's fees based on five per cent, or whether you included them on the basis of what you actually paid?

Mr. Tosti. In here it is on the basis of what we actually paid. Down below is the differential allowable by F.H.A.

Mr. Simon. That's 188,000?

Mr. Tosti. That is right. In here is the actual.

Mr. Judd. If you look on No. 1, I think there is about 21,000 included.

Mr. Tosti. That much is included in the first item for the actual paid-outs.

Mr. Simon. So the \$3,216,000 figure is the amount of money which the Beach Haven Apartments, No. 1, Inc., actually paid for the construction of the building?

Mr. Tosti. That is right.

Mr. Judd. That is physical construction without these other elements of cost.

Mr. Simon. \$188,770 at the bottom is the architect's fee allowed by F.H.A., but that you didn't ever pay anybody?

Mr. Tosti. That is correct.

Mr. Simon. I take it the \$199,781 builder's fee is something you didn't ever pay anybody?

Mr. Tosti. That is right.

Mr. Simon. In this case, Mr. Trump, you did not put the real estate into the corporation and the building was built on a leasehold?

Mr. Trump. That is right.

Mr. Simon. Is the reason that you were able to build the building for a lower cash outlay than the amount of the mortgage because you were allowed five per cent for architect's fees and five per cent for builder's fees and didn't have to pay but five-eighths of one per cent of that?

Mr. Trump. No, I wouldn't say that.

Senator Bennett. Because obviously on the face of this after the builder's fee and the balance of the architect's fee

is included, the total is less by 124,000 than the net amount of the mortgage.

Mr. Simon. What I was trying to inquire, Senator, is the original application that they filed with F.H.A. had to show that the mortgage that they were getting was only 90 per cent of the estimated cost of construction and I was trying to find out how they could end up with the actual cost of construction, so much less than the estimated cost of construction.

You see, the actual cost of construction is \$3,216,000, and the mortgage was \$4,140,000, so there is an 800 or 900 thousand dollar difference there.

Senator Bennett. Part of these other figures in there represent apparently allowable --

Mr. Trump. According to the regulations.

Senator Bennett. Things they could add to the physical construction.

Mr. Judd. I think it is true the estimate of physical construction cost and the estimates of the other items are computed by the appraisers for F.H.A., and were included at the figures that we have shown here on the project analysis prepared by F.H.A. at the time they issued the commitment.

Senator Bennett. In other words, these figures appeared on their analysis of the project?

Mr. Trump. That is right.

Mr. Tosti. Except with respect to the actual amount of physical construction cost, there may be a variable from theirs.

Senator Bennett. That is right, but the F.H.A. fee, real estate taxes, interest on the building loan and the insurance and miscellaneous, there were at least some figures on their analysis that corresponded with those?

Mr. Judd. Yes. Actually, the figures on their analysis may have been a little smaller in those items because these buildings were constructed more rapidly than was required and consequently the building loan was advanced faster and we had more interest to pay and more taxes.

Mr. Trump. I would say the big reason for the difference is the fact that these contracts were given out during a four-month period when there was a recession, prior to Korea, and we got some ridiculously low figures for a very short time.

To explain that, our lumber from the West Coast must be stamped in the New York area, number one. Every piece must have a number one stamp. We bought at \$69 a thousand, six and a half million feet. We divided that, three responsible lumber yards, each one sold us two and a quarter million feet. We signed a contract for lumber probably in September. The following June, while they were still delivering, one of the three yards went broke and we had to pay \$110 to finish his contract. The other fellow would have gone out of business

if we had insisted on his \$69 a thousand contract for his two and a quarter million feet.

We voluntarily upped him six months later to \$95 a thousand, but the first fellow delivered his two and a quarter million feet and he supplied the balance of this third fellow's contract who went broke, at the current market price, which was \$110, and I believe in my opinion -- I am a builder, I don't know much about F.H.A. forms, but I believe that was the reason this money was left, due to favorable purchases.

Now, we bought elevators. These are elevator apartments, not two-story buildings. F.H.A. doesn't recognize that an elevator apartment costs more money than a two-story. They had the \$100 maximum mortgage on a three and a half room average. We contend, and I think everyone does, that an elevator apartment costs more money. The first floors must be fireproof instead of wood floor beams. A two-story building, everything is wood floor beams. We must put elevators in there. We put incinerators in the hall. You walk in the hall, open a door and throw your garbage down a chute in a six-story building. That costs money. The type contract that works on a six-story building is a better type, he is not the small contractor that would do a two-story job. F.H.A. didn't consider that and allowed us no more than any other six-story builder, the same \$100 maximum mortgage.

We bought elevators on that particular job -- price

don't mean anything to you--but we bought 31 elevators. This particular Beach Haven job has 31 elevators at \$7750 an elevator. Even a layman would understand that is low. Today they are \$10,300. At that time, just a month before they were \$9,000.

Senator Bennett. Do you think F.H.A. calculated your costs by calculating of standard price per apartment and multiplying it by the number of apartments you had?

Mr. Trump. No. I believe they took a real cost breakdown, but a four-month recession happened practically at the time we got the commitment, from the time we got the commitment -- that in my opinion is one reason.

There is one other reason. We build very efficiently and very fast. We have pictures here to prove that. Probably every builder will tell you the same thing.

Senator Bennett. I think maybe while this thing is broken I had better get upstairs.

Mr. Judd. I would like to have you look at these pictures of what we did, Senator. It will look like a creditable job. It is one of the best apartment units in the whole of Brooklyn.

Mr. Trump. That is Coney Island Hospital. Coney Island Hospital is here. That is the hospital and that is the hospital. Here is the project. The project is right in this area. This airplane view was taken October 2, 1949, by a recognized airplane outfit. This is September, 1950. That would be eleven



months later. The project is entirely complete -- practically, with this section occupied. That cut down our taxes, our interest and mortgage, \$16,000,000 in a year.

Mr. Tosti. It is a terrific construction.

Senator Bennett. It is quite a place all right.

Mr. Tosti. This is one of the finest jobs in New York.

Mr. Trump. The finest job on the F.H.A. books.

Senator Bennett. I will run upstairs and let you go on.

I really didn't mean to interrupt you.

Mr. Judd. Maybe I can just mention on the record here, Mr. Simon, that during the time you were on the telephone, the Senator was about to leave and we showed him two photographs, one showing what is practically bare land on October 2, 1949, about the time that our commitment was signed, and the other showing the practically finished units in an airplane photograph of September 17, 1950, with even the landscaping completed on some of them, just to show this was an efficient and, I believe, a good-looking project and something that F.H.A. should be glad we helped them construct.

Mr. Simon. Mr. Trump, I understand that the actual cost of construction on these six corporations, and I haven't added the figures up here, but I am assuming that they will add to somewhere between 12 and 12½ million dollars, is that right?

Mr. Trump. No.

Mr. Judd. I am not sure what you mean by "actual cost of construction."

Mr. Simon. Physical construction expense you term it here.

Mr. Judd. You mean excluding builder's fee, architect's fee, taxes, interest, F.H.A. fees, and legal fees?

Mr. Simon. I don't mean to exclude any builder's or architect's fees that were paid, but I was talking about actual cost money.

Mr. Trump. Interest and construction you want to include also, interest during construction?

Mr. Simon. I take it that you yourself, for reasons best known to you, considered interest during construction as an operating expense and not as a building cost. Is that right?

Mr. Trump. We still had to pay it during construction, though.

Mr. Simon. I understand, but you did consider it as an operating expense?

Mr. Judd. I am not sure what you mean by the word "consider." If you mean did we treat it on our income tax returns --

Mr. Simon. Yes.

Mr. Judd. Or claim it as a deduction --

Mr. Trump. We don't want any trick figures on cost. We had to pay the bank on every advance during construction.

That money should be allocated toward cost of construction; whether the government allows you to do another thing, but when you talk cost of construction, it would be far in excess of your \$12,000,000.

Mr. Simon. You yourself considered the interest as an operating expense in your own income tax return, didn't you?

Mr. Judd. Would you be willing to say you claimed them as a deduction from income in your return?

Mr. Trump. It was probably our prerogative to do that, but that isn't actual cost of construction because we must pay interest on all advances.

Mr. Tosti. For the purpose of the mortgage, it was considered as part of and to be paid out of mortgage proceeds.

Mr. Trump. The regulations added to the cost of construction also, the F.H.A. regulations.

Mr. Simon. I quickly added up these six items here and if my mental addition is right, it is 13 million 2, roughly speaking, for your physical construction expense, which is about one million dollars higher than the figure F.H.A. used in the release Mr. Judd referred to. Do you know what the reason is for that difference? They showed \$12,325,000.

Mr. Tosti. I don't know what that release is supposed to mean. We would like someone to explain to us just what this release is supposed to mean, with particular respect

to \$729,000.

Mr. Judd. We haven't tried to audit the figures in this F.H.A. release. Some of them appear to be erroneous to us; whether the particular one you are referring to or where the particular one you referred to is reported as cost of project came from, I can't say.

Mr. Simon. I take it at start of construction you loaned money to these corporations, is that right?

Mr. Trump. Yes.

Mr. Tosti. And invested, too.

Mr. Simon. You invested \$249,000, is that right?

Mr. Tosti. Oh, no. More than that. The capital is about that, though.

Mr. Simon. Is that exactly right?

Mr. Tosti. I don't know if it is exactly right, but it is about that. I know it is 72 plus about 151, something like that, which would bring up to the figure you mentioned.

Mr. Trump. We have stockholders investments and loans to the six corporations --

Mr. Tosti. He is talking --

Mr. Trump. -- prior to the receipt of the first F.H.A. payment by us. Is that what you are after?

Mr. Tosti. He wants to know the capital stock first, I assume. Is that right?

Mr. Simon. The equity in the company was \$249,000, is

that right?

Mr. Tosti. Approximately, I would say that was about the capital stock.

Mr. Trump. The stock itself.

Mr. Tosti. The stock itself was approximately that.

Mr. Simon. You loaned the corporation money?

Mr. Trump. Then there were loans to the corporation prior to receiving any money from the F.H.A.

Mr. Simon. How much did you loan the corporation?

Mr. Trump. I don't believe we broke it down, but if one is 249 it is very simple to make a deduction; total of one million nine.

Mr. Simon. Was that all outstanding at one time?

Mr. Trump. Yes, all prior to the receipt of the first payment from F.H.A.

Mr. Simon. So you actually had the million nine outstanding at one time?

Mr. Trump. Yes.

Mr. Simon. Was all of that, except the \$249,000, in capital stock, repaid to you?

Mr. Trump. I would say so.

Mr. Tosti. Yes. I believe all the loans have been paid off.

Mr. Simon. All of this \$1,923,000 has been repaid except the stock?

Mr. Tosti. Right.

Mr. Simon. Repaid with interest?

Mr. Tosti. I don't believe they repaid it with interest.

Senator Capehart. Don't you own that Prince Lake Hotel in Prince Lake, Ind., or is that Tischman?

Mr. Trump. No. Tischman is another outfit. Fred Trump is my name.

Senator Capehart. I am looking at the wrong one. You are Trump?

Mr. Trump. Yes.

Mr. Simon. Were those loans repaid with interest?

Mr. Trump. I don't believe so.

Mr. Tosti. I don't know. We would have to get that from the accountant. I really don't recall.

Mr. Trump. I don't believe I did receive interest on them.

Mr. Simon. Have either of these six corporations paid any dividends or made any distribution since they were incorporated?

Mr. Trump. Not a dime.

Mr. Simon. There have been no distributions of any kind?

Mr. Trump. No distribution, no.

Mr. Simon. Have any of the corporations loaned any money to anybody?

Mr. Trump. Loaned to anybody?

Mr. Simon. Yes, sir.

Mr. Trump. Yes. I think we made a loan ---

Mr. Tosti. We have a few loans. Do you mean loans to the stockholders or loans on security investments of one type or another?

Mr. Simon. Loans to anybody.

Mr. Tosti. Yes. There have been loans.

Mr. Simon. What are the loans?

Mr. Tosti. There is a mortgage loan I know they got on one of the books. I don't know what it is. I think maybe two or three hundred thousand dollars, which is secured by a mortgage. It pays them a regular interest.

Mr. Simon. What other loans have been made?

Mr. Trump. That is about all.

Mr. Tosti. That is about all the loans. They bought two buildings.

Mr. Simon. What are they?

Mr. Tosti. They bought Green Park, Essex and Lincoln Gardens.

Mr. Simon. What did they pay for those?

Mr. Tosti. I would say --

Mr. Trump. They bought the stock and I would say that was a hundred thousand each building.

Mr. Simon. One hundred thousand dollars in each building?

Mr. Trump. As an investment, yes.

Mr. Tosti. Right.

Mr. Simon. Other than operating expenses, have either of the six corporations paid any money to anybody, loaned any

money to anybody, made any other investments?

Mr. Trump. Yes, Occasionally I borrow money for short-term -- 90 days or so, on a note with interest, and I pay it back.

Mr. Simon. What rate of interest?

Mr. Trump. I believe four per cent.

Mr. Tosti. I believe one note was three and three-quarters; whatever Mr. Trump paid to the bank to borrow money, he pays to them, if he borrows money from them. He can borrow at the Bank of Manhattan at three and three-quarters, instead of borrowing it from the Bank of Manhattan, and he borrows from them and gives them the note. It will be a short-term, 60- or 90-day affair.

Mr. Simon. Do you owe now the company any money?

Mr. Trump. No.

Mr. Simon. Roughly speaking, I don't mean exact dollars, but about how much cash does this company now have?

Mr. Tosti. As of today?

Mr. Judd. The six companies together?

Mr. Simon. Yes.

Mr. Tosti. Over three and a half million dollars in cash.

Mr. Trump. All in the company, plus investments in those two buildings, etc.

Mr. Simon. The investments are a mortgage of two to three



hundred thousand dollars, and two buildings that you paid one hundred thousand dollars for each, is that right?

Mr. Tosti. That is right.

Mr. Trump. Yes, and how about the Essex mortgage?

Mr. Tosti. That is the one I had in mind. There is a mortgage up there at Essex, two hundred thousand or something like that. It has an amortization and interest rate the same as any other private mortgage would have.

Senator Capehart. Let me say this: We did not put this out, and we did not know about it until we read it in the paper.

Mr. Judd. I am glad to know that, Senator. I think this came from another part of the Federal Government, probably. It may be the papers misinterpreted it.

Senator Capehart. We did not put it out. We knew nothing about it until we read it in the paper. We will not put out any figures or use any names until we have had an opportunity to talk with people privately and get their story and their facts.

Mr. Trump. Senator, I consider that personally a terrible thing. We have close to 5,000 tenants. That could put me in bankruptcy. If we went through the deal that the Gross Brothers got on their Glen Oaks, their case has been decided -- they had bad tenancy there; some lawyers wanted to make a name for themselves, but that was thrown out, but this thing could put me in bankruptcy with 5,000 tenants.

Senator Capehart. You have 5,000 tenants?

Mr. Trump. Yes, close to 4,500, 5,000.

Senator Capehart. How many projects?

Mr. Trump. All our holdings, F.H.A. and non-F.H.A. The story here is a builder with one of the best reputations in the City of New York pockets four million dollars, and I didn't even draw a salary out of the corporations. I think

that is a very bad thing.

Senator Capehart. Did the mortgaging out amount to four million dollars?

Mr. Simon. Approximately.

Mr. Trump. Mortgaging out isn't the right term.

Senator Capehart. I know, but you did have about four million dollars more?

Mr. Trump. We received two million in rents prior to the 18-month period that F.H.A. allows us.

Mr. Judd. I think it is how it is described in bookkeeping. It is quite a complicated question.

Senator Capehart. Where did the figure four million that appeared in the paper come from?

Mr. Tosti. They probably found our cash balances.

Mr. Simon. The F.H.A. release is four million dollars.

Mr. Judd. That came from the difference between the F.H.A. reported construction cost, the F.H.A. release, and the amounts of the loan.

Mr. Tosti. That is right.

Mr. Judd. We say in addition to the construction cost we had to pay carrying charges during construction, legal fees that we were entitled to under F.H.A. regulations to be credited with; specific amounts for our architects' fees here.

Senator Capehart. Is that the figures here?

Mr. Judd. Yes.

Senator Capehart. In other words, the construction cost was three million two?

Mr. Tosti. That is right.

Senator Capehart. Then you had another \$800,000 worth of costs?

Mr. Judd. That is right.

Mr. Tosti. This figure would be the figure you would read normally on an income tax statement, but we paid F.H.A. this out in cash, we paid real estate taxes for 18 months, interest for 18 months; we paid these items for insurance and carrying charges, and items in the building, so these figures should be added. This was paid out, legal fees, taxes, recording; these two items were not paid out. These are the allowables for F.H.A.

Mr. Trump. According to their regulations.

Mr. Simon. The \$188,000 architects' fees is the difference between what they actually paid -- they included in this three million figure what fees they actually paid and take credit down here.

Senator Capehart. Did F.H.A. allow you five percent?

Mr. Trump. That is the regulation, take five percent builders' fees.

Mr. Judd. That is the figure which appeared on the project analysis which was prepared by F.H.A. and signed by their appraiser.

Senator Capehart. This doesn't account for four million dollars.

Mr. Simon. That is just one of them. There are six of them.

Mr. Tosti. They only used this figure.

Senator Capehart. I see.

Mr. Trump. You will have to say we received two million in rents. Would that have a bearing on it?

Mr. Simon. I don't think so. If you take the difference between what they actually paid for the construction of the building and subtract from that the amount of the mortgage, you end up with pretty close to four million dollars.

Senator Capehart. I see.

Mr. Simon. One of the problems, Senator, is that on their own books they took these taxes and interest as operating expenses for the first year of operation, and did not on their tax returns include that as cost of the building, so F.H.A. did not include them because they did not, and these two items were never paid by anybody, and then they got a \$55,000 premium on the mortgage, which, of course, F.H.A. would use to reduce the cost of the financing.

Senator Capehart. I see.

You considered the F.H.A. fees, real estate taxes, and interest on the building, and the insurance, and you included that as expenses?

Mr. Judd. That is right.

Senator Capehart. As taxable expenses, etc., the first year.

Mr. Judd. Yes.

There is another factor that enters in there. Under the commitment we could not let anybody in to the buildings as tenants until the 18 months' period was finished, and the buildings were constructed. Because of the housing shortage, and because we operated quickly, the F.H.A. gave us permission to put tenants in five months after we got the first advance, and, therefore, we had some income during the first year against which we could charge these. Maybe we saved taxes then, but we are getting a smaller depreciation allowance now in consequence, so I think it washes out.

Mr. Tosti. Senator, allowing us those fees, the allowables under F.H.A., our net out of the 16 million dollars came out at approximately \$500,000, or within three percent.

Now, I admit that we didn't take out the builders' fee, we didn't take out the architects' fee, but they were both allowables by F.H.A., and were computed in there in determining the amount of the mortgage.

Senator Capehart. Did you make a mistake in taking these as tax deductible?

Mr. Tosti. No.

Mr. Judd. We never tried to do that.

Mr. Tosti. We had rent income.

Senator Capehart. During the period?

Mr. Trump. Yes, during the original 18-month period set aside by F.H.A. for construction of the project.

Mr. Tosti. Senator, what could have happened would be that these buildings could have been completely unoccupied for 18 months. This would have been your picture, except that all of this stuff would have been thrown back into this as additional construction, and under those circumstances it would have been capitalized.

We, in our return, which I think we are permitted to do, and is the proper accounting procedure, when we had rent income we offset interest and taxes.

Senator Capehart. Has the Internal Revenue department questioned whether this is a taxable item?

Mr. Tosti. Not at all.

Senator Capehart. Or should have been capitalized?

Mr. Tosti. This is capitalized, but separately. It is not a depreciable capitalization. This is a write-off that you do over a period of 33 years, but it is not a depreciating item like this one is. The accountants set that up separately.

Mr. Simon. They have all done this for income tax purposes. They have treated taxes during the year of construction and interest during construction as an operating expense, which is a desirable thing, taxwise, and permitted, but then when they

do that it makes their mortgaging out that much higher, so for one purpose they want to put it on one side and the other purpose on the other side.

Mr. Judd. The reason I might say, Mr. Simon, mortgaging out is not a crime.

Mr. Simon. Oh, no.

Mr. Judd. It wasn't even considered something that should be a subject of criticism until just recently when there has been a lot of publicity about it, and taxes are something real and it had to be paid, and which I think there was a duty on them to do.

Senator Capehart. You have three such as this?

Mr. Tosti. Six. There were six sections of Beach Haven.

Senator Capehart. Six similar to this?

Mr. Tosti. Yes, except they are not all as large.

Senator Capehart. Did you have the same division on all six such as this?

Mr. Tosti. Yes.

Mr. Trump. Here are two aerial photos, Senator. One was taken when the job started. This is to date the photo. This is Coney Island Hospital, an old hospital. This is the completed project. There is the hospital again. We completed that entire project.

Senator Capehart. How many units?

Mr. Trump. 1861 units, 31 elevators, finest construction,



100 percent rented; every week we get an offer to sell at much more than the mortgages.

Look at the dates on the back of this. This was taken -- to show efficiency in operation, that was taken in 1949; I think the date is right here, October 2, 1949. Here is a completed project, which is already occupied, the first section, which is 25 percent -- see the sidewalks and shrubbery are in there. Eleven months later the entire project was built -- eleven months later, and we got -- F.H.A. allowed us 18 months in which to complete the project, and some builders cannot do that in two years, but we drew two million dollars in rent during that 18-month period.

Senator Capehart. I do not see any land costs in there.

Mr. Simon. The land didn't go in. It is one of those leaseholds.

Mr. Tosti. Senator, you might be interested in these figures that I have got down here. As of today, we have reduced our mortgages by \$800,000.

Senator Capehart. In payments?

Mr. Tosti. In payments.

I might point out that we prepaid principal a year in advance in order to cut down the interest charges. We have paid the F.H.A. \$211,000 in fees. That is their insurance fee and they never had to do five cents worth of work, except to wait for our reports to come in to them annually.

Senator Capehart. That is the fees they charge?

Mr. Tosti. F.H.A. insurance premiums.

Senator Capehart. That they charge everyone?

Mr. Tosti. That is right.

In addition, we may have on deposit in cash a replacement reserve fund of \$200,000, which is in Government securities held by the mortgagee, no portion of which has ever been tapped -- we have never asked for a dime out of it to replace anything in these buildings.

That is the picture, and the buildings are 100 percent rented.

Senator Capehart. What did the land cost?

Mr. Simon. He says he doesn't know.

Mr. Trump. I don't have the land cost. We bought that in 1944, and we bought another parcel a year or two later, and we had some --

Senator Capehart. What did you put the land in for?

Mr. Trump. Whatever the F.H.A. --

Senator Capehart. What is the rental on the land?

Mr. Trump. Sixty thousand a year.

Senator Capehart. You do not know how much the F.H.A. appraised it at?

Mr. Trump. They capitalize at 4 percent, which is an unfair capitalization.

Senator Capehart. Do you own any more land around here?

Mr. Tosti. Yes. We still have a little bit left over.

Senator Capehart. Approximately what did you pay for the land?

Mr. Trump. I don't have the figures, Senator. It was three or four assemblages in 1944 and 1945. We had legal trouble. Land was under water, the bed of Coney Island Creek, and there was a lot of things, but I will say this: It is assessed today by the city under the equalization rate at one million seven, and for tax purposes at \$1,350,000. In other words, they assess at 80 percent, so we pay taxes on \$1,300,000.

Senator Capehart. Do you think you paid as much as a couple of hundred thousand dollars for it, or more?

Mr. Trump. Yes. We paid more than that. But the assessed value, I believe, is more today than we pay taxes to the city.

Senator Capehart. Do they allow you four percent on the appraised value of the land; is that right?

Mr. Trump. Yes.

Senator Capehart. You have a 99-year lease?

Mr. Trump. It is a 99-year renewal.

Senator Capehart. Did this project cost more than five million?

Mr. Tosti. Sixteen million.

Senator Capehart. The whole project?

Mr. Tosti. Sixteen million dollars, the whole project.

Mr. Judd. The photograph includes all six units.

Mr. Trump. That is 1,860 families.

Senator Capehart. Is this so arranged that you can divide it up into three parts and dispose of it?

Mr. Tosti. Six parts.

Mr. Trump. There are streets between each section. Each section is divided off by a street.

Mr. Judd. Senator, I think if you will let me say one thing more, there are a couple of factors that seem to me interesting here. I was solicitor general of New York State at one time, and I passed on contracts for construction of public housing. It cost an average of \$13,000 a dwelling unit to put up public housing. Mr. Trump borrowed money on the basis of \$8,100 a dwelling unit, and wound up with some money left over, so he did an efficient job in creating good housing. If you take the dwelling units and divide the F.H.A. appraisal of the land --

Senator Capehart. Let me ask you this: We have had a number of people testify to that effect. Why is it when you private builders go to build this public housing, why do you charge so damned much?

Mr. Trump. We don't build for the Government.

Senator Capehart. When he does why does he charge so much?

Mr. Trump. The fellow who does build them, he couldn't build them for ten percent over \$8,100 a unit. It is a dif-

ferent type of unit.

Senator Capehart. We have had a number of people use the cost of their units in comparison with public housing. My question is why cannot the private builders build for the Government as cheaply as they can build for themselves?

Mr. Tosti. Fred, tell about your difficulty in trying to get competitive building contractors on this job, and how you have to work it out?

Mr. Judd. One factor, Senator, I think is the conflict that exists between the contractor and the Government inspector. I know in the State we always ran into cries for extra work because of that friction. Where the builder is his own supervisor and wants to show he has a good building on which he can make money, you save some of that.

Senator Capehart. Have you ever had any 207 or 217 projects?

Mr. Trump. 207, I own Luna Park in Coney Island.

Senator Capehart. Is that a 207?

Mr. Trump. That is supposed to be a 207.

Senator Capehart. That is an 80 percent, isn't it?

Mr. Trump. Yes. I understand rental housing is killed as per the new bill, with your cost certification; if I have to certify that my cost is the same as one of these public housing builders' costs, or a builder with no credit, which put one million nine into this job in money -- one million nine --

before we drew a nickel from the F.H.A.

Senator Capehart. 207 has been in the bill for many, many years.

Mr. Trump. Nobody used it.

Senator Capehart. There has been quite a lot.

Mr. Trump. In the New York area there was nothing. There was 608.

Senator Capehart. 207 was the same as 608 except you got 80 instead of 90, and it was value, or what was it --

Mr. Tosti. Replacement value or current cost?

Mr. Trump. Replacement rather than current cost.

Senator Capehart. You never built under 207?

Mr. Trump. No.

Senator Capehart. Why won't 207 work?

Mr. Trump. Now, you are talking cost certification.

Senator Capehart. No, 207 doesn't require that.

Mr. Trump. It is at 80 percent, and you must certify that your costs of construction --

Senator Capehart. Not in the bill as it is today, but in the existing bill there was no cost certification. It was Title 207, 80 percent guaranteed mortgage, and the basis for the mortgage was to be on value -- I think I am right on that -- rather than replacement cost.

Mr. Trump. Yes.

Senator Capehart. Why won't that work?

Mr. Trump. That would work. It was just coming into its own, Senator. The two thousand a room was not quite enough. At the present time the market is getting -- the rental market is a little tough, and they want a little more than they had five years ago. We contemplated putting two bath rooms in some of the larger apartments. You cannot do that under the mortgage limitation that we have.

Mr. Simon. If I understand these figures correctly, they are approximately \$1,500,000 on the six buildings of builders' fees and architects' fees that were not paid?

Mr. Tosti. Approximately, yes.

Mr. Simon. But including the architects' fee and the builders' fee at the five percent amount, which they allowed, and thereby including roughly one million and a half, that wasn't even paid out, you still come out with total costs of \$1,200,000 less than the mortgage; is that right?

Mr. Tosti. I would say approximately, yes. If you don't throw those figures out as being not paid.

Mr. Simon. No, including in your figures the million and a half which you did not pay out, not throwing them out but leaving them in, you have a receipt of \$1,200,000 for all the costs.

Mr. Tosti. No, our figures come out at \$578,000.

Mr. Simon. Taking the figure you call difference, plus your mortgage premium?

Mr. Tosti. Not the premium. You can't count the premium.

Mr. Simon. Why not?

Mr. Tosti. The premium has nothing to do with construction at all.

Mr. Simon. I know, but you include in there your F.H.A. fees.

Mr. Tosti. Yes.

Mr. Simon. Isn't the only reason you got a premium was because it is a Government-guaranteed mortgage?

Mr. Tosti. No, not necessarily.

Mr. Trump. You paid a point in Florida, one point, and we got four and a quarter points.

Mr. Simon. Everybody in New York got four and a quarter.

Mr. Trump. I don't think so.

Mr. Simon. Not all, but a great many did.

Mr. Trump. This job got more mortgage premium than any other because due to its excellent location, due to its all-time long-term investment. We got more premium than most other builders.

Mr. Simon. Don't you think the premium resulted from the fact it was a Government-guaranteed mortgage?

Mr. Trump. Partly. I can show you plenty of Government-guaranteed mortgages that pay a point and a half.

Mr. Simon. Can you show me any non-Government mortgages



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of four percent --

Mr. Trump. Premium, no.

Mr. Simon. That pay premiums?

Mr. Simon. No, no non-Government.

Mr. Tosti. On small houses I can show you --

Mr. Simon. No, this type.

Mr. Tosti. On small housing they were paying four percent for non-Government loans, regular straight conventional loans.

Mr. Simon. I am talking about 15 million dollar loans.

Mr. Tosti. Look, they were either paying it on all loans or not paying it on any loans. Whether it was Government-insured conventional, or anything else, that is what they were paying.

Mr. Judd. I think we are all talking a little bit on speculation. It is the sort of question you would have to ask of a mortgage broker in order to get a conclusive answer.

Mr. Simon. What I was leading toward, and I do not have any doubt in my mind that the premium should be applied against the F.H.A. cost, because you got a premium because you did pay the F.H.A. cost.

Mr. Judd. That is a matter of argument, isn't it?

Mr. Simon. That is true.

Mr. Trump. F.H.A. gave us the commitment. There was no premium when they gave the commitment. The premium only developed during the progress of the job.

Mr. Simon. Except it developed from almost everybody up there.

Mr. Trump. This one section --

Mr. Tosti. Wait a minute. It just didn't develop. That is not so. As a matter of fact, two of these projects only carried a 2 percent premium, and the other projects through manipulation brought a four, and we were able to go back through our own astuteness and get more on the two we originally sold at two, which has nothing to do with the F.H.A. at all.

Mr. Trump. We started out at a two percent premium.

Mr. Simon. What I would like to know is, the F.H.A. commitment could not have been for more than 90 percent of the estimated cost of the building, and including the fees, architects' fees and builders' fees which you didn't pay in the order of one million and a half dollars, the cost of construction was still substantially less than the mortgage.

Mr. Trump. Yes.

Mr. Simon. Part of that you said was the result of buying things at a low price.

Mr. Trump. Very low, during the four-month recession just prior to Korea.

Mr. Simon. What other reasons were there?

Mr. Trump. Part of it was due to our efficiency as shown by these aerial photos taken at the time where we built 16 million dollars worth of housing for 1,860 families, in less

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than 11 months. We had them occupied in less than 11 months.

Mr. Judd. Is it fair to say, Mr. Trump, that in computing costs for the average building, the estimators would allow for a longer period of construction than you took --

Mr. Trump. Eighteen months.

Mr. Judd. And even the physical construction costs more if it is spread out over a period of 18 months than if you can accomplish it in a reasonable period?

Mr. Trump. Certainly, you have the same advantage.

Mr. Tosti. Credit, the time you made your contract, all of those things would greatly affect a cost estimate. I mean a man who is building, who orders 2,000 bath tubs, is probably going to get a better price than the man who buys 200 bath tubs because they can deliver in carload lots to the job. Those things are elementary.

Senator Capehart. Didn't the F.H.A. appraiser, of course, know that in advance because it was an 8,100 project or 608 project?

Mr. Trump. No, actually the F.H.A. costs they figured had no bearing because the 8100 criterion is what carried it. They might have figured higher. Maybe that five percent builders' fee, and five percent architect, brought the construction cost so high that criteria four, I believe it is, that said maximum mortgage 8100 --

Senator Capehart. Let me ask this question: How much

cooperation did you give the F.H.A. appraiser?

Mr. Trump. We didn't give them any.

Senator Capehart. You didn't give them any?

Mr. Trump. No. We object to the appraisers. We were short changed on that \$60,000 a year. You have there recaptured the \$60,000, to liquidate in case we get a building.

Senator Capehart. You mean the F.H.A. appraisers, in arriving at the amount of this mortgage, would guarantee the mortgage but never consulted with you at all?

Mr. Trump. No.

Senator Capehart. They arrived at that, themselves?

Mr. Trump. Are we talking land?

Mr. Tosti. No. Senator Capehart is talking about their estimation of the cost of the job, construction cost of the job.

Mr. Trump. No. I will tell you how it works.

Senator Capehart. For example, somebody arrived, finally, that when this building was completed you would get a mortgage for --

Mr. Simon. Sixteen million dollars.

Senator Capehart. Sixteen million dollars.

Mr. Tosti. That is right.

Senator Capehart. Somebody had to sit down and figure that all out. Who did it?

Mr. Trump. They had their cost engineers, but we practi-

cally knew in advance what the mortgage would be, because they have, let us say, several hundred 608 jobs come out of the office, and we know they get 8100 a unit. Then we get --

Senator Capehart. My point is, did the F.H.A. appraisers consult you in arriving at this?

Mr. Trump. No, because we got the maximum --

Senator Capehart. Did they arrive at it on their own?

Mr. Trump. Yes.

Mr. Tosti. Senator, we have in our office approximately 40 million dollars worth of these commitments at one time or another, where the maximum --

Senator Capehart. Do you handle the mortgages?

Mr. Tosti. I am an attorney with different builders, not with Mr. Trump, but other builders. Every one of these commitments, if you were to set them side by side, the figures on them are approximately the same, within two or three percent, for construction costs, and everything else. They were using some sort of a thumb rule over there to measure it up, if it is 810 units.

Mr. Judd. Didn't they have the plans and specifications in detail which were filed with your application?

Mr. Trump. Yes.

Mr. Judd. And analyze those plans and specifications in accordance with their cost experience?

Mr. Trump. Yes. What he means to say, he had a dozen

builders, they get the \$100, we see their plan and not what it is. We get the rental plans from people of another project. We know their room sizes. Beach Haven is a conventional room size, large rooms, so we know if they get \$8,100 as a matter of fact we will get it on Beach Haven. You take that for granted.

Mr. Judd. Are your Beach Haven rooms larger than the average?

Mr. Trump. Yes. That is why it is one of the finest projects F.H.A. has.

Mr. Judd. Can I ask you this while the Senator is here: How do the land values on the basis of F.H.A. recapture costs in this project compare with land values which you would have for independent volume housing units?

Mr. Trump. I would say on Beach Haven we got less than average. We have here -- you can divide it very fast -- 1,860 units. We got about \$800 a unit.

Mr. Tosti. Right.

Mr. Judd. When you say "we got" --

Mr. Trump. The Beach Haven project.

Mr. Judd. That is the valuation which was used in the recapture clause. It is not money you got?

Mr. Tosti. It is land value we are talking about.

Mr. Trump. We didn't get it. Their capitalization of the \$60,000 would be capitalized under their regulations at a

million and a half. That is about \$8,000 a unit for 1,860 units.

Mr. Tosti. Eight hundred dollars a unit for 1,800 units.

Mr. Trump. I would say that is as low as any land value because the rule of an appraiser is usually 15 percent of the improvement, which would be \$1,200 a unit.

Mr. Tosti. We might say this about that land value that you mentioned, that Mr. Trump, prior to this time, had built small homes, in 1944, 1943, 1945, on similar land -- not very far removed, -- and there our valuations by the V. A., F.H.A., of the same type of land for small homes, ran \$2,000 a lot for 20 by 100.

Mr. Trump. This was Brooklyn, near the subway, 40 acres in Brooklyn, right near the subway. Probably that doesn't mean much to you, Senator, it probably means less, I should have said, but 40 acres, one contiguous parcel in Brooklyn, and if I knew this stuff in these newspaper headlines were coming up, to smear one of the best reputations -- I built 2,500 one and two-family houses in Brooklyn and Queens.

Senator Capehart. How many?

Mr. Trump. Twenty-five hundred before 608 came out, and I wish I had never seen a 608, because we would have made the same money, and without this smear business here.

Mr. Tosti. We have room for 500 houses on this plot.

Senator Capehart. Would you build under 608 if it was

the law today?

Mr. Trump. Certainly I would build under 608. I wanted to build under 207, but I hear you emasculated it. I own Luna Park, 28 acres, next to four subway stations. We have that land laid out for a 207. I have four or five hundred thousand feet in Jackson Heights, laid out for a co-op where we have our certificate of eligibility, and an office built last January waiting for this housing law to come out for a co-op for 1,100 apartments, so I have a co-op plan and a 207.

Now, I feel that 207 will be killed.

Senator Capehart. Why do you object to cost certification?

Mr. Trump. I don't object if you have a cost certification that says you must certify that you have spent at least the amount of the mortgage, without builders' fee, and without architects' fee.

Senator Capehart. Under the cost certification plan as it is in the bill at the moment, you simply certify whatever your actual costs were.

Mr. Tosti. Senator --

Senator Capehart. If you pay the architect a hundred thousand dollars, you put down a hundred thousand dollars. If you pay him \$50,000, you put down \$50,000.

Mr. Trump. The next paragraph, if your cost is less than the F.H.A. used to determine the 80 percent mortgage, you have to pay that differentiation off on the mortgage. That is



the purpose of the cost certification.

Senator Capehart. The purpose is that when you get all through, on the 80 or 90 percent --

Mr. Trump. To make sure it is 80 or 90 percent mortgage.

Senator Capehart. That is right. If your cost was less, you would have to apply the difference and reduce the mortgage. What is wrong with that?

Mr. Tosti. Does this discussion have to go on the record?

Senator Capehart. I would like it to because we are writing up this bill and I want to get it in.

Mr. Tosti. Let us assume a project that has an estimated value of one million dollars, and you come along and say "We will give you a mortgage for \$800,000." We say "Look, we don't mind building it, we will give you a cost certification; anything under \$800,000 that the project costs, including all of the physical improvements, off-site, builders' fee, and architects' fee, allowables by F.H.A., we will pay back on the mortgage. We will reduce the mortgage by that amount." But we don't want to say that we will pay back 80 percent of the total cost of that construction, and pay back the differentiation in reduction of that mortgage. In other words, 80 percent of the original million dollars.

Mr. Trump. Builders build differently.

Mr. Simon. You are saying you want to end up with at least a hundred percent mortgage.

Mr. Tosti. We say if we are good and wind up building the job for the amount of a mortgage, we don't want to put in another 20 percent.

Senator Capehart. Here is what the bill says, or what the Senate intended it to say -- the Congress meant it to say -- that we will guarantee on a million dollar project, that costs a million dollars, \$800,000.

Mr. Trump. That is right.

Senator Capehart. Meaning that you have to put \$200,000 of your own money in it. You won't do it under those circumstances?

Mr. Trump. How do you get that back, at six and a quarter percent return? If a fellow had \$200,000 wouldn't he be crazy to put \$200,000 in it and some bum --

Senator Capehart. You will be permitted to include the \$200,000 in arriving at what the rent should be.

Mr. Tosti. A six and a half percent return for his \$200,000? We can go out and buy a taxpayer for \$200,000 and walk home with a 15 and 18 percent without even bothering to build any piece of real estate.

Mr. Judd. Senator, I haven't studied the bill, but if it is true that it requires the 20 percent stay in with a limitation to a six percent return, it is comparable to the limited dividend housing corporation laws, which we have had on the books in New York State for 45 years. There have been very

few limited --

Senator Capehart. You have no objection to the 20 percent remaining in or staying in as you call it if you can make more than six and a half percent return in rents; is that right?

Mr. Tosti. We say if we can build it out at any certification you want, including those figures, and we build it out at any place under the amount of your mortgage, that differential we will throw off and reduce the mortgage, but we want to be compensated for efficient building. That is what it amounts to.

Senator Capehart. What do you mean compensated for it?

Mr. Tosti. We feel we can build better than anybody else. Everybody else doesn't have the same pattern.

Senator Capehart. Where you confuse me is you continue to own this building. You have got to pay back the million dollars. It is yours.

Mr. Tosti. We have to pay back \$800,000 because it is only \$800,000 mortgage.

Senator Capehart. All right. You have to pay back the \$800,000 mortgage, and it is your building. It seems to me like the less the mortgage the better you would like it.

Mr. Tosti. That is not true, Senator. Let me point something out: It is a misconception that the buildings with small mortgages are better buildings to operate. Every one of these

608s will have to be refinanced in 14 years. Do you know that?

Senator Capehart. Every one of them?

Mr. Tosti. Every one of them will have to be.

Senator Capehart. Including these?

Mr. Tosti. Including these, if they use the declining balance method of depreciation.

Senator Capehart. You mean under existing law?

Mr. Tosti. Under existing law it will be most uneconomical to operate them after 13 years under this set-up.

Senator Capehart. Under the law in which they were built?

Mr. Trump. We are getting far away from the new bill.

Senator Capehart. That has a bearing on it.

Mr. Tosti. The idea to keep these mortgages up --

Mr. Trump. There will be nothing to worry about in refinancing, as F.H.A. figures a million dollar cost you get an eight hundred thousand dollar mortgage. The builder must certify the project cost a million dollars. He would be investing \$200,000 at a six and a quarter percent return. No builder would do that, no real estate man would buy a piece of real estate; he would buy telephone company stock and he would clip coupons. No. 1.

No. 2. We may have --

Senator Capehart. What return do you want? You say you won't do it for six and a half. What would you do it for?

Mr. Trump. Our buildings throw off 12 and 15 percent. Not

F.H.A. buildings, because we expect to get nothing. If we get amortization of mortgage out of there we are satisfied, only amortization of mortgage; but our conventional buildings throw off 12 and 15.

Senator Capehart. What you are saying, then, if we want to use this cost certification system, and this 80 percent guaranteed mortgage, we are going to have to permit you to earn more than six and a half percent?

Mr. Trump. I would say this --

Senator Capehart. In other words, it means the rents are going to have to be a little higher; is that what you mean? If we did that would you be happy?

Mr. Trump. No. I think it can be better than that. If a builder invests in a million dollar job, 120 families, \$200,000, he is out of business for 15 years.

Senator Capehart. What do you mean?

Mr. Trump. Because he has his \$200,000 tied up in the building. He can't go ahead. If he wanted to build another building he would have to have another \$200,000.

Senator Capehart. Do you mean to tell me we have got to the point in America where private industry won't take any chances at all in the building business and the Government has to take it all?

Mr. Judd. They would take chances if they could get a return.

Mr. Trump. They don't have the money. We are penny ante in the building business.

Senator Capehart. You are pretty big, aren't you?

Mr. Trump. What we do at \$8,100 a unit, forget about the abuse, what we do at \$8,100 a unit, public housing costs \$12,000.

Senator Capehart. In every instance private industry builds public housing. We are going to get into why public housing costs so much money.

Mr. Trump. To keep the builders in business who don't have unlimited funds, and for a fellow to tie up \$200,000 he just won't do it. To keep him in business I would suggest a cost certification along these lines: Million dollar F.H.A. cost, eight hundred thousand dollars mortgage. The builder must certify, and F.H.A. check his books, and you will work up a formula that he cannot pad, and that that building must cost him in money that he has spent \$800,000 -- at least \$800,000, exclusive of builders' fee, exclusive -- and exclusive of anything he didn't pay the architect. In other words, if he pays his architects five percent, that is one thing. If he pays them five-eighths of one percent, the exact expenditures go in there. Then the efficient builders -- some builders have better credit ratings. Others build faster. Here is a ten-month job. Somebody would take two and a half years.

Senator Capehart. I presume where I get confused in

talking to you gentlemen is I have never been in the building business, and I seem to get confused because it looks to me like I was under the impression you were interested in building these apartment buildings, renting them, and making your money on the rent, but it seems as though you are not interested in making your money particularly off of the rent.

Mr. Trump. We are.

Mr. Tosti. What I was trying to explain was why these mortgages, and I think that is important --

Mr. Simon. What was the operating profit of these buildings in 1953?

Mr. Tosti. On Beach Haven No. 1 --

Mr. Simon. Can you give it to me for all six?

Mr. Tosti. For Beach Haven No. 1, ending April 30, 1954, it had a net operating loss of \$23,255. That is after depreciation has been taken out. I assume you want the net operating loss?

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Mr. Simon. What I am trying to get at in reverse fashion is, you now have cash, or investments of four million dollars in these six companies?

Mr. Tosti. That is right.

Mr. Simon. I want to know how much of that is operating profit since the construction of the building and how much of it is the mortgage --

Mr. Tosti. In order to determine that, you have got to take the amount of depreciation, deduct from depreciation the yearly amortization and then determine it all over because what you are looking for is a net cash increment and that I can't give you that way.

Mr. Simon. You don't get cash out of depreciation?

Mr. Tosti. Yes, you certainly do get plenty of cash out of depreciation.

Mr. Simon. Except in the sense it saves you income tax?

Mr. Judd. No, more than that.

Mr. Tosti. It is money in the bank. A lot of this money may be depreciation money. That is cash now.

Mr. Trump. We operated for three years and let's say we took an average of four per cent depreciation or three per cent a year on sixteen million dollars.

Mr. Tosti. We have \$480,000 in cash from depreciation in the bank, so in order to give you the net, I would have to take -- because amortization is not included as a deduction



in figuring profit and loss.

Mr. Simon. But your amortization reduces your depreciation?

Mr. Tosti. That is right. So you take depreciation, subtract amortization from it, and either add or subtract the profit or loss and that gives you the net cash annual increment. Now I mean over the three years, I couldn't possibly give it to you today -- I could figure out that net cash increment, but I can't tell you here. This one, for example, shows \$23,000 loss this year. The depreciation, however, on this particular building, is \$115,000, so that the net cash increment in this case amounted to \$82,000. Now, from the \$82,000, you would take off the amortization that was paid out, because that is not reflected in here.

Mr. Simon. What was the amortization?

Mr. Tosti. One and a half per cent of the face amount of the mortgage which approximately in Beach Haven 1, I would say, it ran about \$60,000.

Mr. Simon. So you would have a \$20,000 cash increment?

Mr. Tosti. That is right, approximately \$20,000 cash increment.

Mr. Simon. What I am trying to find out, Senator, is they have four million dollars cash or securities. I tried to find out how much of that represented accrual from operation of the building in the last three years, and how much of it represented proceeds of the mortgage that they

had disbursed out of the corporation, because there have been no dividends.

Senator Capehart. You haven't paid any dividends on your stock?

Mr. Tosti. None at Beach Haven.

Senator Capehart. How much is the stock?

Mr. Simon. A quarter of a million dollars.

Senator Capehart. You actually put in \$250,000 cash to start with?

Mr. Tosti. That is right.

Senator Capehart. They have four million in cash and securities.

When did you start operating the business?

Mr. Tosti. 1949.

Mr. Trump. That was the condition of it in October, 1949, and 11 months later, September, 1950, we had the project built and rented.

Senator Capehart. How long has it been occupied, for four or five years?

Mr. Trump. That is right.

Senator Capehart. You have been paying pretty big taxes, haven't you?

Mr. Trump. One million two real estate tax. Do you have the figures?

Mr. Tosti. I don't think I have given him that.

Senator Capehart. How about Federal income tax?

Mr. Simon. No Federal income tax; none whatever.

Mr. Trump. We haven't had to pay anything out at all.

Senator Capehart. You have been paying real estate?

Mr. Tosti. Yes, about one million two hundred thousand in real estate taxes. We did pay income taxes. Some of these companies had a profit in it. It wasn't a lot of money, but there was income taxes paid.

Mr. Simon. By taxes you are talking about two, three, four hundred dollars?

Mr. Tosti. No. I am not talking two, three, four hundred dollars. I think on one it is running eight or ten thousand dollars.

Mr. Trump. Operation?

Mr. Tosti. Yes.

Mr. Trump. You will get your heavy taxes in the next five years because of depreciation.

Mr. Tosti. That is what we were discussing before; heavier income taxes are now going to come to the fore in these projects.

Mr. Simon. Mr. Trump, was there a mortgage on the fee?

Mr. Tosti. No.

Mr. Trump. No.

Mr. Simon. Have you any other 608 projects other than this one?

Mr. Trump. Yes. We just finished one a short time ago, the Wexford Hall, Inc.

Mr. Simon. Did you mortgage out on that?

Mr. Trump. No, we had to put money in that because our contract prices -- that was after we got these favorable contracts; our contract prices were more and we had to put money into it.

Mr. Simon. Have you been in any other 608's?

Mr. Trump. Yes, we own two in Flushing that we said we bought.

Mr. Simon. Is that the Green Park, Essex, and Lincoln Gardens?

Mr. Trump. That is right.

Mr. Simon. They, I take it, are quite small?

Mr. Tosti. 138. They are three million apiece.

Mr. Trump. No, a million and a half apiece.

Mr. Tosti. There are 168 apartments apiece.

Mr. Simon. You bought equity in each case for a hundred thousand dollars?

Mr. Tosti. Just the stock.

Mr. Simon. You bought all the stock?

Mr. Trump. Yes.

Mr. Simon. Have you been in any other 608's?

Mr. Trump. Shore Haven.

Mr. Simon. Where is that?

Mr. Trump. Brooklyn also, about a mile or two from this

other project.

Mr. Simon. Did that mortgage out?

Mr. Tosti. Yes.

Mr. Judd. Accepting your definition of "mortgage out."

Mr. Trump. We didn't mortgage out on any of them.  
definition

Mr. Tosti. Not in your / we didn't mortgage out.

Mr. Simon. What was the mortgage in Shore Haven?

Mr. Trump. 1344 units, about ten million dollars.

Mr. Tosti. About ten million dollars.

Mr. Simon. What was your actual cost of construction?

Mr. Trump. I don't have any figures on that.

Mr. Simon. Was it more or less than ten million dollars?

Mr. Trump. More or less -- I imagine it was less?

Mr. Tosti. Yes. The mortgage -- the actual construction was -- would have been slightly under, some place in the nine million figure.

Mr. Trump. Don't guess.

Mr. Tosti. It is hard to guess. I thought we were just on these Beach Havens. I haven't knocked any figures off on that.

Mr. Trump. That is the only one we got publicity on.

Mr. Judd. We have been working nights trying to get out income tax returns and other things to know what is of record already.

Mr. Simon. Have you been in any other 608's?

Mr. Trump. No.

Mr. Tosti. How about the Norfolk, Virginia, job during the war?

Mr. Trump. That is so long ago I don't remember.

Mr. Simon. I take it we are not going back beyond the end of the war, but since the war, have you been in any other but Beach Haven, Wexford, Green Park, Essex and Lincoln Gardens, and the two you purchased which you had nothing to do with building?

Mr. Trump. That is right.

Mr. Simon. Is Mr. Tomasello your partner in Wexford and Shore Haven, too?

Mr. Tosti. No.

Mr. Simon. Is he a builder?

Mr. Trump. He is a brick contractor; yes, he is an old-time property owner.

Mr. Simon. He put up 25 per cent of this?

Mr. Trump. That is right.

Mr. Simon. I have no more questions, Senator. Do you?

Senator Capehart. You don't have any 213's?

Mr. Trump. I have 1100 units projected. As soon as the new law comes out we will start selling.

Mr. Tosti. We have the law but no commitment.

Senator Capehart. Have you got a commitment from F.H.A.?

Mr. Trump. Wait a minute. We could have had a certificate of eligibility the end of January, but we withheld it pending

the new legislation. Our office is up, our exhibits are in the office, and we have been waiting since the end of January for the new legislation, 1100 units.

Senator Capehart. Prior to that, you didn't have any?

Mr. Trump. No, no co-ops, no.

Mr. Judd. There are two things I would like to mention on the record. I think they are important.

One is the matter of personal guarantee. Do you know the amount of personal obligation that you undertook in connection with these Beach Haven projects?

Mr. Trump. As I mentioned, and I believe we gave you a statement, we invested between capital and loans to the Beach Haven corporations prior to receipt of any money from F.H.A., one million <sup>?</sup> nine, but I also went on a personal guarantee with F.H.A. for every dollar that I owned, so in addition to the million nine --

Mr. Simon. Personally guaranteed what?

Mr. Trump. We had to personally guarantee completion of the project.

Mr. Tosti. There is an indemnity agreement.

Mr. Judd. Prior to F.H.A., had it been your practice to give personal guarantees?

Mr. Trump. I would never give a personal guarantee. I would stay out of a deal or pay more money for something rather than give a personal guarantee, but the F.H.A. regulations

and the housing shortage prompted me to give a personal guarantee.

Mr. Simon. In that you merely guaranteed to complete the building?

Mr. Trump. Yes. Anything could have happened. As I mentioned on lumber, we started out at \$70 and wound up at \$110 on the same project.

Mr. Judd. If you had been delayed for a strike and had to meet carrying charges and increased cost, you would have been liable?

Mr. Trump. That is right. In addition to the million nine we had invested in loans or investments, the personal guarantee meant much more than the one million eight that we laid right on the line before we started this job, and to feel that it winds up like this newspaper publicity is a very bad situation because we did all right before F.H.A. came along; right in Brooklyn, and we will still do all right even without F.H.A.

I don't like to say it, but when I read that story, where no distribution has been taken, it really louses up a good reputation.

Mr. Simon. Of <sup>the</sup> one million eight, \$249,000 was capital and the rest loans?

Mr. Trump. Loans to the corporation prior to receipt of any money from F.H.A.

Mr. Simon. Which were repaid out of the mortgage?



Mr. Trump. Yes.

Mr. Judd. Did your Beach Haven Project win any awards?

Mr. Trump. Yes. We had an award, I don't remember, for excellence and design. We got a medal, but that has no bearing; no part of F.H.A.

Mr. Simon. Mr. Judd, would you get me the gift tax return and that appraisal that went with it, or the treasurer's estimate?

Mr. Judd. I will get you the treasurer's figure at any rate.

Mr. Trump. What bearing would that have on it? I don't understand.

Mr. Simon. It is the same year in which you got the F.H.A. commitment and I am interested in knowing whether the valuations are the same or whether they are substantially different.

Mr. Judd. You are not trying to double-check on the treasurer, are you?

Mr. Simon. We are trying to find out what the facts are.

Mr. Judd. Our position, Senator --

Mr. Simon. Mr. Trump bought this land during the war. In 1949 he made a gift of it to his children, and had it appraised for that purpose, and then the same year they got the F.H.A. commitment in which there was a value put on it for this rental purpose.

Mr. Trump. I think the year before we gave it to them.

Mr. Simon. You set out 1949 here.

Mr. Trump. I don't remember the dates.

Mr. Tosti. I believe the gift was completed in 1949. We started to work on it in 1948, before Bill Hyman died.

Mr. Trump. My attorney died in the meantime. He started two years prior to it and died.

Mr. Simon. We would like to know the date as of which that valuation occurred and the date as of which F.H.A.'s valuation occurred and the difference.

Senator Capehart. The Internal Revenue Department is furnishing us with most of our figures and you can rest assured of one thing, and that is that they are going to take a look at all the figures that we have.

Mr. Trump. They have checked us.

Senator Capehart. We have men on our investigating staff from the Internal Revenue Department, so whatever you have we would appreciate.

Mr. Trump. They are welcome to it.

Senator Capehart. The facts speak for themselves.

Mr. Tosti. The question of valuation people argue day and night and they will never come to the same conclusion as I have found out.

Mr. Simon. I don't want to argue that. I wanted to know if you would give it to us.

Mr. Tosti. One valuation is made, as I say, as of the day of a gift in August, 1949. The other valuation is made on the basis of a completed structure or on a completed project, which is two or three years later. That is what it amounts to.

(Whereupon, at 3:32 o'clock p.m., the Committee adjourned to the call of the chair.)