

STUDY OF
RECONSTRUCTION FINANCE CORPORATION

INTERIM REPORT
OF THE
COMMITTEE ON BANKING AND CURRENCY

PURSUANT TO

S. Res. 219
(81st Cong.)

TEXMASS PETROLEUM CO. LOAN



MAY 19 (legislative day, MARCH 29), 1950.—Ordered to be printed

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MAY 19 (legislative day, MARCH 29), 1950.—Ordered to be printed

Mr. FULBRIGHT, from the Committee on Banking and Currency,
submitted the following

INTERIM REPORT

[Pursuant to S. Res. 219]

The Banking and Currency Committee approved and agreed to report to the Senate the following interim report of the Subcommittee on Reconstruction Finance Corporation:

PREFACE

The Subcommittee on the Reconstruction Finance Corporation, having been designated by the Banking and Currency Committee of the Senate to conduct a study of the operations of the Reconstruction Finance Corporation pursuant to the terms of Senate Resolution 219, adopted February 8, 1950, herewith submits its first interim report.

The subcommittee proposes to consider the problem of availability of capital and credit to American industries, particularly to small-business enterprises; the need, if any, and its extent and character, for direct lending by the Government during a peacetime, nonemergency period. It will also explore the manner in which the lending powers, and limitations thereon, as described in the law, have been interpreted and applied by the Reconstruction Finance Corporation. The subcommittee will also examine the organizational structure and administrative efficiency of the Reconstruction Finance Corporation, its procedures and costs, as well as the extent to which its policies and activities are harmonized with the broader fiscal policies and programs of the Government.

The subcommittee has commenced a study of specific loans, believing that a discussion of broad principles and purposes unrelated to a specific factual situation is comparatively useless in obtaining an accurate picture of the character of the activities of a public agency. It is the subcommittee's hope that by observing the actual execution of congressional policy it can assist the Congress in formulating and expressing its future policy with respect to the Reconstruction Finance Corporation with greater clarity and in greater detail.

The first of these studies is the loan to the Texmass Petroleum Co.

CONCLUSIONS OF THE SUBCOMMITTEE

From its study of the facts and circumstances surrounding the Reconstruction Finance Corporation loan to the Texmass Petroleum Co., the subcommittee makes the following findings and conclusions:

1. From the record before the subcommittee, it is evident that the Board of Directors of Reconstruction Finance Corporation gave only casual and superficial consideration and study to the Texmass Petroleum Co. loan. Those Directors who approved this loan, and extensions thereof, disclosed inadequate knowledge of the significant facts and features of the Texmass Petroleum Co. loan. They overruled the findings and recommendations of their own review committee without persuasive evidence justifying such action.

The subcommittee believes that the lending of public funds is a function requiring at least an equal degree of care with that desirable for the protection of the investing public. The record shows, however, that the Securities and Exchange Commission in reviewing the registration of certain securities of the Texmass Petroleum Co. scrutinized the representations of the Texmass Petroleum Co. and the significant facts far more thoroughly and effectively than did the Board of Directors of the Reconstruction Finance Corporation with respect to the loan.

The subcommittee is of the opinion that the Directors of the Reconstruction Finance Corporation were remiss in their duty both in failing to avail themselves of the full facts within the control of the Securities and Exchange Commission and in failing to give adequate weight to those facts.

2. On the record before the subcommittee it appears that the primary consideration of the Texmass Petroleum Co. loan is not the interest of the general public. On the contrary, it is primarily a "bail-out" of existing creditors of the borrower. Eighty-one percent of the loan funds will go to insurance companies, banks, other creditors, and individual investors, minimizing their risk of loss in a highly speculative venture.

3. The Reconstruction Finance Corporation has failed to convince the subcommittee that this loan is of the character intended by Congress to be made under the authority of the Reconstruction Finance Corporation Act of 1948. The Reconstruction Finance Corporation in its records, its statement to the subcommittee, and the testimony of its officials has not made an affirmative showing that this loan will (as prescribed in the act) "encourage small business," "help in maintaining economic stability of the country," and "assist in promoting maximum employment and production," to the extent necessary to justify disbursement of public funds "to aid in financing agriculture, commerce, and industry."

4. The Reconstruction Finance Corporation has not established that the financial assistance to the Texmass Petroleum Co. "is not otherwise available on reasonable terms" (as required by the act). The subcommittee has in mind that the venture is of such speculative nature that financial assistance should have been provided, in part at least, by risk capital from private sources.

5. The Reconstruction Finance Corporation has not shown that the loan is of such "sound value or so secured as reasonably to assure retirement or repayment" (as required by the act). On the estimates

of reserves and earnings most favorable to the borrower, relied upon by the Reconstruction Finance Corporation, the loan cannot be repaid within 10 years, the maximum period for which Reconstruction Finance Corporation is authorized to make business loans. On the basis of estimates relied upon by the Reconstruction Finance Corporation of the value of the oil and gas reserves and equipment offered as collateral by the Texmass Petroleum Co. and the formula employed by the Reconstruction Finance Corporation to determine the sound loan value of such collateral, a loan in the amount of \$15,100,000 is not justified.

SUMMARY

Origin and brief financial history of Texmass Petroleum Co.

In 1944, Mr. Homer W. Snowden, a Dallas oil operator, and Mr. A. W. Smith, of Boston, Mass., induced a group of wealthy Bostonians to invest in oil ventures. For the most part, these investors acquired fractional participations in working interests in oil- and gas-producing properties. This type of investment is attractive to taxpayers in high Federal income-tax brackets because of tax-savings possibilities.

Fifteen separate ventures were organized, involving about 350 individuals, trusts, and institutions (appendix B). The amount invested exceeded \$8,000,000, most of which was paid to Snowden and his partners for drilling oil wells. The payments totaled approximately twice the actual drilling costs. Snowden and his partners also received overriding royalty interests in the properties.

Texmass Petroleum Co. was organized in October 1946 as successor to the Snowden partnerships. At the outset it was heavily burdened with the partnership debts which it assumed. During 1947 Massachusetts Mutual Life Insurance Co., John Hancock Mutual Life Insurance Co., and Mercantile National Bank of Dallas loaned Texmass a total of \$8,000,000 (appendix C). Additional loans were obtained from other sources. The proceeds of these loans were used primarily to pay obligations or to buy out the ownership interests of Snowden and his partners.

In January 1948 some of the original investors supplied \$1,000,000 in additional capital to bring new life to the enterprise. At that time, Snowden was relieved both of his responsibilities as a manager and his interests as an owner. The Texmass Petroleum Co.'s financial statements as of August 31, 1949, indicate that Snowden owed the company \$436,000. This amount was charged off as a bad debt.

By August 31, 1949, some \$22,480,000 had been paid into the predecessor partnerships and into Texmass Petroleum Co., and only \$3,890,000 remained in the form of property interests and tangible assets. This remainder was made up primarily of the cost of properties owned by Texmass, a large portion of which consisted of overriding royalty interests in leaseholds in which the working interests were owned by others.

History of the RFC loan

March 30, 1949, Texmass Petroleum Co. applied at Dallas, Tex., for a loan of \$22,500,000 from the Reconstruction Finance Corporation, \$18,500,000 to acquire properties and to pay debts, and \$4,000,000 for working capital. June 7, 1949, the application was reduced to

\$18,950,000, of which \$4,000,000 was to be used as working capital. The Dallas agency examiner recommended decline of the loan. The Agency Review Committee concurred. June 22, 1949, the Dallas Advisory Committee and agency manager recommended a loan for \$15,925,000.

Early in August 1949 the Board of Directors of RFC employed M. M. Garrett, of Dallas, Tex., a geologist and petroleum engineer, to estimate and report the value of the property offered as collateral. Based upon Garrett's report, made in early September 1949, the applicant filed a supplemental application.

Loan Agency Examiner C. E. Herrington reviewed the supplemental application in the light of the Garrett report and again recommended on September 12, 1949, that the loan be declined. The Review Committee recommended that the loan be made. September 21, 1949, the manager and the advisory committee recommended a loan of \$15,638,513.

Washington Loan Examiner W. J. Rochelle recommended decline of the loan from a credit standpoint. The five-man Washington Review Committee unanimously recommended decline.

September 29, 1949, the Board of Directors adopted a resolution approving a loan of \$15,100,000 upon the condition, among others, that \$5,000,000 thereof be supplied by existing secured creditors of Texmass Petroleum Co. Less than \$1,500,000 was for working capital, \$12,438,513 was to pay off existing secured and unsecured indebtedness, and \$1,200,000 was to be used to acquire additional oil and gas properties (appendix A). Of the five Directors of RFC, Directors Gundersen and Dunham voted for the resolution. Director Willett opposed it. Chairman Hise was present but disqualified himself. Director Mulligan was absent because of illness.

The plan of Texmass called for the acquisition of certain outside oil properties and the working interests of individual investors in Texmass Petroleum Co. acreage. These were to be bought partly out of the proceeds of the loan and in part by the issuance of securities. Since the latter involved a public offering, it was necessary to register the proposed securities with the Securities and Exchange Commission. In its prospectuses, Texmass Petroleum Co. set forth certain facts with respect to its past history and that of its affiliated enterprises, and it described the proposed plan of reorganization and operations thereunder. Pursuant to SEC procedures, Tell T. White, petroleum engineer and geologist for the Securities and Exchange Commission, made an analysis and evaluation of the company's oil reserves. White's evaluation was substantially lower than that of M. M. Garrett, the RFC petroleum engineer. Learning this, RFC asked the Texmass Petroleum Co. to obtain the opinion of another petroleum engineer. C. H. Keplinger, approved by RFC, was employed by Texmass. His report was submitted March 6, 1950.

The original resolution of September 29, 1949, provided that the commitment for a loan would expire 60 days thereafter, namely, November 28, 1949. Extensions of time within which the borrower might fulfill the conditions of the loan resolution were made from time to time, as follows:

December 1, 1949, the Board adopted a resolution extending the time for an additional 90 days, expiring February 28, 1950.

February 23, 1950, an additional 30-day extension was granted.

March 20, 1950, after the proceedings before the SEC and after the RFC had obtained the geological engineering report of Mr. Keplinger, the time for performance of the conditions by Texmass was extended for an additional 30 days, expiring April 27, 1950.

April 27, 1950, after the subcommittee's hearings, a further extension of 30 days was granted.

The subcommittee's study

After a preliminary study of the facts by the staff of the subcommittee, the Comptroller General of the United States was asked to review the facts, to express his opinion as to the legality of the Texmass loan and to advise the subcommittee of the comment he would make with respect to it, pursuant to his duties under the Corporation Control Act. This act requires the Comptroller General in his audit report—

to show specifically any program, expenditure, or other financial transaction or undertaking observed in the course of the audit which, in the opinion of the Comptroller General, has been carried on or made without authority of law.

The Comptroller General replied that unless additional evidence refuted the facts before him he would report the Texmass loan to be a transaction without authority of law (hearings, p. 9).

April 13, 1950, the subcommittee heard the testimony of the Comptroller General, officials of the Securities and Exchange Commission and the chairman and other officials of the Reconstruction Finance Corporation. The RFC officials requested and were allowed time for preparation of a statement justifying the Texmass loan. April 22, 1950, the subcommittee heard the further testimony of officials of the Corporation and the report on Texmass properties of the petroleum engineer of the Securities and Exchange Commission.

April 26, 1950, the subcommittee transmitted to the Senate Banking and Currency Committee its statement of conclusions with respect to the Texmass Petroleum Co. loan, as hereinafter set forth in this report.

April 27, 1950, Mr. John H. Murrell appeared before the subcommittee under subpoena. Mr. Murrell is a professional geologist and petroleum engineer, a partner in the firm of De Golyer & MacNaughton of Dallas, Tex. He described the accepted principles and practices in the estimation of reserves of oil in the ground, the estimation of market values of oil properties by prospective buyers and the determination of loan values of oil properties by prospective lenders.

THE PUBLIC INTEREST

On the record before the subcommittee it appears that the primary consideration in the Texmass Petroleum Co. loan is not the interest of the general public. On the contrary, it is primarily a "bail-out" of existing creditors of the borrower.

In Report 974, Eightieth Congress, second session, the predecessor to this subcommittee recommended as an additional "control" upon the lending powers of the Reconstruction Finance Corporation the following:

Second. In deciding whether to grant a loan, the primary consideration should be the interest of the general public rather than the interest of the individual

borrower. * * * The committee believes that RFC should not engage in lending of a purely private character where the benefit to the general public is remote, whether the loans be large or small.

This test was not intended to add to the lending powers of the Corporation, nor to minimize or weaken the statutory restrictions and limitations. On the other hand, in this subcommittee's view, it was intended as an additional limitation to be considered and applied only when a loan had otherwise qualified for assistance from public funds by coming within the statutory purposes and powers, and meeting the test of the statutory restrictions and limitations. In other words, after a loan has clearly qualified under the statute then, and then only, should the question of public interest be raised or considered.

The subcommittee realizes that the test of public interest is a broad one, susceptible to many varieties of meaning. Used as an additional reason for granting a loan, it would serve to expand the Corporation's authority immeasurably and preclude any clear accounting for the exercise of such power. Used, however, as an additional check upon the powers of RFC, the test, although broad, may have utility.

The subcommittee is disturbed that in the Corporation's official statement to the subcommittee, and in the testimony of the RFC officials, the concept of public interest seems to have been employed as an addition to the statutory lending powers. The comments in the statement under "Public interest" point to the importance of oil to our national economy, the need of conserving oil resources and possible repercussions in a locality from business failures. The statement includes brief statements from bank officials in Dallas, Tex., commenting generally upon the Texmass loan (hearings, p. 62).

Director Gunderson, according to his testimony, seems to have been moved to vote affirmatively for the loan primarily on the ground that for national defense it is imperative to conserve oil resources, and he had been informed that rehabilitation of the Texas wells would accomplish this objective.

The subcommittee is of the view that subordinate officials of the RFC came nearer the proper employment of the concept of public interest as contemplated in the committee report in the Eightieth Congress. The full comments of the Washington Review Committee are presented in this report at page 14.

A major accomplishment of the loan to be made to Texmass Petroleum Co. by the Reconstruction Finance Corporation will be the bail-out of two insurance companies which now hold loans of doubtful value. In the readjustment financed by the loan, the insurance companies will recover in cash a little more than 50 cents on every dollar now owed to them by the borrowers. Their position as creditors of Texmass after the readjustment will be less favorable relatively than their position as creditors before the readjustment because the RFC loan will have the effect of raising other items of indebtedness to a parity with that held by the insurance companies, whereas those other items of indebtedness are now subordinate to the insurance company loans. This disadvantage, and the further disadvantage that the loans will be serviced by 50 percent of the proceeds from oil runs where 60 percent is now being applied, in the opinion of the subcommittee, are not factors of compelling importance when compared with the primary factor that 50 percent of the present loans will be recovered in

cash by the insurance companies immediately, and a balance of only \$4,000,000 will remain at risk.

The insurance companies had not been firmly committed to participate in the Texmass loan at the time of the subcommittee's public hearings. They have indicated to the subcommittee that they intend to participate, though they have had the opportunity to study the facts disclosed by the hearings and should know that the loan which they will hold after consummation of the plan of readjustment will be, according to the estimates of the RFC geologist, Garrett, considerably below their own standards of lending on oil properties and also considerably below the standards required of them by insurance commissioners (hearings, p. 195). Their decisions not to withdraw from the plan after considering these facts confirm to the subcommittee its view that the insurance companies are happy to have the RFC bail them out of a bad situation.

Under the loan agreement 81 percent of the total of \$15,100,000 will be used to repay existing debts and \$500,000 out of the remainder will go to purchase property interests held by the original investors who were attracted to the venture by the prospect of speculative profits and the certainty of tax savings. Under the plan of which the RFC loan is a part, 60 percent of the common stock of Texmass will be issued to two persons for no cash consideration, but in connection with employment contracts.

On the evidence before it, the subcommittee is of the opinion that the Texmass loan is primarily in the interest of the Texmass Petroleum Co., its creditors and investors and not in the interest of the general public. The subcommittee cannot find evidence that any public purpose will be served by the Texmass loan or that any reliable information was presented to Directors Gunderson and Dunham, who voted affirmatively for this loan, that should have led them to conclude that a public purpose would be served.

If this "bail-out" serves a public purpose under present conditions, the subcommittee has difficulty in visualizing any situation where a loan otherwise qualified under the statutory standards could be declined because it fails to serve the public interest.

FULFILLMENT OF THE PURPOSES OF THE RFC ACT

The Reconstruction Finance Corporation has failed to convince the subcommittee that this loan is of the character intended by Congress to be made under the authority of the Reconstruction Finance Corporation Act of 1948.

The business-lending powers and purposes are set forth in section 4 (a) of the act. They are as follows:

- (a) To aid in financing agriculture, commerce, and industry.
- (b) To encourage small business.
- (c) To help in maintaining the economic stability of the country.
- (d) To assist in promoting maximum employment and production.

It is the view of the subcommittee that the records of RFC should affirmatively show in what manner, and for what reasons, the making of the particular loan will "aid in financing agriculture, commerce, and industry," how it will "encourage small business," how it will "help in maintaining economic stability," and "assist in promoting

maximum employment and production." Unless there is a convincing showing that the particular loan under consideration will accomplish such purpose, there is no basis for public assistance through the RFC and no authority in the RFC to loan public funds to the borrower.

In the view of the subcommittee, it is only after establishment of such a case that the restrictions set forth in the act need to be considered. Neither in the statement presented by RFC with respect to the Texmass loan or the testimony before the subcommittee, nor in the records of the Corporation is there evidence showing in what manner the loan will encourage small business, maintain economic stability, or promote maximum production and employment.

It is true that these principles are broad. Applied to a specific factual situation, the minds of reasonable men may differ with respect to their meaning. It is also true that the presence of these factors in any given situation is one of degree. On the record before it, the subcommittee is of the view that if these features are present at all in the Texmass loan, they are present only microscopically. If the Texmass loan will encourage small business, maintain economic stability, or promote maximum production and employment, the subcommittee is at a loss to conceive of any proposed loan which would not be eligible for public aid through the RFC. The subcommittee does not believe that the Congress intended to provide public aid in situations such as that surrounding the Texmass loan.

The subcommittee is of the opinion that there is no showing that the Texmass loan will encourage small business. Indeed, this reason was not advanced by the directors of RFC who voted for the loan, as justification for their decision.

Similarly, the subcommittee finds no facts in the records before it which convince it that the loan to Texmass will contribute in any appreciable way toward maintaining the economic stability of the country. The loan may help maintain the economic stability of the Texmass Petroleum Co. However, the subcommittee cannot visualize any perceptible effect upon the economic stability of the country, whatever may be the fate of the Texmass Petroleum Co.

Likewise, there is no showing in the record before the subcommittee that the loan to the Texmass Petroleum Co. will promote maximum employment and production. L. B. Glidden, agency manager of the RFC in Dallas, Tex., testified that the Texmass Petroleum Co. employs only 90 persons (hearings, p. 53). The subcommittee notes that these employees are located in scattered oil fields in six States where there is likelihood of their employment by others in the oil-producing business, in the event of cessation of Texmass operations. Furthermore, there is likelihood that the producing wells of Texmass will continue to be operated whether Texmass Petroleum Co. owns them or not.

With respect to the promotion of maximum production, the officials of RFC have pointed out the importance of the oil industry and the importance of preserving our national resources. They do not contend that more oil production is needed now. They assert, however, that the wells of the Texmass Petroleum Co. have been neglected, that neglect of oil wells tends to limit the amount of oil which can ulti-

mately be lifted from them and they contend that a part of our national oil reserves will be lost forever unless rehabilitation of the Texmass wells occurs soon.

The subcommittee believes it is important to conserve our national resources. However, this desirable objective is not one of the purposes and powers specified in the act as a basis for the lending authority of the RFC. Neither can it be maintained with reason that such a purpose can be discerned in the stated powers. The subcommittee is concerned that the RFC officials have seen fit, seriously and officially, to present to the subcommittee a new purpose and power, however laudable the objective, which cannot conceivably be found within the provisions of the act.

Although persuaded that the loan might contribute toward conservation of the Nation's oil resources, the Directors of RFC had little evidence that the conservation would actually be accomplished, and they had no evidence that there would be conservation commensurate with the amount of public funds to be expended under the loan agreement.

In the statement made to the subcommittee by RFC with respect to the Texmass loan, it is also suggested that this loan is "in conformity with the spirit of the Reconstruction Finance Corporation Act."

It is the subcommittee's view that the Texmass loan is not in conformity with the spirit of the act as interpreted in Report No. 974, Eightieth Congress, second session. The subcommittee believes that the spirit of the act should be interpreted in the light of the report and that so interpreted it should lead the Corporation to curtail its lending functions at the present time, and not to expand them. This can be done, in part, by requiring a stronger showing on the part of the applicant that a proposed loan is eligible under the purposes and limitations of the act, not a weaker showing.

A more recent statement of this policy is contained in a report of Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report (S. Doc. No. 129). That report says, at page 47:

By lending and guaranteeing loans on liberal terms during depressed periods and by following more restrictive policies in periods of high employment they (Federal credit agencies) can be an influence toward general economic stability and can assist flexible monetary and fiscal policies. But by following quite liberal policies at all times they may actually contribute to instability and at least partially defeat appropriate monetary and fiscal policies.

Viewed in this light, it is the subcommittee's opinion that the loan to the Texmass Petroleum Co. is an expansion, not a curtailment, of RFC activities. Except in a minor way, the Corporation has not previously in a peacetime, prosperous period engaged in the business of financing oil-producing ventures. The Directors do not claim to be, and they do not appear to be, particularly well-informed in the oil business, nor in the business of making loans to oil-producing companies. At its best, the Texmass loan is marginal. If the lending operations of RFC are to be curtailed in peacetime prosperous periods, doubts should be resolved against marginal loans.

On the whole, it is the subcommittee's conclusion that the loan to the Texmass Petroleum Co. does not come within the purposes sought to be achieved by Congress in continuing the Reconstruction Finance

Corporation during a peacetime, nonemergency period, nor within the lending powers delegated in the RFC Act.

Most of the testimony and most of the statement of justification by RFC dealt with the statutory limitations on lending powers. Apparently the Corporation assumes that it has the power to make any loan it desires unless the statutory restrictions prevent it.

If this is, in fact, the considered position of the Corporation, the subcommittee does not accept it. The subcommittee believes it should affirmatively appear that the purposes intended by the Congress will be effectively served before the power to make a loan arises.

AVAILABILITY OF FINANCIAL ASSISTANCE FROM OTHER SOURCES

The Reconstruction Finance Corporation has not established that the financial assistance to the Texmass Petroleum Co. "is not otherwise available on reasonable terms" (as required by the act).

Section 4 (b) of the Reconstruction Finance Corporation Act provides, among other things, that no financial assistance shall be extended unless it is not otherwise available on reasonable terms. The financial assistance required by Texmass Petroleum Co. could have been supplied in one or more of a number of ways. There could have been a further injection of risk capital by the persons who will be the equity owners of the enterprise when the plan of readjustment is consummated. There could have been a composition of the claims of all existing creditors accompanied by an agreement for the orderly deferment of maturities so that the burden of payments might be eased during a rehabilitation period. There could have been a readjustment of the collateral on existing indebtedness so that the company might make use in its business of an increased portion of the revenues from oil runs, applying a lesser portion to repayment of debt.

There has not been a conclusive showing that the present creditors and investors will make a contribution to the financing of the Texmass Petroleum Co., commensurate with their means or with their interest in its rehabilitation and successful future operation. Director Gunder-son testified that existing creditors could have supplied more assistance than they have undertaken to supply. He said (at p. 146 of the hearings):

* * * if they had done that there would have been no necessity for this loan being made.

It is the opinion of the subcommittee that the restriction in the law with respect to financial assistance from other sources was not applied by the Directors of RFC with the vigor appropriate under the circumstances. The requirements of this restriction cannot be met by simple reliance upon the adamant position of existing creditors, particularly when they are the principal beneficiaries of the loan.

SOUNDNESS OF THE LOAN

The Reconstruction Finance Corporation has not shown that the loan is of such "sound value or so secured as reasonably to assure retirement or repayment" (as required by the act).

The Texmass Petroleum Co. in its final prospectus, filed with the Securities and Exchange Commission, said the following:

Based upon recent reports made by petroleum engineers, it appears that the developed oil and gas reserves and the reserves contained in the proven but undeveloped acreage controlled and to be controlled by the company are insufficient to create a present value for the securities offered hereby.

Accordingly, the only hope for value accruing to such securities in the future appears to be based upon the possibility of future important discoveries in unproven acreage (of which the company has relatively little) or at unproven levels.

Even if during the 10-year loan period the company makes the minimum payments required by the loan agreement, there will remain at the end of such period an unpaid principal amount of approximately \$6,150,000, which will then be due and owing. If this amount is not paid or refunded, the securities offered hereby, all of which rank junior to the loan, will in all probability be wiped out. Considering the above, investors should realize that the company's securities offered hereby are highly speculative, that they have no present value, and that any future value thereof is very remote and is dependent upon future development of substantial additional oil and gas reserves which cannot be counted upon.

The foregoing, together with the history and the prospects of the Texmass Petroleum Co. as developed in the prospectus, and the character of the Texmass properties disclosed by the reports of the petroleum engineers, impels the conclusion that the venture is a highly speculative one.

During the course of the hearings before the subcommittee the RFC Directors who voted to approve the Texmass loan frequently referred to an amount of \$42,906,290 and an amount of \$28,650,007 said to be the value of collateral which will be pledged to secure repayment of the \$15,100,000 loan. These totals do not represent the loan value of the collateral; they are explained as follows:

(1) Future net revenues to be derived from proved developed oil reserves—this is not the present value of the future revenues and it is not adjusted for possible oil-selling-price declines...	\$28, 650, 007
(2) Estimated realizable value of undeveloped oil reserves—made up primarily of reserves which, according to the borrower and others, cannot be recovered at a profit by presently developed methods.....	10, 101, 480
(3) Book value of machinery, equipment, and other tangible property—this is not an estimate of realizable values.....	4, 154, 803
Total.....	42, 906, 290

Referring to the future net revenues of \$28,650,007, in a letter written to RFC on September 15, 1949 (hearings, p. 35), the engineer, Garrett, said:

The foregoing figures can in no way be termed the value. The fair market value would be the present trading price on properties of this character. An estimated average fair market value would be \$1 per net barrel for the oil and 3 cents a thousand cubic feet for the gas. The value given for the compressor plant is its fair market value. On the foregoing basis, the present fair market value for the properties would be as follows:

	<i>Fair market value</i>
Company:	
Texmass (includes compressor plant).....	\$7, 923, 454
Investors group.....	1, 909, 323
Swiss-Midway.....	1, 054, 622
National Co-op.....	756, 441
Petroleum reserve.....	2, 701, 639
Total.....	14, 345, 479

In the same letter (hearings, p. 36), Mr. Garrett said further with respect to the collateral:

As previously stated the current long-range outlook is for lower prices for crude oil. It is believed that such a decline in prices will not exceed 50 cents per barrel. The effect of a 50-cent-per-barrel cut will be as follows:

Present estimated future total revenue from oil-----	\$26, 721, 055
Effect of 50-cent-per-barrel reduction-----	6, 565, 652
<hr/>	
Net future revenue on oil after cut-----	20, 155, 403
Total net revenue after cut-----	22, 084, 355

In addition to the cut in revenue, it is my opinion that the fair market value would be lowered by at least 10 percent on the oil properties. This would result in lowering this figure from \$14,345,479 to \$12,906,725.

Mr. Garrett did not furnish the RFC an estimate of sound loan value of the Texmass properties. The subcommittee subpoenaed John H. Murrell, a member of the firm of De Golyer & MacNaughton, petroleum engineers of Dallas, Tex. Mr. Murrell described the principles and practices governing the amount prudent lenders customarily lend on oil properties, and he estimated the sound loan value of the Texmass properties on the basis of evidence in the subcommittee's record.

Mr. Murrell told the subcommittee (hearings, p. 195) that—

All banks whom I have consulted with regard to loaning money on oil and all lenders, including large insurance companies whom I have consulted, always take into consideration a risk of a drop in the price of the commodity on which you wish to borrow or put up as collateral.

He testified further, as follows:

Senator DOUGLAS. Now, what ratio will be the amount that the prospective lender will lend in relation to fair market value?

Mr. MURRELL. Most—the New York Insurance Commission, which governs, issues regulations or procedure as to loans by insurance companies operating under their laws up there, have allowed those companies to loan up to 60 percent of the fair market value per barrel of oil in the ground, recoverable, and that fair market value per barrel recoverable for oil in the ground must be set by a competent petroleum engineer according to their rules and regulations.

Now, certain banks, when they know the management of a company and they know the company has other credit besides the property which they loan on, might loan as much as 100 percent.

Senator DOUGLAS. But that is unusual?

Mr. MURRELL. That is very unusual and there must be other collateral behind the corporation.

I would say that 60 to 75 percent of fair market value is all that a prudent lender should loan if the only collateral—if there is no recourse beyond the collateral of oil in the ground.

The reason I say 60 to 75 percent of the fair market value, which I would determine as one-half of the present worth of future net revenue discounted at 4 percent, is that when I figure my future net revenue I am figuring on the present price of oil, and there is a possibility that price of oil can go down. There is a risk there.

There is a further risk that one as a loaner must look at, and that is my petroleum engineer might be 5 or 10 percent high in his estimates, rather than 5 or 10 percent low. That is a risk the lender is taking and he must take that into consideration.

So I would say that between those things, I do not think that a prudent lender would loan more than 75 percent of the fair market value of a commodity (hearings, pp. 195-196).

With respect to the sound loan value of the Texmass properties, Mr. Murrell testified:

Senator DOUGLAS. Now, the highest estimate of the proved developed reserves behind the Texmass loan made by the geologist for the RFC, Mr. Garrett, was 12,500,000 barrels and proved undeveloped reserves on Texmass properties totaled about 2,000,000 barrels. Added together without any distinction they would amount to about 14,500,000 barrels.

Now, to any prudent lender, Mr. Murrell, would reserves of 14,500,000 barrels today be sufficient to secure the repayment of a loan of \$15,100,000?

Mr. MURRELL. I know of no lender that could even consider a loan of that type, sir, not because the loan involves a lot of money but because it would be loaning more money than they could step out and sell the properties for, actually sell them for, in my opinion.

Senator DOUGLAS. How large a loan could 14,500,000 barrels of scattered oil reserves command among ordinary commercial lenders who make loans on oil-producing property, and I will assume that the average production from these scattered wells under consideration runs to about 9 barrels per well per day and the yield has been declining?

Mr. MURRELL. A prudent lender, in my opinion, would under no circumstances loan as much as 60 cents a barrel on the 14,500,000 barrels, and it would more probably be closer to 50 cents a barrel, or \$7,250,000.

Senator DOUGLAS. You think that would be not far from a fair loan value, assuming that these facts are correct?

Mr. MURRELL. Assuming those facts are correct, \$7,250,000 would be a very good loan value.

Senator DOUGLAS. Well, now, I would like to point out, Mr. Murrell, that these are estimates based on the figures estimated by the geologist for the RFC which were the highest of the three, 14,500,000; the estimate of the SEC man, Mr. Tell T. White, on the proved developed reserves totaled about 7,000,000 barrels; and for the Texmass reserves on undeveloped properties totaled about 900,000 barrels.

Now, this is the low figure. If you lump them without distinction, and you have emphasized you should distinguish, this would be about 7,900,000 barrels.

For properties of this same type would you estimate how much of a loan could be obtained from a commercial lending source on oil reserves of 7,900,000 barrels?

Mr. MURRELL. Well, I would say the same yardstick would apply, and that is between 50 and 60 cents a barrel could be loaned. I am assuming in my answers, however, that both estimates are correct and obviously one is based on different assumptions from the others.

Senator DOUGLAS. Yes. Well, if these estimates are correct of 9 barrels per day per well with a declining yield and the reserves lie between the upper and lower estimates, namely, 14,500,000 and 7,900,000 barrels, respectively, the lenders should not lend, according to your estimate, more than \$7,250,000 and might, if you take the White estimate, loan only \$4,000,000? (hearings, pp. 198-199).

The most optimistic estimates of Texmass oil reserves and future revenues at the disposal of the Directors of RFC were those provided by the engineer, Garrett. However, his letter of September 15, 1949, addressed to an employee of the Corporation (hearings, p. 38) reported specifically that the loan could not be repaid in 10 years under the circumstances foreseeable at that time, and his letter of the same date addressed to the Corporation (hearings, p. 37) reported:

On a 2-to-1 ratio of net revenue to loan the collateral is sufficient to justify a loan of \$14,325,000. On the ability to pay no loan of sufficient size to take care of the company's indebtedness is in any way justified. Only a rapid expansion of both assets and income would justify the loan at the figure given. This can be effected only by placing the loan at a figure so high that it would not be secure.

On the evidence, it appears that the Directors of RFC approved the loan to Texmass Petroleum Co., notwithstanding that the loan, according to accepted principles of lending on the security of reserves of oil in the ground, is not, as required by law, of such sound value or so secured as reasonably to assure retirement or repayment.

DECISIONS OF THE DIRECTORS OF RFC

From the record before the subcommittee, it is evident that the Board of Directors of Reconstruction Finance Corporation gave only casual and superficial consideration and study to the Texmass Petroleum Co. loan.

The loan to Texmass Petroleum Co. was approved by RFC on September 29, 1949, by a 2-to-1 vote of three Board members. Directors Dunham and Gunderson voted to approve. Director Willett voted against approval. Chairman Hise was present when the application was discussed and the action taken, but he disqualified himself from voting because he is related to the wife of a prospective official of the borrower. Director Mulligan was absent from the meeting. Director Dunham feels that Chairman Hise's attempt to disqualify himself from the voting on the loan may have been ineffective (hearings, p. 78). He reasons, persuasively, that the Chairman's presence may have been tantamount to participation in approval of the loan since the Chairman did not cast the negative vote which would have deadlocked the Board and prevented approval.

At the time of the meeting on September 29, 1949, the Board had received a report on the Texmass application prepared by the Review Committee of the Washington office of RFC. The Review Committee was made up of five men described to the subcommittee by Chairman Hise as senior examiners who had been with the Corporation for many years and who were regarded as able, reputable, and competent men. All five members signed the report. None dissented from the findings expressed in it. The committee advised the Board as follows:

COMMENTS OF REVIEW COMMITTEE OF THE RECONSTRUCTION FINANCE CORPORATION

The committee recommended decline of this applicant's previous request for a loan of \$18,950,000. The purpose was felt to be much less in the public interest than it was in the financial interest of some banks and insurance companies, and for the potential benefit of a group of individuals, neither of whom offered a participation in the loan or was willing to inject new cash into the enterprise. Adequacy of the collateral and ability to repay from operations were, in the committee's opinion, questionable.

In its present request the applicant, in our opinion, has not improved these factors sufficiently to justify a favorable recommendation notwithstanding that the loan amount has been reduced to \$15,638,513 and certain of the bank and insurance-company creditors have offered to participate approximately 30 percent. Reduction of the loan is largely at the sacrifice of working capital which is vital to the enterprise and would have to be provided later.

The proposal to consolidate these several interests is a very complex and confused deal. The interested parties advise that after the reorganization the company will owe approximately \$26,000,000, and without drilling any additional wells, Mr. Garrett, the geologist, estimates that there should be a future net revenue of about \$28,000,000. Further, these parties say that unless something is done immediately, the value will be lost to them. After the reorganization is completed and if the loan is approved, two individuals will own 60 percent of the equity interest without any cash investment.

One of the interested parties, Mr. A. W. Kincade, is now president and chairman of the Fourth National Bank, Wichita, Kans. It is expected that he will resign and become active in the reorganized company. His bank is to receive some \$600,000, which the Swiss Oil Co. and Midway Oils, Inc., are now owing that institution. Also, National Cooperative Refinery Association is indebted to his and another bank in the approximate amount of \$1,000,000; \$700,000 of the loan is going to be used to buy leases from National Cooperative Refinery Association. Mr. Kincade's bank may receive a substantial part of this sum. When asked if his bank would participate, he stated quite definitely that it would not. The

reason given was that he was leaving the bank and, therefore, it would not be interested in carrying these loans any longer, nor would they be interested in participating with the RFC. Further, he did not feel it would be proper to have his bank participate in a loan to a company that he was becoming interested in.

One million dollars of the proceeds of the loan is to be used to pay the Investors Group. These people are comparable to stockholders in a corporation today. The same is true of the National Cooperative Refinery Association. Further, \$400,000 of the loan is going to be used to pay a bank in Boston. At the present time this loan is endorsed by four wealthy individuals. Under the proposal, the bank will participate to the extent of \$200,000. These individuals would continue to endorse the \$200,000, but would be released from the guaranty on the balance.

A statement was made on September 26, 1949, by one of the interested parties that Texmass Petroleum Co. is in a precarious position. Creditors are pressing; Republic Steel, a creditor to the extent of \$1,800,000, has threatened suit. In the reorganization Republic Steel is to receive \$800,000 cash and stand by on \$1,000,000. Republic Steel at the present time has a second mortgage on Texmass properties, which are encumbered with prior liens of \$7,500,000.

It is difficult to understand, and we question whether we have the full story why a man of Mr. Kincade's caliber would resign his position in the bank to take over the management of an oil company without compensation when on the face of it, unless sale is made as referred to below, it will take some 20 years before he can expect any return on the stock which he is to be given when the reorganization is completed.

The Garrett report brings out the following points:

(1) Fair market value of the properties offered as collateral will be approximately \$14,300,000.

(2) The rehabilitation contemplated will not increase the total income materially but will accelerate it.

(3) There is a trend toward overproduction which will result in greater restrictions and lower prices.

(4) The drilling of new wells, if done in an orderly manner, will not materially increase the production, but it will maintain it at the present level.

(5) On the ability to pay, no loan of sufficient size to take care of the corporation's indebtedness is in any way justified. Mr. Garrett modified this statement by saying that he was wrong in his estimate on income taxes and that the figures submitted by the company, showing that a loan of \$14,200,000 could be reduced to \$5,000,000 by applying all of the net income to the loan, were, in his opinion, a fair estimate.

As we stated before, the case is very complicated and many questions cannot be satisfactorily answered. For instance, the National Cooperative Refinery Association is selling properties valued at \$2,400,000 for \$700,000 in cash, and a \$200,000 deferred and subordinated obligation. The same is true of Swiss Oil Co. and Midway Oils, Inc. In this instance they are to receive \$800,000 for properties valued at \$3,500,000. The insurance loans were made in 1947. At that time a great portion of the stock of Texmass was retired and the stockholders received \$2,300,000 of the proceeds of the loan. Mr. Clark, a representative of the Investors Group, stated today that these funds were again loaned to Texmass to protect the properties, or invested in Petroleum Reserve.

It is difficult for the committee to see any great public interest for from all the figures and statements we have received, creditors and investors can be paid a hundred cents on the dollar if the present income remains constant and potential oil reserves materialize. The two individuals who are to own 60 percent of all of the stock of the new company can materially benefit from a speculative standpoint, for after the consolidation and the granting of the loan, the properties will be integrated and it is possible that they could be sold for a handsome profit, if drilling new wells should result in substantial production.

The interested parties do not agree with the Garrett report in that they think that he should have assigned some loan value to the proven reserves, that his statement with respect to the income over a period of years is not correct, and the trend of lower prices is not entirely true because at the present time prices are stiffening rather than going down. The interested parties are confident that income will be increased substantially through the drilling of additional wells and by the competent management that is going to take over. Apparently, from statement made, the management has not been satisfactory, but whether the new management can do better is still unproven. It is believed that if a

loan is made it will have to be increased from time to time in order to drill the new wells and keep up production, unless the new management is able to increase the production on lower operating costs.

Review committee recommends.—Decline for the reasons that—

1. The loan has little, if any, public interest.
2. Proposed rehabilitation is in reality a salvage operation for which there should be a further injection of risk capital. A loan of an amount that would properly rehabilitate and develop the properties is not warranted.
3. Loan is largely a bail-out of investors and certain creditors who presently appear to be faced with a loss.
4. Report of consultant, Mr. M. M. Garrett, is not encouraging as to repayment of loan from earnings and does not find sufficient tangible collateral.

G. P. LUCE.
J. C. KITT.
FRANK T. RONAN.
T. E. PARKS.
R. G. RHETT.

Notwithstanding the findings of the Review Committee, Directors Dunham and Gunderson voted to approve the loan, but made no record of the facts and reasons on which their decisions were based. Directors Dunham and Gunderson explained that they relied upon the facts stated by subordinate officials but disagreed with their conclusions and recommendations. Neither claimed to have knowledge of facts which the subordinate officials did not have, and neither professed expertness or substantial experience in lending in the oil industry.

Director Dunham, when asked to state his reasons for approving the application over the strong negative advice of the Review Committee, said:

I have this feeling: That the oil business as such is a very fundamental business. I came from Detroit, as you know, and we would not have Detroit without the oil business. Texas itself is a very important oil-production State. It produces about 33½ percent of all the world, or rather in the United States. These particular wells had been drilled. They had been neglected through the application of a bad loan, the application of mismanagement, or whatever the cause. The expense of drilling these wells had been absorbed. They could produce a valuably increased production if it were properly taken care of, and I felt that income from those properties and a continuation of the property under good management would be ample to pay these loans, and I voted for it for that reason (hearings, pp. 49, 80).

Director Gunderson gave as his principal reason that:

* * * the national interest was in favor of proper conservation of oil and gas properties, and if the people who already owned the property and the people to whom the money was already owed indicated their concurrence and belief, and we could make a good loan, that it ought to be made (hearings, p. 86).

Among the factors which were relied on by the directors in approving the loan was the affirmative advice of certain Texas bankers and businessmen. Director Dunham testified that he had discussed the loan with personal friends who were bankers in Texas in whom he had great confidence. Director Gunderson testified that he relied on the judgment of a member of the advisory committee of the Dallas loan agency, whom he regarded as being well informed in the oil business and in whom he had great confidence.

The views and opinions of bankers and others outside of the RFC who are not accountable to the Government for their decisions cannot serve to diminish the responsibility of the Directors of the Corporation for the proper exercise of its lending powers. Neither can such views or opinions be considered as substitutes for a proper knowledge of the facts in forming the basis for the decisions of the directors.

The subcommittee, on the record, concludes that Directors Dunham and Gunderson disregarded not only the recommendations of the Review Committee, but also the facts cited in the Review Committee's report. They also disregarded the facts cited by, as well as the recommendations of, Loan Examiner Herrington, and they ignored the estimate of RFC Geologist Garrett that the fair market value of the Texmass properties was only \$14,345,000. They also failed to follow the practice of prudent lenders in discounting such fair market value in arriving at the amount which could safely be loaned on the Texmass properties.

On the other hand, Directors Dunham and Gunderson admittedly relied upon the total of estimated future net revenues in their appraisal of the properties, which is not a sound basis for evaluating oil properties to determine whether a loan is so secured as reasonably to assure repayment. They also relied on outside advisers and upon agencies within the RFC who, although recommending the loan, cited no facts and reasons to support their recommendations.

The facts should have impelled decline of the loan.

The subcommittee notes that Allen Freeze, Assistant Controller of the RFC, is, according to the Texmass prospectus, the nominee of Texmass for the positions of vice president, controller, and director of Texmass under its plan of reorganization. The subcommittee notes also that Mr. Freeze acted for RFC with respect to the Texmass financing in at least two matters. He contacted the Securities and Exchange Commission in connection with the proceedings there (hearings, p. 17). He was active in the preparation of material presented by the RFC to this subcommittee (hearings, p. 128). It is the view of the subcommittee that RFC should have entrusted these duties to employees other than Mr. Freeze.

Notwithstanding the original decision of September 29, 1949, the Board of Directors of RFC had three opportunities to reconsider the commitment prior to the first of the subcommittee's hearings. The time limit within which the borrower was to meet the conditions of the loan was extended on each of the three occasions. The last two extensions were granted after Texmass had engaged in proceedings before the Securities and Exchange Commission in which a substantial amount of additional factual information and expert opinion was developed.

This information included factual representations by the company, as well as an analysis and appraisal of the Texmass properties by a competent, disinterested petroleum engineer, Tell T. White, a full-time member of the staff of the SEC.

The subcommittee believes it is important to note that the facts and expert opinions developed in the proceedings before the SEC were for the benefit of prospective investors among the general public, with respect to securities junior to, and therefore admittedly more speculative than, the underlying first lien obligation contemplated in the RFC loan. The subcommittee believes that the lending of public funds should be undertaken with equal, if not greater, care in ascertaining the facts than that exercised with respect to the investment of the funds of private individuals.

Notwithstanding the availability of full and accurate information with respect to the Texmass properties in another Government agency

within the city of Washington, the Directors of RFC made little use of it. Director Dunham, upon learning of the SEC proceedings did make an inquiry. As a result of this inquiry, RFC prevailed upon the Texmass Petroleum Co. to employ a second petroleum engineering firm, Keplinger & Wanenmacher, to check the figures of the RFC geologist, M. M. Garrett. Neither Director Dunham nor Director Gunderson read or asked for the prospectus of the Texmass Petroleum Co. and neither Director obtained the report of the SEC petroleum engineer.

The supplemental report of Mr. Keplinger, dated March 6, 1950, should not have fortified the confidence of RFC with respect to the soundness of the collateral offered by Texmass. The Keplinger report estimated the oil reserves at 2,000,000 barrels or (17 percent) less than the Garrett report. It is also significant that Keplinger's estimate of recoverable oil reserves included twice as much as did Garrett's (30 percent as against 15 percent) with respect to the amount to be recovered as the result of rehabilitation. It is also significant that Keplinger had the advantage of 6 months' additional operating history of the Texmass wells, which was not available to Garrett.

Instead of supporting the Directors in their earlier decisions, the Keplinger report should have put them on guard. Nevertheless, they did not seek additional information but ratified their previous position in additional extensions granted to the applicant.

On December 1, 1949, the Directors voted to extend the period of commitment to make the loan from the 60 days originally provided to 150 days. At that date, the original commitment period had already expired but the action was not regarded by the Directors to be a new approval predicated on reconsideration of the loan. All five Board members were present at this meeting, and the record indicated that all five had voted affirmatively on the extension. Chairman Hise advised the subcommittee on April 22 that the minutes of the meeting had been altered after April 13, 1950, so as to show that Director Willett voted in the negative and not in the affirmative.

Two additional extensions were granted before the first of the subcommittee's hearings. On April 13, 1950, the subcommittee was informed that the Board's affirmative vote on the extension of a loan does not mean that the facts and circumstances of the case have been reconsidered. According to Mr. Hise, "once the loan has been made and approved then the Board goes along as a Board on subsequent actions to support the action previously taken," and such a vote is not to be interpreted as a confirmation of the action originally taken (hearings, p. 25).

Directors Dunham and Gunderson showed at the hearing on April 22 that they justified their approval of the loan on grounds, which do not conform with the generally accepted principles and practices of lending on the security of oil in the ground, as heretofore noted. Director Dunham repeatedly referred in his testimony to collateral value of \$42,000,000 and Director Gunderson repeatedly referred to collateral value of \$28,000,000, even though, by the Corporation's own calculations clearly set forth in its prepared statement, the loan value of the collateral was established by Examiner Herrington of the Dallas office of RFC at \$15,300,000 by methods approximating those described to the subcommittee by the geologist Murrell (hearings, p. 252).

The total of \$15,300,000 included \$2,600,000 ascribed to properties considered of doubtful value as collateral by the geologist employed by RFC and the geologist attached to the SEC staff. It included also a total of about \$600,000 for equipment to which the geologist for RFC ascribed no value. When the subcommittee attempted to develop the fact that the Corporation's own calculations, amended by the findings of its own geologist, yielded a collateral value of \$12,100,000, Directors Dunham and Gunderson gave unresponsive testimony and repeatedly returned, in Gunderson's case to a discussion of the \$28,000,000 figure, and, in Dunham's case, to a discussion of the \$42,000,000 figure. Collateral having a loan value of \$12,100,000 would be inadequate by \$3,000,000 as security for repayment of the Texmass loan.

The subcommittee's hearing held on April 22, 1950, brought directly to the attention of the individual Board members much significant information of which they had not previously been aware. Yet, at the conclusion of the hearing, Chairman Hise said:

When we get through here, unless we hear something more than we have heard so far, I think we would be compelled to tell Mr. Glidden to proceed to close the loan * * * (hearings, p. 179).

All of the requirements of the loan agreement had not been met at April 27, 1950, when the commitment period, for the third time, reached its expiration date. A further extension of 30 days' time was granted, notwithstanding the unresolved doubt as to legality of the loan, and notwithstanding the fact that neither the RFC nor the Comptroller General of the United States knows of any way in which recovery can be accomplished for the Government if the loan is disbursed without authority of law.

It is the view of the subcommittee that the Texmass loan is not in accord with the intent of Congress.

APPENDIXES

APPENDIX A

Reconstruction Finance Corporation—Statement of proposed application of proceeds of loan to Teamass Petroleum Co. (as shown by Teamass prospectus)

Application of loan proceeds	New money		Refinancing	Total proceeds of loan
	Funds furnished by RFC	Funds to be put up by participants	Insurance company participation	
Liquidation of indebtedness:				
Massachusetts Mutual Life Insurance Co.	\$2, 448, 203		\$2, 500, 000	\$4, 948, 203
John Hancock Mutual Life Insurance Co.	1, 831, 265		1, 500, 000	3, 331, 265
Republic Steel Corp.	650, 000	\$350, 000		1, 000, 000
Fourth National Bank of Wichita.	517, 647	75, 000		592, 647
Jack Frost.	143, 479	150, 000		293, 479
First National Bank of Dallas.	125, 000	125, 000		250, 000
Mercantile National Bank in Dallas.	145, 545	100, 000		245, 545
Second National Bank, Boston.	200, 000			200, 000
Ternan, Frost & Co. and Ronnie B. Smith.	20, 000	80, 000		100, 000
J. A. Miller.	46, 000			46, 000
Others.	1, 231, 832	20, 000		1, 251, 832
Subtotal.	7, 358, 371	900, 000	4, 000, 000	12, 258, 371
Acquisition of leasehold interests from National Co-operative Refinery Association, \$700,000; Investors' Groups (see appendix B), \$500,000; Ronnie B. Smith, and J. A. Miller, \$140,000.	1, 240, 000	100, 000		1, 340, 000
Working capital and expenses.	1, 501, 629			1, 501, 629
Total.	10, 100, 000	1, 000, 000	4, 000, 000	15, 100, 000

APPENDIX B

Teamass Petroleum Company—Members of investor groups to whom an aggregate of \$500,000 will be paid from proceeds of RFC loan, March 15, 1950

	<i>Participation in original \$8,000,000 investment</i>
Alexander M. Allan and Edith G. Allan (sister)	\$1, 093. 75
American Associates, Inc.	250, 000. 00
John S. Ames (wife, Nancy F.)	100, 000. 00
O. Kelly Anderson (wife, Alma W.)	15, 000. 00
Patty C. Anderson.	4, 000. 00
Est. Wm. Sumner Appleton, c/o Sumner A. Weld, Adm.	781. 25
Ichabod F. Atwood.	50, 000. 00
Charlotte S. Baker.	10, 000. 00
Hamilton W. Baker, trustee, u/inst. dated January 8, 1946.	2, 000. 00
Est. Hamilton W. Baker, c/o Everts & Gallagher.	2, 187. 50
John M. Baker.	1, 000. 00
John M. Baker and Margaret S. Baker.	2, 000. 00
Thomas Wallace Baker and Lois E. Baker.	2, 000. 00
Dr. Josephine M. Ball.	2, 000. 00
Nat H. Barrows.	50, 000. 00
Joseph M. Batchelder.	10, 000. 00
Joseph M. Batchelder, Trus., u/ind. Ethel Louis Batchelder, dated December 31, 1945.	20, 000. 00

Texmass Petroleum Company—Members of investor groups to whom an aggregate of \$500,000 will be paid from proceeds of RFC loan, March 15, 1950—Con.

	<i>Participation in original \$8,000,000 investment</i>
Joseph M. Batchelder, Trus., u/ind. Fred M. Batchelder, dated March 28, 1944.....	\$30,000.00
George M. Beamon.....	2,000.00
Richard Beamon.....	1,000.00
Mrs. Mary Bell.....	4,546.87
F. Gregg Bemis.....	100,000.00
Arnold J. Bernstein.....	11,000.00
Daniel J. Bernstein.....	11,000.00
Robert M. Bernstein.....	11,000.00
Alexander H. Blackett.....	5,000.00
Frederick N. Blodgett.....	5,000.00
John W. Blodgett, Jr.....	118,750.00
Mrs. Elizabeth W. Bolster.....	18,476.56
Miss Helen R. Bowser (single).....	2,781.25
Mrs. Martha Adams Bowser (husband, Robert Bowser).....	2,734.38
Robert N. Bowser.....	2,781.25
Edward T. Brackett (wife, Theckla J.).....	14,476.56
Robert Braun.....	10,000.00
Dorothy K. Brown (husband, LaRue Brown, Esq.).....	87,500.00
LaRue Brown, Esq. (wife, Dorothy K. Brown).....	45,800.79
Paul Brollier.....	5,000.00
Alan W. Burke.....	2,000.00
Archie C. Burnett.....	50,000.00
John B. Buttrick, Stedman Buttrick, and Russell Robb, Trs. u/w/o Stedman Buttrick.....	100,000.00
Stedman Buttrick.....	132,555.54
Mrs. Margaret E. Bullard.....	8,000.00
Granville W. Bull.....	1,000.00
Mabel C. Button.....	7,000.00
Max L. Button.....	5,000.00
Alessandro Gagiati.....	10,000.00
John and Thyra L. Cannell.....	50,000.00
Paul C. Cabot.....	1,000.00
Gates M. Carney.....	25,937.50
Walter D. Carr (single).....	19,500.00
Gerald H. Carson.....	20,000.00
Harold P. Carver.....	5,000.00
John S. Carver.....	5,000.00
Margaret R. Carver.....	10,000.00
Arnold B. Chace III.....	15,000.00
Malcolm G. Chace, Jr.....	3,367.19
Raymond E. Chamberlain.....	20,000.00
Mabel C. Chamberlain.....	50,000.00
Alfred E. Chase.....	7,500.00
Est. of Frederic H. Chase.....	200,000.00
Miss Anna G. Chase.....	7,500.00
Mrs. Barbara S. Chase.....	7,500.00
Miss Barbara S. Chase.....	7,500.00
George W. Chase.....	70,000.00
John P. Chase.....	5,000.00
John P. Chase, Inc.....	7,500.00
John P. Chase, Jr.....	7,500.00
Miss Laura D. Chase.....	7,500.00
Miss Sarah B. Chase.....	7,500.00
William C. Chick.....	118,777.79
Frederic C. Church.....	50,000.00
Miss Anne Clafin.....	5,000.00
Mrs. Helen A. Clafin.....	15,000.00
William H. Clafin, Jr.....	20,000.00
Evans Clark.....	34,828.13
Roe S. Clark.....	5,000.00

Texmass Petroleum Company—Members of investor groups to whom an aggregate of \$500,000 will be paid from proceeds of RFC loan, March 15, 1950—Con.

	<i>Participation in original \$8,000,000 investment</i>
Miss Louise Condit.....	\$6,000.00
Sears B. Condit.....	6,000.00
Charles E. Cotting.....	25,000.00
Ralph B. Craig.....	2,000.00
Frances M. Creelman.....	4,000.00
Mary V. Cummings (single).....	4,000.00
George C. Cutler.....	5,000.00
John J. Conroy.....	6,250.00
Robert DeBuisseret.....	5,000.00
Mme. Elsa Tudor Depierrefeu.....	25,000.00
Gertrude C. K. Dickins.....	10,000.00
Linsley V. Dodge.....	10,000.00
David Doran.....	1,957.04
Est. Guy W. and Mrs. Ruth A. Downer (widow).....	3,000.00
Mrs. Elizabeth P. Dunn.....	5,000.00
Miss Hattie M. Dunn (single).....	5,000.00
Edward H. Earle.....	51,250.00
Gilbert M. Elliott, Jr.....	20,000.00
Robert V. B. Emmons (Anita).....	146,718.75
Bayard Ewing.....	10,000.00
Miss Helen Fahy.....	1,000.00
Herbert Farnsworth.....	30,000.00
Est. Ernest L. Farrin.....	781.25
Mrs. Adelaide A. Field and Donald T. Field.....	7,656.26
Adelaide A. Field (Donald T. Field).....	2,000.00
Caroline C. Field (Richard H. Field).....	16,000.00
Donald T. Field (Adelaide A.).....	26,000.00
Richard H. Field.....	19,000.00
Thomas P. Flaherty.....	4,000.00
C. Stewart Forbes.....	10,000.00
Ethel A. Forbes.....	5,000.00
Donald A. Fowler.....	15,000.00
Marjorie S. Fowler.....	15,000.00
M. Foss & Co.....	50,000.00
Leopold Friedman.....	6,000.00
Mary A. Frothingham (single).....	100,000.00
Ruth V. Galt (Robert M. Galt).....	20,000.00
George Peabody Gardner (Rose Gardner).....	50,000.00
Margaret T. Gardiner (Tudor Gardiner).....	60,000.00
Wm. Tudor Gardiner.....	60,000.00
Stanley R. Garrard.....	2,000.00
W. W. Garth, Jr.....	4,562.50
James E. Gibbons.....	5,000.00
Horace D. Gilbert (Katharine deP. Gilbert).....	6,953.13
John S. Gilbert.....	60,000.00
Katharine deP. Gilbert.....	10,000.00
Francis G. Goodale (Margaret P. Goodale).....	5,000.00
Dr. Philip Gregory.....	5,000.00
Merrill Griswold.....	25,000.00
Richard P. Hallowell 2d.....	50,000.00
W. A. Hartwig.....	5,000.00
R. Wilton and Mildred S. Harvey.....	5,000.00
Bartlett Harwood.....	5,000.00
Allen C. Hawkrige.....	25,000.00
Edwin Harkridge.....	27,000.00
Leslie D. Hawkrige.....	18,000.00
Mrs. Linda M. Hawkrige.....	21,000.00
Robert M. Hawkrige.....	25,000.00
Miss Laura Haywood.....	1,000.00
Miss Hattie Helborn.....	5,000.00

Texmass Petroleum Company—Members of investor groups to whom an aggregate of \$500,000 will be paid from proceeds of RFC loan, March 15, 1950—Con.

	<i>Participation in original \$8,000,000 investment</i>
Mrs. Margaret Helburn-----	\$41,253.91
Mrs. Margaret Neilson Helburn-----	6,503.91
Mrs. Tess Helburn-----	2,503.90
Miss Theresa Helburn-----	25,000.00
Willard Helburn (Margaret Helburn)-----	27,570.31
Willard Helburn, Inc-----	74,875.00
Robert G. Henderson (Lucy G. Henderson)-----	6,000.00
Francis L. Higginson-----	50,000.00
Charles L. Hildreth-----	5,000.00
Mrs. Katherine W. Hildreth-----	100,000.00
Ethel L. Hiller (single)-----	5,000.00
Augusta W. Hinds-----	20,000.00
Aurelius S. Hinds 2d-----	5,000.00
Charles B. Hinds-----	30,000.00
Charles B. Hinds, Jr-----	5,000.00
Wadsworth L. Hinds-----	5,000.00
Reginald T. Hixon-----	5,000.00
Mrs. Ruth Williams Hixon-----	8,000.00
John C. Hodges (Anna B. Hodges)-----	1,000.00
Anna B. Hodgson-----	25,000.00
Howard B. Hodgson (Muriel H.)-----	16,000.00
John S. Hodgson-----	69,375.00
William S. Hodgson-----	6,000.00
Richard Holland-----	5,000.00
Hilda S. Hollis-----	6,000.00
M. J. G. Hogan-----	2,000.00
Mrs. Catharine R. Holmes-----	15,000.00
Herbert S. Holmes-----	10,000.00
Edwin P. Holmes-----	12,000.00
Amelia M. Holtby (Earl D.)-----	50,000.00
Earl D. Holtby-----	20,000.00
Edith B. Holmes Trust, Mrs. Edith B. Holmes-----	48,000.00
Lindsey Hooper-----	100,000.00
Gladys E. H. Hosmer-----	10,000.00
Herbert B. Hosmer, Jr. (Jane D. Hosmer)-----	1,000.00
Herbert B. Hosmer (Gladys E. H. Hosmer)-----	6,914.06
Humphrey B. Hosmer (Janet)-----	1,000.00
Patience Hosmer-----	1,000.00
Samuel M. Hosmer-----	1,000.00
Miss Hope Hubbard-----	5,000.00
Richard S. Humphrey-----	30,000.00
Mrs. Martha Lee Huot-----	4,503.91
Oliver P. Hussey (Louise M.)-----	4,000.00
Sumner F. Hyland-----	5,000.00
Harold F. Jones-----	10,000.00
Lawrence L. Jones (Mary I.)-----	18,476.56
Mrs. Rita C. Jones-----	10,000.00
Walter B. K. Kennel-----	10,000.00
Nelson E. Kidder (Gertrude L.)-----	2,000.00
Mrs. Anne Hosford Kimball-----	10,000.00
Mrs. Gertrud S. Kirschner-----	7,000.00
Charles E. Kinkade-----	30,000.00
Mrs. Sarah K. Kinkade-----	90,000.00
Prunella B. Kirchwey-----	15,000.00
Alan L. Kling-----	1,000.00
Mrs. Margaret H. Kocher-----	5,914.07
George E. Kunhardt, Jr-----	10,742.19
Vincenze Lalli-----	1,000.00
Southworth Lancaster (Margaret T.)-----	30,000.00
Lawrence Langner-----	40,000.00
Mrs. Anna Rose Leffler-----	5,468.75

Texmass Petroleum Company—Members of investor groups to whom an aggregate of \$500,000 will be paid from proceeds of RFC loan, March 15, 1950—Con.

	<i>Participation in original \$8,000,000 investment</i>
John E. Leffler.....	\$1,000.00
Edward G. Leffler.....	13,000.00
Leonard N. Leum.....	2,000.00
Allan Prescott Locke.....	1,000.00
Joseph A. Locke.....	20,000.00
Joseph A. Locke, Jr.....	1,000.00
Mabel D. Lockwood (widow).....	15,000.00
Mildred H. Mahoney.....	15,000.00
Earl M. Major.....	10,000.00
Prof. Lionel S. Marks.....	5,000.00
Miriam A. Mason.....	20,000.00
Warren MacPherson.....	1,888.88
Bernice B. McGorrill (Virgil C.).....	10,000.00
Virgil C. McGorrill.....	40,000.00
Miss Catherine McInnis.....	1,000.00
Mrs. Cecil M. McIntyre.....	5,000.00
Miss Helen McLaughlin.....	1,000.00
Harry F. Merrill.....	5,000.00
Lawrence F. Merrill.....	5,000.00
Marjory M. Meyer (Edward C.).....	26,000.00
George Pierce Metcalf.....	15,000.00
Edwin W. McGowan.....	50,000.00
Mrs. Gretchen T. Marto (Joseph P.).....	5,000.00
Milton M. & Helene F. McGorrill.....	6,250.00
Mrs. Helen A. Miller.....	5,000.00
Adelaide C. Morse (widow).....	100,000.00
Donald G. Morse (Elizabeth K. Morse).....	23,375.00
Donald G. Morse.....	2,000.00
Mrs. Elizabeth K. Morse.....	9,000.00
Gladys Carr Morse.....	100,000.00
Herbert R. Morse.....	10,000.00
Jas. F. Morse & Co. (partnership DGM REM Sale Partners).....	250,000.00
Roger E. Morse.....	100,000.00
Roger E. Morse.....	4,375.00
Roger E. Morse.....	33,000.00
Winslow C. Morse.....	2,000.00
Charles C. Moskowitz.....	6,000.00
Curtis H. Mosher.....	2,000.00
Mrs. Martha E. Myrick.....	2,000.00
Dr. Willard D. Nalchajian.....	5,000.00
Uriah N. Nash.....	5,000.00
Mrs. Elizabeth Neilson.....	2,000.00
Mrs. Alice B. Newell.....	5,100.00
Miss Alice Blake Newell, Jr.....	5,100.00
James M. Newell, Jr.....	6,800.00
Ellen B. Nichols.....	10,000.00
Hollis P. Nichols.....	10,000.00
Marion P. Nichols.....	20,000.00
Miriam Nichols.....	10,000.00
Rudge Nichols.....	20,000.00
Dr. Paul Norton (Margaret H.).....	1,000.00
Joseph E. O'Connell.....	50,000.00
LeRoy P. and Hilda C. Ogden.....	7,000.00
LeRoy P. Ogden.....	2,000.00
Theresa H. Opdycke.....	62,187.50
Ellen E. Paine.....	50,000.00
Stephen Paine.....	55,000.00
William A. Paine.....	5,000.00
Joseph Paone.....	2,000.00
Ralph J. Paone (Louise V.).....	2,000.00
Amory Parker.....	25,000.00

Texmass Petroleum Company—Members of investor groups to whom an aggregate of \$500,000 will be paid from proceeds of RFC loan, March 15, 1950—Con.

	<i>Participation in original \$8,000,000 investment</i>
Mrs. Elise A. Parker.....	\$100,000.00
William A. Parker.....	215,000.00
The Parker Corp.....	50,000.00
Mrs. Louise H. Partridge.....	5,000.00
Mrs. Naomi Perlman.....	3,000.00
Catherine C. Piper.....	5,000.00
Ralph C. Piper.....	8,000.00
Harold J. Powderly.....	6,250.00
Mrs. Evelyn F. Potter.....	5,000.00
William H. Potter, Jr.....	40,000.00
President and Fellows of Harvard College.....	100,000.00
Mrs. Anna A. Prince.....	25,000.00
Gordon C. Prince.....	25,000.00
George N. Proctor.....	5,000.00
Grace Hopkins Proctor.....	50,000.00
Henry Harrison Proctor.....	50,000.00
Romaine L. Pushee (G. Horton).....	5,000.00
Grace Yeomans Quigley.....	5,000.00
Mrs. Mary F. Quigley.....	1,000.00
Est. of Norma B. Reams.....	1,000.00
William A. Reed.....	1,000.00
Theo. A. Rehm.....	18,000.00
Neil W. Rice.....	50,000.00
Helen W. Robbins.....	10,000.00
Dr. Harold C. Robinson.....	1,000.00
Est. of Anton R. Rose.....	10,000.00
Miss Laura T. Rose.....	1,000.00
Mrs. Arthur G. Rotch.....	5,000.00
Mrs. Helen G. Rotch.....	10,000.00
Mrs. Josephine D. Anderson.....	5,000.00
Benjamin A. Rowland.....	25,000.00
Mr. C. Earl Russell.....	7,500.00
Charles F. Rowley.....	25,000.00
Edgar C. Rust.....	25,000.00
Mrs. Elizabeth A. Rust.....	10,000.00
Richard Saltonstall.....	50,000.00
Charles N. Satterfield.....	1,000.00
Joseph M. Schenck.....	25,000.00
Marvin H. Schenck.....	6,000.00
Nicholas M. Schenck.....	38,000.00
Alfred D. Scott Estate.....	2,000.00
Walter K. Shaw, Jr. (Helen B.).....	150,000.00
S. L. Sholley.....	36,000.00
Adelbert W. Smith (Roberta).....	48,000.00
Oliver Smith.....	3,000.00
Miss Ruth Patterson Smith.....	5,000.00
The State Investment Co.....	10,000.00
Mrs. Helen C. Spring.....	5,000.00
John Stewart (Gracia P.).....	5,000.00
Harold L. Stillman.....	5,000.00
Carl M. Stolle.....	10,000.00
Carl M. Stolle, Jr.....	2,000.00
V. Craig Stolle.....	2,000.00
Henry A. Stone.....	15,000.00
Robert Gregg Stone.....	330,000.00
Mrs. Bertha Lea Stone.....	25,000.00
Joseph S. Sylvester, Jr.....	50,000.00
Mildred B. Sylvester (unmarried).....	9,000.00
John O. Stubbs.....	10,000.00
David B. Stone.....	16,687.50
Miss Elizabeth L. Stone.....	16,687.50

Texmass Petroleum Company—Members of investor groups to whom an aggregate of \$500,000 will be paid from proceeds of RFC loan, March 15, 1950—Con.

	<i>Participation in original \$8,000,000 investment</i>
Galen L. Stone.....	\$16,687.50
Robert G. Stone, Jr.....	16,687.50
Cyril E. Shelvey.....	23,750.00
Mrs. Mira W. Shelvey.....	15,000.00
John M. Templeton.....	2,000.00
E. Carl Thiessen.....	1,000.00
Barbara Proctor Thompson.....	50,000.00
Est. of Mrs. Emily B. Thompson.....	25,000.00
Miss Lena A. Thompson.....	100,000.00
Ralph E. Thompson (widower).....	153,777.79
Ralph E. Thompson, Jr.....	5,000.00
Mr. Harris B. Thompson.....	5,000.00
Ray Vance.....	28,000.00
Mrs. Edith A. Van Winkle.....	5,000.00
Mrs. Lena Lloyd Vogel.....	6,000.00
Mary B. Walsh (single).....	10,000.00
Henry T. Way.....	10,000.00
Mrs. Katherine C. Weeks.....	5,000.00
Est. of E. Sohler Welch.....	50,000.00
Wellesley College.....	50,000.00
Vernon F. West.....	150,000.00
Mrs. Margaret A. Williams.....	2,000.00
Robert N. Williams.....	8,000.00
Jason Westerfield.....	10,000.00
Mr. David V. Whiting.....	2,000.00
Max O. Whiting.....	10,000.00
Betsey Whittin Whittall.....	4,000.00
Matthew P. Whittall.....	13,000.00
Matthew John Whittall.....	9,000.00
Walter F. Whittier.....	7,000.00
Mrs. Nancy G. Whittier.....	3,000.00
Frances Proctor Wilkinson.....	50,000.00
James G. and Elsie S. Willett.....	5,000.00
Andrew N. Winslow, Jr.....	6,000.00
Boston Safe Deposit and Trust Co., Andrew N. Winslow, Jr. and Mrs. Elinor C. Winslow, Trs., u/ind. of Elinor Condit Winslow T-2619.....	6,000.00
Frederic Winthrop.....	110,000.00
Mrs. Anna W. Wolbach.....	50,000.00
Est. of Estey J. Wolfe.....	1,000.00
Ralph Wolf.....	15,476.56
Stuart E. Wolf and Alida R. Wolf.....	19,781.25
Stuart E. Wolf and Alida R. Wolf.....	1,093.75
G. Forrest Woods.....	2,000.00
Est. of Delano Wight.....	25,000.00
Percie C. Worrick.....	2,000.00
Charles M. Young.....	20,000.00

APPENDIX C

TEXMASS PETROLEUM CO.—APPLICATION OF THE PROCEEDS OF LOANS OF \$8,000,000 MADE TO TEXMASS IN 1947 BY MASSACHUSETTS MUTUAL LIFE INSURANCE CO., JOHN HANCOCK MUTUAL LIFE INSURANCE CO., AND MERCANTILE NATIONAL BANK AT DALLAS

Among the conclusions of the subcommittee presented in this report is the view that the RFC loan to Texmass “* * * is primarily a ‘bail-out’ of existing creditors of the borrower.” It appears from the prospectus which Texmass Petroleum Co. filed with the Securities and Exchange Commission, that the loans made to Texmass in 1947 by two insurance companies and a bank in Dallas, which will

be repaid in part from the proceeds of the RFC loan, were also a "bail-out" of then existing creditors and investors. The prospectus contains the following comments on this subject:

"On or about November 15, 1946, Mr. Snowden gave to Mr. T. B. Knox, an independent oil operator in Weatherford, Tex., an option to purchase at \$50 per share 1,254 shares of the 1,880 shares of Texmass stock to which he would become entitled upon dissolution of Snowden, Ltd. On December 18, 1946, the special partners in Snowden, Ltd., and Mr. Gordon D. Harriman and Mrs. Eunice Harriman Millikin granted Mr. Knox an option (hereinafter called the 'Harriman option') to purchase all of their interests in Snowden, Ltd., their claims against Snowden, Ltd., for loans made to it, several oil leases (owned by Henry I. Harriman), and all of their interests in the capital stock of Mass-Tex and Texmass for the sum of \$2,227,522 plus interest at 6 percent from January 1, 1947. The option was apportioned among the respective claims and interests as follows:

"J. Dudley Clark :		
Capital account (\$300,000) and interest (\$31,700) -----	\$331, 700	
Loans (\$365,000) and interest (\$10,911)-----	375, 911	
		\$707, 611
Dudley L. Millikin :		
Capital account (\$300,000) and interest (\$31,700) -----	331, 700	
Loans (\$116,250) and interest (\$3,453)-----	119, 703	
		451, 403
Henry I. Harriman :		
Capital account (\$300,000) and interest (\$31,700) --	331, 700	
Loans (\$271,250) and interest (\$6,358)-----	277, 608	
Warren lease override-----	94, 085	
Warren lease working interest-----	120, 000	
Frio County lease-----	50, 000	
Marion County lease-----	5, 000	
		878, 393
Gordon D. Harriman : Loans (\$34,700) and interest (\$3,140)-----	37, 840	
Eunice Harriman Millikin : Loans (\$150,000) and interest (\$2,275) --	152, 275	
Total -----		2, 227, 522

"After obtaining the Snowden option, Mr. Knox was instrumental in effecting various financings for Texmass, the short-term financings all being in the form of a purchase by the lender of a note of Texmass payable to Mr. Knox and assigned by him to the lender.

"On or about February 10, 1947, Massachusetts Mutual Life Insurance Co. (herein called Mass-Mutual) lent \$1,000,000 secured by a mortgage covering properties in Eddy County, N. Mex.

"Late in March 1947 Texmass received assurances from Mass-Mutual and John Hancock Mutual Life Insurance Co. (hereinafter called "John Hancock") that on certain conditions they would make long-term loans of \$4,000,000 and \$3,500,000, respectively, out of total loan of \$8,000,000, for the purpose of paying off indebtedness of Texmass, exercising the Harriman option, and providing working capital. Pending completion of this long-term financing, Mass-Mutual and Mercantile National Bank at Dallas (hereinafter called the "Mercantile Bank"), lent to Texmass \$3,600,000 and \$500,000, respectively, evidenced by notes of Texmass payable to Mr. Knox and assigned to the lenders, and secured by a deed of trust covering properties in Texas and Oklahoma. Of the proceeds, \$1,873,000 was applied to payment of short-term loans and other indebtedness (not including the \$1,000,000 loan then held by Mass-Mutual) and the balance of \$2,227,000 was placed in escrow for the purpose of exercising the Harriman option to Mr. Knox, which the latter had apparently agreed to hold for the benefit of Texmass. On May 29, 1947, Mercantile Bank lent \$750,000 to Texmass secured by deed of trust and mortgages on various properties in Louisiana, Kansas, and Texas.

"On June 5, 1947 (as of May 29, 1947), the Harriman option was exercised by Mr. Knox on behalf of Texmass and Texmass thereby acquired 6,120 shares (76½ percent) of its own outstanding stock, the loan claims against Snowden, Ltd. (which had been assumed by Texmass), and the leases owned by Mr. Harriman. Texmass paid total cash of \$2,230,735.81 (the escrowed funds plus an additional \$3,735.81) including \$65,795.83 for interest accrued after January 1, 1947, allocated as follows: \$1,018,533.75 to the stock, \$947,372.40 to loan claims,

and \$264,829.66 to oil properties; and set up an account payable of \$62,060.02 (since discharged) allocated to oil properties.

"Between the date the option was exercised and August 1, 1947, Texmass borrowed an additional \$1,000,000 on secured loans.

"On August 15, 1947, Texmass consummated the \$8,000,000 long-term financing with Mass-Mutual, John Hancock, and Mercantile Bank, evidenced by notes of \$4,000,000, \$3,500,000, and \$500,000, respectively, secured by deed of trust and mortgage on all its properties, and assignment of 100 percent of oil and gas runs to Mercantile Bank, as trustee. Sixty percent of the runs is to be applied to payment of principal and interest on the indebtedness and 40 percent paid to Texmass except that to the extent that the 60 percent is insufficient to pay the aggregate minimum monthly payments of \$75,000 required by the notes, the deficiency is to be paid out of the 40 percent. All instruments were dated August 1, 1947. The proceeds of the loan were applied to payment of the above-mentioned notes, other liabilities of Texmass, and \$1,000,000 on the open-account indebtedness of Texmass to Republic Supply Co. then due in the amount of \$2,737,796.11. In settlement of the balance due Republic Supply Co., Texmass delivered its note for \$1,737,796.11, due February 15, 1948, bearing interest at 6 percent and secured by a second mortgage on its properties and an assignment (subject and subordinate to the above assignment to Mercantile Bank, trustee) of 100 percent of its oil and gas runs of which, so long as said assignment to Mercantile Bank, trustee, remains in effect, 15 percent is to be applied to payment of principal and interest on the indebtedness and the balance paid to the company.

"In summary, the records of Texmass indicate that of the proceeds of the indebtedness refinanced with the \$8,000,000 borrowed as described above, \$2,230,736 had been applied to the exercise of the Harriman option, \$2,595,970 had been applied to retirement of debts incurred by the predecessors of Texmass, and \$281,326 had been used for working capital. The balance of \$2,891,968 had been applied to working capital, to retirement of debts incurred by predecessors of Texmass, and to acquisition of property, the exact amount of each not being readily ascertainable due to the condition of the records of that period.

"This financing still left the company with insufficient working capital. In addition at least 75 percent of its gross cash income was required to be applied to debt service, a condition which has been somewhat alleviated since December 28, 1948, by successive short-term agreements by the above secured creditors, whereby 62½ percent is applied to debt service and the balance is available to Texmass for working funds."

