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1st Session

SENATE

REPORT
No. 76

STUDY OF RECONSTRUCTION FINANCE CORPORATION

INTERIM REPORT

OF THE

COMMITTEE ON BANKING AND CURRENCY

PURSUANT TO

S. Res. 219

(81st Cong.)

FAVORITISM AND INFLUENCE

FEBRUARY 5 (legislative day, JANUARY 29), 1951.—Ordered to be printed with an illustration

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STUDY OF RECONSTRUCTION FINANCE CORPORATION

FEBRUARY 5 (legislative day, JANUARY 29), 1951.—Ordered to be printed with an illustration

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

INTERIM REPORT

[Pursuant to S. Res. 219]

The Committee on Banking and Currency accepted the third interim report of the Subcommittee on Reconstruction Finance Corporation and authorized its submission to the Senate. The committee reserved a decision on S. 514, as reported by the subcommittee, pending further consideration and further reports of the subcommittee.

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 RFC pursuant to the terms of Senate Resolution 219, adopted February 8, 1950, herewith submits its third interim report.

The subcommittee has had under consideration and now reports favorably, S. 514, a bill which proposes a fundamental reorganization of the RFC. This bill proposes that the management of the Corporation shall be vested in a single Governor who shall take the place of the present five-man Board of Directors. It also proposes that the Board of Directors shall cease to exist 60 days after the date of its enactment.

The purpose of this change is to strengthen the management of Reconstruction Finance Corporation, and in this way to enhance its true usefulness during the difficult periods which lie ahead of the Nation.

During much of its existence, RFC operated successfully under the supervision of a Federal Loan Administrator, whose authority transcended that of the RFC Directors and who functioned, in practical effect, as the General Manager of RFC. In 1947, for the first time since 1939, the Board of Directors became the governing body in RFC.

The position of Governor of the RFC would be a position of considerable responsibility. It should attract the interest of a man of

adequate stature and background. Such a man would not be attracted by the prospect of serving as one of five directors with the possibility that his four colleagues would be of mediocre stature and background. The organization structure proposed in this bill will make it possible for the Government to take into its employ for this position, a leader who would not otherwise be willing to devote his efforts to the public service.

A single Administrator has proven successful in such lending agencies as the Farm Credit Administration and the Rural Electrification Administration, and the history of the surplus property agencies affords an interesting analogy. In the words of the Senate Committee on Expenditures in the Executive Departments, Eightieth Congress:

> In actual operation, the three-man Surplus Property Board failed to accomplish its primary objective. * * * The unwieldy three-man Surplus Property Board was therefore abolished and replaced by a single Surplus Property Administrator.

The study recently made by the subcommittee has shown that in a five-man Board, it is possible for the individual members to avoid, obscure, or dilute their responsibilities by passing the buck from one to the other, or to subordinate employees of the Corporation. There have been instances in which individual members of the Board have brought about the approval of loans by interference in the work of subordinate employees and in disregard of established operating policies of the Corporation. In these cases the applications would otherwise have been rejected. There have been instances in which important loans were made upon the affirmative vote of a minority of the Board members. There has been a large number of instances in which the Board of Directors has approved the making of loans, over the adverse advice of the Corporation's most experienced examiners and reviewing officials, notwithstanding the absence of compelling reasons for doing so and the presence of convincing reasons for not doing so.

Under the organization form proposed in this bill the side-stepping and diffusion of responsibility would no longer be possible. If the management of RFC were vested in one man there would be no way in which he could escape the responsibility for the Corporation's acts. This change should greatly strengthen the control which the Congress will exercise on behalf of the people of the Nation over the lending of public money to private individuals and business concerns.

With the enormous growth which has taken place in the Federal establishment since the beginning of the Second World War, there has been a great increase in the number of people who must be appointed by the President to important positions in the Government. The number of appointments which must be reviewed for confirmation by the Senate has also increased. Necessarily, the relative importance of each appointment and the relative degree of high-level attention which can be given to the selection of officials has decreased, accordingly. In recent years the appointment and confirmation of the Directors of RFC have not received the full and careful study they deserved.

The change proposed by the bill will enhance the prestige of the RFC management sufficiently so that the President, in all probability, will give his personal attention to the selection of the Corporation's Governor. It is probable also that the qualifications of a nominee for

this position will be examined with considerably more care in the Senate than would the nominations of five men appointed to a board. This alone would justify the change proposed in this bill under the circumstances in which the Federal Government finds itself today.

CONCLUSIONS OF THE SUBCOMMITTEE

From its study, the subcommittee has concluded that the independence and integrity of Reconstruction Finance Corporation have become impaired in recent years, and it has concluded that the impairment is the result of deterioration which has occurred in the Corporation's top management structure.

The subcommittee has concluded also that the deterioration of the top management structure is attributable to the equal division of the management responsibility among the members of the five-man Board of Directors. This condition invites deterioration. It was this type of responsibility assignment which the Hoover Commission had in mind when it said, quoting from page 5 of the Report on Regulatory Commissions:

> Administration by a plural executive is generally regarded as inefficient.

Only a drastic action can restore the integrity of RFC. Its top management must be rendered independent as it was in the earlier years.

The material presented in this interim report has been summarized from case studies conducted by the subcommittee. It illustrates the weaknesses which have existed in the top management in RFC in the recent past and which continue to exist at present. It illustrates also the consequences which attend the existence of such weaknesses. This report shows that there has been improper use of the Corporation's vast authority in response to the influence which persons outside of the RFC have over individual members of the Board of Directors.

In presenting this report the subcommittee wishes to distinguish between improper influence as such and the improper use of the Corporation's authority in response to influences which in themselves may be perfectly proper. This report deals primarily with the latter. The subcommittee believes that the Corporation's authority has been seriously abused by the Directors and that this constitutes an important impropriety.

The subcommittee expresses no opinion as to the propriety of the activities of the other individuals named in the report and it makes no charges against those individuals.

It is recognized that some of them may be subjected to public criticism because of inferences which may be drawn from the circumstances reported, or from the mere mention of their names. The subcommittee finds this unavoidable. It holds the view that there is a legitimate public interest in the relationships which arise when public funds are placed at the disposal of private persons. The requirements of a full and proper accounting impose the hazard of public criticism, not only on those who administer a public lending activity, but also on those who borrow from the public and those who act as intermediaries seeking to influence the lender on behalf of the borrower. The subcommittee believes that no one will be injured unfairly by its report. However, it will accord the opportunity for a public hearing to those who feel that unfair injury has been given.

MINORITY REPORT

Since the report of the subcommittee is an "interim report" Senator Capehart reserves the right to express his opinion on S. 514, the proposed legislation to change the administrative structure of the RFC at such time as intended further consideration of the matter has been completed and anticipated additional reports have been made by the subcommittee.

SUMMARY ON FAVORITISM AND INFLUENCE

The public hearings dealt primarily with lending policy

Since the beginning of its study in February 1950, the subcommittee on RFC has taken considerable testimony, both in public and in executive session. The public hearings have been printed for distribution. They cover 1,601 printed pages. The testimony taken in executive session covers 1,240 pages of typewritten transcript and numerous exhibits.

The subcommittee has discussed 35 individual loans in its public hearings, some of them in much detail. It has studied some 200 or so more on which hearings have not been held. Two previous interim reports have been published.

The public hearings on RFC loans have been conducted primarily as an inquiry into the policies governing the Corporation's activities. Particular attention has been given to top-level policy. One series of hearings, however, dealt with a contract between Lustron Corp., an RFC borrower, and Commercial Home Equipment Corp., a concern which undertook to transport the Lustron houses. This contract was reviewed from the standpoint of the possibility that there had been improprieties on the part of Commercial Home Equipment Co. and a lack of reasonable and businesslike supervision of the contract by the RFC.

The Department of Justice has this matter under investigation at the present time.

The Hoover Commission warned of favoritism

Having completed a series of case studies on lending policies, the subcommittee considered the subject of favoritism and influence in the RFC. The Hoover Commission had warned of these things. In its Report on Federal Business Enterprises, transmitted to the Congress on March 31, 1949, the Commission had said:

> Direct lending by the Government to persons or enterprises opens up dangerous possibilities of waste and favoritism to individuals or enterprises. It invites political and private pressure, or even corruption.

Three of the Hoover Commissioners took exception to this assertion because they had seen no evidence which would justify it.

The Senate Committee on Banking and Currency also has been concerned over the possible undesirable effect of outside influence on the RFC. In reporting on the study which was concluded by its RFC subcommittee in March 1948, the committee said:

> It is the opinion of this committee that, in those fields in which RFC has the responsibility for its actions, it should be allowed to exercise its discretion free from interference by other governmental agencies and departments and, for that matter, free from all influence whether from officials in the Government or from Members of Congress. Only under those circumstances can RFC be expected to

do its job properly and with full accountability. Attempts to influence the business judgments of RFC by the use of political influence, even though well intended, are a constant menace to sound administration. While the general policies of the RFC, like those of other Government agencies, should be reviewed and coordinated by the President, this general review should not extend to particular loans. The business decisions of RFC should be the independent judgments of its Board of Directors (S. Rept. 974, 80th Cong., 2d sess., p. 13).

Recent RFC business decisions are not easy to understand

In its study, the present subcommittee has observed that many RFC loan applications in the past 2 years have been approved by the Board of Directors without any apparent affirmative reason. In fact, many applications have been approved by the Board notwithstanding the existence of persuasive reasons why loans should not be made.

Justification for a number of such loans, in general terms, has been offered in the hearings held, but in certain cases the subcommittee has gained the impression that its hearings have not been successful in establishing the real reasons why the loans were made. This was true of the Texmass loan which involved $10,100,000 of RFC money. It was true of a $4,000,000 loan to Waltham Watch Co., a $1,300,000 loan to the Mapes Hotel in Reno, Nev., and a $400,000 loan to Ribbonwriter Corp. of America of Dania, Fla. The subcommittee has not held public hearings on certain loans to Central Iron & Steel Co. which totaled about $4,000,000, but it appears from the study made by the staff that the real reasons why these loans were made are equally obscure. There are other cases similar to Central Iron & Steel Co. in this respect, in which the staff has been able to make only a cursory review.

Two directors accused of playing favorites

The subcommittee has been told repeatedly that certain Washington attorneys and certain other people were unduly influential with officials of the RFC. In some instances the reports have been received in sworn testimony which asserts that for a sufficient fee these people would give assurance, where no one else could, that matters pending before the RFC would have a successful outcome.

Certain RFC officials were named in the specific allegations of favoritism received by the subcommittee. They are Walter L. Dunham and William E. Willett, Directors. These are the hold-over Directors included by the President of the United States in the panel of nominees for the new Board which was submitted to the Senate on August 9, 1950, and resubmitted on November 27, 1950. Willett came up through the ranks in RFC. Dunham came to his position on the Board early in 1949 from outside the Corporation. He attributes his appointment to Cy Bevan, a Detroit lawyer, who was formerly the Democratic national committeeman for the State of Michigan.

Goodwin, Rosenbaum, Meacham & Bailen

The Washington law firm of Goodwin, Rosenbaum, Meacham & Bailen, and, particularly, its leading member, Joseph H. Rosenbaum, are the attorneys mentioned most frequently in reports of special influence which have reached the subcommittee. There are other attorneys who seem to have unusual success at the RFC.

Joseph H. Rosenbaum is quoted in sworn testimony as having claimed on one occasion that Willett and Dunham were "in his hip

pocket." On another occasion, reported by RFC Director Harvey J. Gunderson, he told L. M. Giannini, the California banker, that he had considerable influence over the decisions made by these two men.

In February 1950, according to Carl Strandlund, the president of the Lustron Corp., Rosenbaum met the representatives of a committee of Lustron stockholders. Strandlund said:

> In the course of the conversation, Mr. Rosenbaum mentioned that he was well informed with reference to the Lustron picture, that he was closely connected with Mr. Willett, and had been called upon by Mr. Willett for advice and assistance in connection with Lustron matters on several occasions.

These incidents indicate that Rosenbaum stressed the importance of his personal relationships with the directors named.

Lesser officials in the RFC have sometimes found the Rosenbaum fees to be excessively high for the work done by the firm. In the case of a $1,400,000 loan to National Union Radio Corp., for example, a fee of $15,000 was agreed upon between attorney and client, and a fee of $5,000 was the maximum which RFC's New York office would approve for that portion of the work with which it was familiar. The difference was referred to Washington for approval. The matter was in abeyance in Washington for about 2 months and then the loan was repaid, before maturity. Approval of the fee never came to a final decision.

The subcommittee has not made a complete study of the loan to National Union Radio Corp.

A separate section of this report presents a brief description of certain aspects of the negotiations in this case, as well as a complete copy of the analysis which the New York RFC Loan Agency made with respect to the Rosenbaum fee billing.

E. Merl Young

The individual named most frequently in the reports of alleged influence which have reached the subcommittee is E. Merl Young. Director Gunderson described him to the subcommittee as an expediter.

Merl Young worked for a dairy company in Washington during 1937 and half of 1938. He was self-employed in Jerico Springs, Mo., after that and until the end of 1939. In 1940, his wife having accepted employment with Senator Truman, Young returned to Washington and became an assistant messenger in the Government's General Accounting Office. The salary was $1,080 a year. He served in the Marine Corps from 1942 to 1945, and then he became an RFC examiner at $4,500 a year. By July of 1948 his salary at RFC had risen to $7,193 a year.

More recently, Merl Young has been an $18,000-a-year vice president of the Lustron Corp. and, simultaneously, a $10,000-a-year official of F. L. Jacobs Co. Both were RFC borrowers at the time. Strandlund, the president of Lustron, testified that he was unaware of Young's employment with the F. L. Jacobs Co. It seems that Young acquired and held both of these positions because of the influential atmosphere which surrounds him.

At the present time, Merl Young and his friends say that he is an entrepreneur in the insurance business. According to his tax reports, which the subcommittee examined in August, he expected his 1950 income to approximate $60,000. During the first 8 months of its existence, however, the insurance business had been financed exclu-

sively by the law firm of Goodwin, Rosenbaum, Meacham & Bailen and the officials of F. L. Jacobs Co., and it had not earned a sufficient gross revenue to pay expenses.

Other close relationships between Young and the Rosenbaum firm have been uncovered in connection with matters which concerned the RFC. It was also found that Young has been closely associated with Willett and Dunham, with whom it has been alleged that Rosenbaum claims to have special influence.

According to sworn testimony Young has offered to be influential for a fee on behalf of persons seeking to do business with the RFC.

Rex Jacobs, James Windham, and the F. L. Jacobs Co.:

Rex C. Jacobs has been named in sworn testimony as one of the persons whose interests have influenced Dunham's decisions. He is closely associated with Joseph Rosenbaum, and has recommended employment of Rosenbaum's firm to persons seeking to do business with the RFC. He has been intimately associated also with Walter Dunham, who brought about Jacobs' selection by RFC as the expert who would survey the Lustron Corp. and advise on its reorganization. Jacobs also has cultivated the friendship of Donald Dawson, the President's aide.

Jacobs is president of the F. L. Jacobs Co. of Detroit. This company has been Merl Young's employer. Though it no longer employs him, and though its stock is held by the public, the company has also undertaken to finance Young's entire stake in a wildcat oil well and a substantial portion of his venture into the insurance business. Jacobs has entertained Merl Young and Rosenbaum at his estate in Homestead, Fla. Dawson too has been his guest.

James C. Windham, treasurer and a director of the F. L. Jacobs Co., also has been close to Young and Dunham, and he frequently has substituted for Rex Jacobs in telephone conversations and other discussions with these men. Windham was an aide to Director George Allen, of RFC, at the time that a $3,000,000 loan was made to the F. L. Jacobs Co. He joined the company shortly afterward. At present he is a member of the advisory committee which consults with the RFC Loan Agency in Detroit. Each of the several loan agencies has such a committee composed of bankers and businessmen who serve as independent advisers without pay.

Though Jacobs says he has known Dunham for 25 years, Dunham says he hadn't met either Jacobs or Windham before he was first appointed to the RFC Board. He says that Windham sought him out in Detroit after the appointment, and that shortly afterward Windham introduced him to Merl Young and Rex Jacobs. He considers Windham a brilliant man and professes admiration for him.

Windham has taken a more extensive interest in the loans and other business of RFC than his duties on the Detroit Advisory Committee would require or justify. This is clear from the entries in Dunham's office records which reveal also that Windham was willing and able to influence Dunham in a way which constituted interference in the internal affairs of RFC.

Donald Dawson

Donald Dawson, personnel adviser to the President of the United States, and formerly personnel officer of the RFC, apparently exercised considerable influence over certain of the Directors of the RFC.

He has had other points of contact in the Corporation as well. Dawson's wife, Mrs. Alva Dawson, is the chief custodian of the files of the RFC. Donald Smith, who succeeded Dawson as RFC personnel director, is his close personal friend.

Investigation by the subcommittee indicates that close personal relationships exist between Dawson, Merl Young, Rex Jacobs, James Windham, and RFC Directors Dunham and Willett. These friends, with others, constitute a group who appear to have exercised influence over the RFC.

Former Chairman Hise and Director Dunham of the RFC have stated that Dawson tried to dominate the RFC. Hise said that he resisted domination by Dawson, but Dunham acknowledged that he did not. Hise, Dunham, and former Director Gunderson, all three, have asserted that Willett does what Dawson requires of him as an RFC Director. Dawson and Willett occupied adjoining space as examiners in the Closed Bank Division of RFC some years ago.

C. Edward Rowe

C. Edward Rowe, of Athol, Mass., is one of the three new Directors of RFC. He was given a 2-year term, and now holds office by interim appointment. Recently he was named Vice Chairman of the Board.

Rowe's appointment to Board membership has been expected in the RFC since the beginning of 1949 when Director Henry Mulligan's retirement first began to be anticipated. The subcommittee has been advised by both Dunham and Gunderson that they regarded Rowe as Willett's candidate for the position, and that they understood he was acceptable to Dawson for that reason.

It has been reported to the subcommittee that former Congressman Joseph E. Casey was instrumental in bringing about Rowe's appointment. Casey does not take credit for Rowe's appointment, but he is not surprised by the reports, because he has been Rowe's close friend for a number of years and his associate in the practice of law in Athol and Gardner, Mass. He now practices in Washington.

Casey was associated in Washington with the firm of Goodwin, Rosenbaum, Meacham & Bailen. Though he was neither a member nor an employee of the firm, he was its key representative on RFC matters, and he shared to the extent of 20 percent in the fees which the firm collected for the presentation of loan applications or the conduct of other business with the RFC.

Willett has been acquainted with Rowe for a considerable period, they having been national bank receivers together in 1933. When Rowe sought to borrow $300,000 from RFC for his business enterprise, the Harrington & Richardson Arms Co. of Worcester, Mass., he made his principal contacts in the Washington office of RFC directly with Willett. The two men were in contact with one another at critical points in the loan negotiations, and it appears that Willett took a greater interest in the loan than would normally have been the case. Willett even accorded Rowe the opportunity to confer with the Washington examiner assigned to the case before the field examiner's report had been submitted, an unusual privilege for a loan applicant.

Rowe's loan was a controversial one. Important concessions were made in granting it, even though the value of the collateral had been questioned. One concession was the waiver of the pledge of the

borrower's plant properties. Another was the waiver of Rowe's personal guaranty of repayment. The guaranty of another official was also waived.

Rowe's appointment to the RFC Board came less than 4 months after the loan was made. He immediately arranged a refinancing with two Massachusetts banks and the RFC was repaid. The two banks were the same ones which had been approached, but had declined to make the loan when the application was made to RFC. The subcommittee has not examined the financial position of Harrington & Richardson Arms Co. to ascertain what changes took place in the 4-month interval.

Further comments on the loan are presented in a separate section of this report.

The RFC loans to Central Iron & Steel Co.

The subcommittee has made a study of the circumstances surrounding the loans which RFC made to Central Iron & Steel Co. This is a subsidiary of Barium Steel Corp. As such, it is a member of a group of companies which are clients of the Rosenbaum firm.

Another subsidiary of Barium Steel Corp. had sought financial assistance from RFC some years before. It was turned down because of severe defects in its financial policies and in the financial policies of the parent's principal officials, who made a practice of "milking" the subsidiaries. The same people and the same policies were found to be dominant in Central Iron & Steel Co. Primarily for this reason, its initial application was scheduled for "automatic decline," a process which would have ended in rejection of the application unless the RFC Board interfered by a freak action.

Notwithstanding his knowledge of the earlier unsuccessful applications, Willett brought about a substitution of examiners on this case in time to avoid "automatic decline." The first Central Iron & Steel loan was granted on June 3, 1949, and the second was granted on September 16, 1949, the total at that point being $6,300,000. The loans were granted over the objection of all examiners and reviewers with the single exception of the substitute examiner, Hubert B. Steele.

One month after the second loan was authorized, Steele left the RFC and obtained employment at $15,000 a year with Goodwin, Rosenbaum, Meacham & Bailen and Joseph E. Casey, jointly. He received a payment of $5,000 on the day he reported for duty. Rosenbaum explains that the $5,000 payment was for 4 month's salary in advance.

Casey was the principal advocate for the Central Iron & Steel Co. loan. He worked with his brother-in-law, Robert W. Dudley, a member of the firm. Both made their principal contacts in the RFC with Willett.

The attorney-and-client arrangement between the Barium Steel group and the Rosenbaum firm was first brought about by Paul O. Buckley who was or had been an official of one or more companies in the group. Buckley shared in the fees which the firm collected from this client, including the fees arising from negotiation of the RFC loans to Central Iron & Steel.

Buckley is known to the subcommittee. He appeared in the hearings on the Lustron transportation contract. He was a director of the Lustron Corp. and he was one of the officials of the company which

had contracted to haul the Lustron houses. He also was a financial beneficiary of the hauler's operations under the contract. He borrowed about $200,000 from this enterprise to finance another business in which he and Frank Rosenbaum (the brother of Joseph) had an interest.

Texmass Petroleum Co.

Ross Bohannon, of Dallas, Tex., testified before the subcommittee. He was attorney for Texmass Petroleum Co. when it borrowed $10,100,000 from RFC in May 1950.

Bohannon testified that Merl Young had offered to be influential in securing the success of the Texmass application. He testified further that for this service Young set a fee of $85,000—to be paid $10,000 down and $7,500 a year for 10 years.

No arrangement was made between Texmass and Young. The matter was reported to RFC Chairman Harley Hise, who assured Bohannon that Washington influence would be neither helpful nor necessary.

It is interesting to observe that one of the intermediaries between Young and Bohannon was John B. Skiles of the Dallas RFC Loan Agency. Skiles is mentioned later in this presentation as the man whose activities have seriously disrupted the organization of the Dallas office. According to affidavits from the files of the manager of the Loan Agency, he claims influence with Donald Dawson, Merl Young, and William E. Willett.

Strandlund and the Lustron Corp.

Carl Strandlund testified before the subcommittee. He was president and principal owner of the Lustron Corp. which borrowed $37,500,000 from RFC.

Strandlund testified that Dunham had repeatedly tried to wrest control of Lustron from him in order that he might bring about its transfer to other persons. Specifically, the charge was that Dunham attempted to transfer control of Lustron to Rex Jacobs and his associates, including Merl Young.

Testimony taken by the subcommittee shows that Rex Jacobs was employed by RFC to conduct a survey of the Lustron Corp. It shows also that the survey was made in only 2 days. In the preliminary draft of his report, which the subcommittee has in its files, Jacobs proposed that ownership of Lustron's capital stock should be vested in substantial part in E. Merl Young, Robert Haggerty, and Ed Hunt. The proposal does not appear in the report which was delivered to RFC. Haggerty was a business associate of the brothers, Merl and Herschel Young. Hunt was Jacobs' associate in making the survey. As drafted, the suggestion contemplated that the stock to be sold to these men at 1 cent per share would be enough to offset the 86,000 shares owned by Strandlund.

Strandlund made allegations of other improprieties. His testimony describes instances in which Dunham or his friends attempted to influence the business decisions of Lustron Corp. for their own purposes. One such instance had to do with the resale of steel which was in short supply. Another instance had to do with the proposed substitution of a Jacobs product for other equipment used in the Lustron house. In the latter case there was to be $15 per unit for Merl Young.

Strandlund testified to his belief that, following the failure of attempts to place control of Lustron in the hands of his nominees, Dunham was instrumental in directing the efforts of the RFC Board toward deliberate destruction of the Lustron Corp.

Fruehauf Trailer Co.

Roy Fruehauf testified before the subcommittee. He is president of the Fruehauf Trailer Co., which had an important financial interest in the success of Lustron Corp. Fruehauf's interest arose from a $3,000,000 unpaid balance owed to his company for trailers furnished to the Commercial Home Equipment Co. which had contracted to transport the Lustron houses from factory to building sites.

Fruehauf testified that Rosenbaum had offered to secure RFC's approval of a plan of reorganization for Lustron which would safeguard the Fruehauf interests. According to Fruehauf, Rosenbaum said his fee for this service was to be $100,000.

Fruehauf testified that Rosenbaum claimed to have Dunham and Willett "in his hip pocket," and he testified also that Rex Jacobs and Paul O. Buckley strongly urged acceptance of the Rosenbaum proposal.

Buckley is mentioned elsewhere in this presentation. He was connected with Barium Steel Corp., the parent of Central Iron & Steel Co. Also he was a Lustron director, and an official and stockholder of Commercial Home Equipment Co. which purchased the trailers to haul the houses. Finally he was a business associate of Joseph Rosenbaum.

Fruehauf's regular counsel said the Rosenbaum proposal sounded like a typical "Washington fix." He advised against it, and no arrangement was made between Fruehauf and Rosenbaum. The Fruehauf plans for Lustron reorganization met with failure.

Kaiser-Frazer Corp.

Former RFC Chairman Hise furnished the subcommittee with a copy of a confidential office memorandum which was written to him by Director Harvey J. Gunderson on October 11, 1949. According to this memorandum, Rosenbaum had approached Edgar Kaiser through L. M. Giannini, the California banker. Edgar Kaiser is the president of Kaiser-Frazer Corp., which borrowed $44,000,000 from RFC in 1949 and received an additional loan authorization of $25,000,000 in December 1950.

The memorandum reports that Rosenbaum claimed to have influence over the decisions of Dunham and Willett, and that for this reason he would be able to negotiate more advantageous terms for the Kaiser-Frazer loan than the borrower could otherwise obtain. Success of the application itself was not promised because that had already been assured.

The Gunderson memorandum states also that Merl Young approached the Kaiser-Frazer officials. In doing so, he attempted to create the impression that he had influence with the RFC and that he had brought about improvement of the conditions governing the Kaiser-Frazer loan. He said this was done not on behalf of the Kaiser-Frazer interests, but for the benefit of certain other interests in Detroit. The memorandum does not assert that Young sought to be rewarded by the Kaiser-Frazer Corp. for what he claimed to have done.

The allegations contained in Gunderson's memorandum were confirmed by Messrs. Edgar Kaiser and Chad Calhoun of the Kaiser

enterprises, who also confirmed Gunderson's report that they had declined the assistance offered. On the occasion of this discussion, Calhoun supplied the subcommittee with certain confidential memoranda from his files bearing on the subject. Also, he reported that Dunham had recently embarrassed him by soliciting his support for the confirmation of his reappointment to the RFC Board.

Political sponsorship

The entries in Dunham's office records indicate that it was his practice to discuss the affairs of RFC freely with representatives of the Democratic National Committee, and to give special attention to matters in which the committee was interested. Though he was a Republican Board member, Dunham's most frequent visitors, judging from his office records, were attorneys and others who had been introduced by Chairman William M. Boyle or his assistants.

Dunham cooperated freely with these people. He even undertook to help place some of them in important jobs. Twice the committee sent over men who were candidates for membership on the Board of Directors of Preferred Accident Insurance Co., an RFC borrower. One of these was Leo B. Parker, an attorney of Kansas City, Mo. Boyle's office made an appointment for him to visit Dunham on July 12, 1950.

Parker later undertook to negotiate with RFC and particularly with Dunham on behalf of a client corporation which wished to acquire the facilities of Aireon Manufacturing Corp. These facilities, located in Kansas City, Kans., had come into RFC's possession by foreclosure on a defaulted loan. Parker's client was the Starrett Television Corp. owned principally by Jacob Freidus and his wife.

After negotiating the offer of Starrett Television Corp. and certain other offers, RFC awarded the sale to Starrett for $700,000 and certain other considerations. It then prepared to bring the transaction to a conclusion.

For some unexplained reason, RFC omitted to obtain a Dun & Bradstreet report regarding Starrett Television Corp. and its principals. If it had done so, it would have learned that Freidus and his father-in-law, Sam Aaron, were under indictment for evasion of income taxes amounting to $218,000.

This information came to the subcommittee on September 25, 1950, the day before the deal was to be closed in Kansas City. It was communicated to the RFC immediately, and RFC undertook to postpone the closing of the deal.

The RFC Investigations Division looked into the matter and found not only that there was income-tax evasion but also that Freidus and Aaron were then on trial in New York, and that certain other principals in Starrett Television Corp. had criminal records. The RFC investigators found further that there was good reason to believe the corporation and its principals had made misrepresentations to induce RFC to award the sale to them.

Nothwithstanding the probability of misrepresentations, RFC did not take action against the purchaser under those sections of the RFC Act which make it possible to do so. Instead, the Corporation defensively explored the possibility that it might be exposed to litigation if it sought to withdraw from the deal.

It was November 3, 1950, before the Board finally rescinded the sale. Freidus and Aaron were sentenced to prison a few days later.

The incident is included in this presentation in order to show the difficulties which attend the assignment of too great a weight to political sponsorship of a party to a business transaction.

On December 19, 1950, acting on the suggestion of Director C. Edward Rowe, RFC employed Aaron Krock & Co., auctioneers of Worcester, Mass., to dispose of the Aireon properties. If successful, the firm will receive 5 percent of the selling price as commission and it will be reimbursed for expenses incurred.

The attempts to dispose of the facilities of Aireon Manufacturing Corp. are discussed in greater detail in a separate section of this report.

Disruption in the Dallas Agency

One series of entries in Director Dunham's office records indicates that James Windham sought to bring about an increase in the salary of an examiner attached to the RFC loan agency in Detroit. He was successful in enlisting Dunham's interest in this undertaking, and through Dunham the salary increase was brought about. Dunham promptly reported his success to Windham.

This was one instance in which a personnel action in the RFC was taken because of an interest arising from the association of people discussed in this presentation. The following paragraphs describe another.

The Dallas loan agency of RFC has been in a state of considerable disruption for 2 years because of the activities of one of its minor officials who seems to be on intimate terms with Dawson and Young and who openly claims to have Washington influence at his disposal. This man is John B. Skiles, who heads the Division of Personnel and Administration in the Dallas loan agency.

Shortly after the 1948 election, L. B. Glidden, manager of the agency, fell into disfavor with one of the local leaders of the Democratic Party in Dallas, and his removal from the position of manager was suggested. Merl Young was advised by letter that Glidden was "N. G." Affidavits which the subcommittee obtained from Glidden's files indicate that Skiles became the principal purveyor of rumors which were circulated to undermine Glidden's position. They indicate also that he deliberately divided the agency employees into factions, and used abusive language and pressure tactics with those who opposed him.

The official RFC organization, including the Board of Directors, was unable to cope with the situation, and Glidden, who resigned as manager in December 1950, never was able to bring about Skiles' removal from the agency.

In desperation, Glidden once went so far as to appeal directly to Donald Dawson, who is the President's aide on personnel matters. It was Dawson who had first sponsored Skiles' employment with RFC in Dallas, a fact to which Glidden referred in his letter. Dawson did not respond to Glidden's appeal. It appears from other correspondence that he denied any knowledge of the situation in Dallas. Some of the confidential memoranda which Glidden supplied to the subcommittee give reason to believe that Dawson may have encouraged Skiles' defiant attitude.

The Skiles matter was put into the regular civil-service channels, and in December 1950 an appeal board in Dallas sustained Glidden's decision that Skiles should be rated an "unsatisfactory" employee.

Just at this time Glidden's transfer from Dallas to Houston was proposed by the Board of Directors, and Glidden resigned because he did not wish to make the move. His resignation was accompanied by the official recommendation that Skiles be discharged. The resignation was accepted promptly in Washington, but the recommendation had not been acted on when this interim report was prepared.

Succeeding sections of this interim report describe in greater detail certain aspects of the loans to Harrington & Richardson Arms Co. and National Union Radio Corp. and certain aspects of the attempts to dispose of facilities acquired by foreclosure of the loan to Aireon Manufacturing Corp. Additional interim reports will be issued by the subcommittee as they are completed. These will deal with the other case studies mentioned in the section entitled "Summary on Favoritism and Influence."

RFC LOAN TO HARRINGTON & RICHARDSON ARMS CO.

When appointed to the RFC Board, Rowe was a borrower

C. Edward Rowe, one of the three newly appointed Directors of RFC, acquired the principal ownership and assumed control of the Harrington & Richardson Arms Co. of Worcester, Mass., in 1944.

On April 20, 1945, this company applied to RFC for a loan of $500,000. Approval of the application was recommended by the Boston loan agency, but for various reasons, Board action was deferred and on February 7, 1947, the agency manager requested that the application be withdrawn.

On April 10, 1950, the Board of Directors of RFC approved a $300,000 2-year loan to Harrington & Richardson Arms Co. on a new application dated February 6, 1950. A total of $225,000 was disbursed on this loan. The $75,000 remainder was canceled.

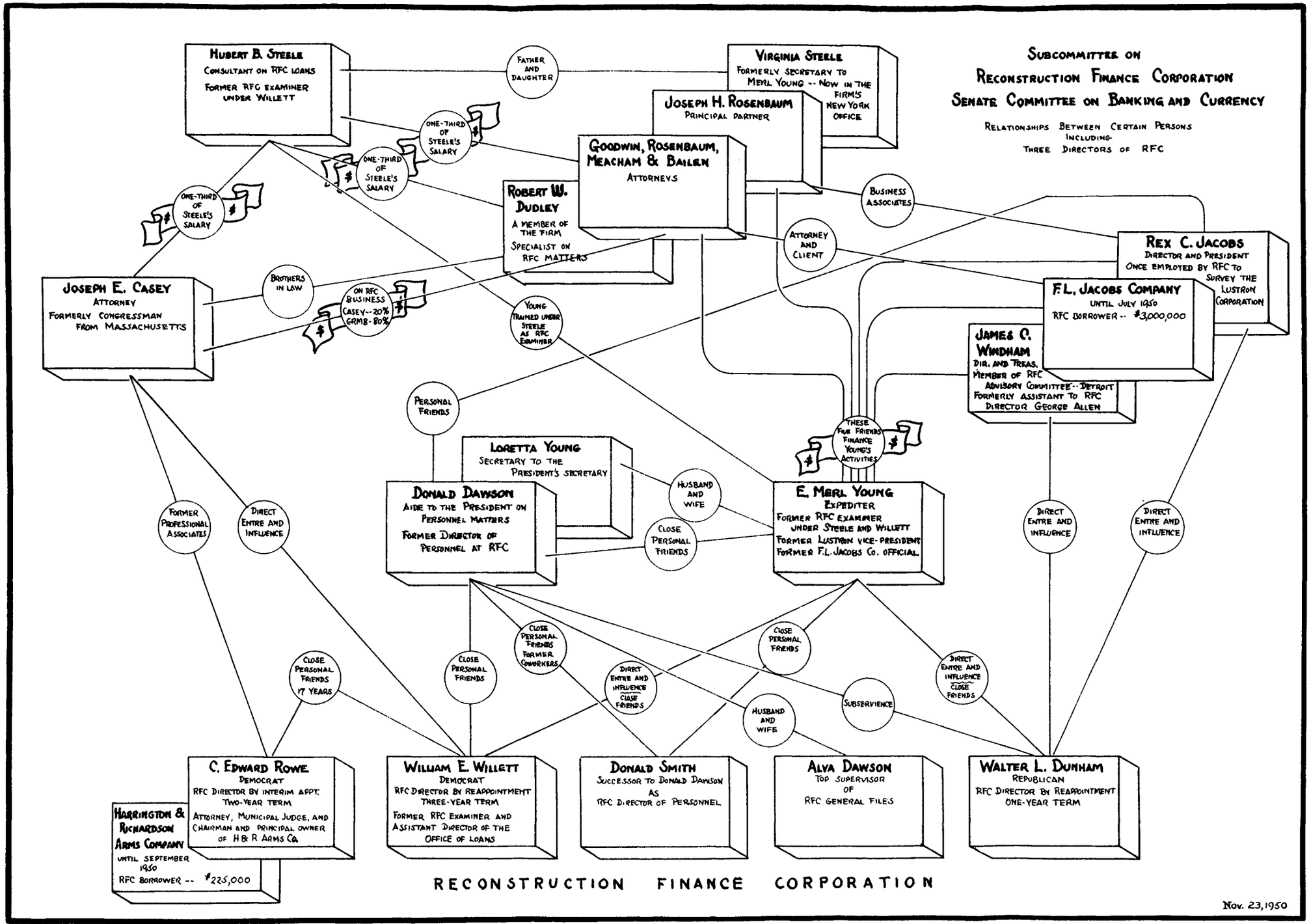
On September 1, 1950, after Rowe had been appointed a Director of the RFC, the then remaining balance of $165,139.17 was repaid by a check drawn on Worcester County Trust Co. of Worcester, Mass.

Financial assistance from other sources

Repayment of the RFC loan was made from the proceeds of a $300,000 loan granted by the Worcester County Trust Co. and the Merchants National Bank of Boston which had taken a 50-percent participation. This bank loan was secured to the extent of $200,000 by pledge of the borrower's inventories, and the remaining $100,000 was unsecured. The RFC loan agency in Boston understands that the secured portion had been repaid on October 19, 1950, repayments having been made possible by inventory liquidation. There was then an $85,000 unpaid balance on the unsecured portion.

On March 22, 1950, commenting on the application filed with RFC, Examiner Robert B. Bergen of the Boston loan agency had reported on the availability of assistance from other sources. His report said the Worcester County Trust Co. had advised the agency "that they were not interested in the proposed loan." The same was said of the Merchants National Bank of Boston, a creditor of Harrington & Richardson Arms Co. at that time. The company owed it a remainder of $75,000 on a $300,000 working-capital loan which had been renewed from time to time. According to Bergen, the applicant had approached

CHART SHOWING RELATIONSHIP BETWEEN CERTAIN PEOPLE, INCLUDING THREE DIRECTORS OF RFC



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the Merchants National Bank seeking to restore this loan to its original $300,000 level, but the bank "has been noncommittal and has informed the applicant that, when it has repaid its outstanding loan, it will then take up the question of extending further credit in the increased amount desired."

The comments of the two banks were accepted by RFC as conclusive showing that financial assistance was not available to Harrington & Richardson from other sources. The same two banks collaborated to supply Mr. Rowe's company with the assistance it was seeking immediately after he was appointed a director of RFC. This may have been because of changes in economic circumstances brought about by the Korean conflict which developed in the interim.

Harrington & Richardson is 80 years old

The business of Harrington & Richardson Arms Co. was first organized in 1871 by Gilbert H. Harrington and Franklin Wesson. A new firm was formed in 1874 by Gilbert H. Harrington and William H. Richardson, this partnership continuing until the corporation was organized under Massachusetts law on January 24, 1888.

In 1938 the corporation went into bankruptcy under section 77B of the Bankruptcy Act. Its reorganization was completed on May 6, 1940, the creditors accepting 25 percent of their claims in cash and 75 percent in preferred stock, which was redeemed in 1941. The present management and principal ownership dates from 1944.

C. Edward Rowe owns 83,000 shares of common stock out of 166,758 shares outstanding. In addition, there are 35,183 shares of class A stock outstanding, and 42,723 in the company's treasury. Rowe owns 100 class A shares. Because of a dividend arrearage, the class A shareholders have had voting rights for about 7 years.

Although the class A shareholders received the right on May 15, 1945, to exchange their shares for common stock on the basis of one for two, the 77,906 class A shares mentioned had not been presented for exchange by January 28, 1950, the date of the financial information contained in the application filed with RFC on February 6, 1950.

Favoritism is implied

Like the loans to Texmass Petroleum Co. and to Central Iron & Steel Co. the RFC loan to Harrington & Richardson Arms Co. is an instance in which the Board of Directors acted in opposition to the advice of all lower levels in the RFC excepting only the examiner for the Washington office. In doing so, the Board made concessions which ordinarily, under its policies, it would not have made.

The subcommittee understands further that, like the loan to Central Iron & Steel, the loan to Harrington & Richardson Arms Co. is an instance in which the Washington examiner, who made a favorable report, was selected for the assignment by Director William E. Willett. The record indicates that the selection may have been made on March 23, 1950. The selection of examiners is not normally made by Directors. It is one of the responsibilities of the Manager of the Loan Division.

C. Edward Rowe began to be mentioned as a candidate for membership on the RFC Board a full year or more before his loan application was filed. This was well known to the Directors and some key employees in the RFC, and so was Willett's long-time friendship for Rowe. For these reasons and because of Willett's intimate contact

with Rowe, particularly during the period of the loan negotiations, it seems that the best interests of RFC would have required the careful preparation of an incontrovertible record of arms-length dealings in this case. No such record was created, however, and the RFC is exposed to whatever implications may be drawn from the circumstances surrounding the negotiations and the loan.

Bergen thought the collateral was insufficient

Examiner Bergen reported on March 22, 1950, that "the bulk of applicant's business is devoted to the manufacture and sale of low-priced sporting fire arms. While some submachine guns, handcuffs, leg-irons, etc., are manufactured for sale to law-enforcement agencies, the comparative volume of these latter items is relatively small. During the late war, the applicant manufactured large numbers of Reising submachine guns which were standard equipment for the United States Marine Corps and which are still used by that branch."

The inventory of finished shotguns, rifles, and revolvers was offered by the applicant as the sole collateral for repayment of the RFC loan. These items had been manufactured at a cost of $434,000. They were marked for sale at retail for $642,000 and they were given a liquidating value of $197,000 by the appraiser for the Boston Loan Agency. The appraiser was of the opinion that the collateral could not be liquidated satisfactorily on a piecemeal basis. The value which he assigned contemplated that the inventory would be disposed of as a unit in the event of foreclosure. With respect to the inventory, Bergen reported:

> In conclusion, the examiner is of the opinion that the collateral offered consisting of finished inventory alone is unsatisfactory in type and not of such sound value as reasonably to assure repayment of the loan requested.

Bergen closed his report with the recommendation that the application be declined and his report convinced both the review committee and the advisory committee in Boston. They also recommended decline. Inadequacy of collateral was the principal reason, but nine separate unfavorable factors were cited. They outweighed the two favorable facts (*a*) that employment would be afforded in a critical unemployment area, and (*b*) that the applicant's management was regarded generally as capable and efficient.

O'Keefe checked the inventory carefully

Bergen's report is supported by the report of Vincent P. O'Keefe, engineer-examiner attached to the Boston loan agency. O'Keefe was the man who took the view that the liquidating value of the inventory should be determined on the basis of its disposal as a unit rather than its disposal piecemeal. The first 5 of his 10 conclusions are quoted below:

> 1. That the greater portion of the inventory now on hand is of the 22-caliber type that is not as popular as the higher caliber, and therefore might be difficult to liquidate.
> 2. That the business in general is depressed because of greatly diminished sales and demand for this type of commodity and because the market is saturated.
> 3. That other manufacturers are discontinuing the manufacture of 22-caliber guns on a mass-production scale, because of a lack of demand for this type of firearm.
> 4. That the sales of firearms has become keenly competitive.
> 5. That the demand for Harrington & Richardson products in this area is not good as compared to Colt, Savage or Remington Arms firearms, according to a careful check made by the writer.

The RFC official Washington office file copy of O'Keefe's report has the penciled notation "wrong" concerning the first item. Item 2 is also marked "wrong." The word "popular" is written beside item 3, the word "okeh" is written beside item 4, and the words "different products" are written beside item 5. These may be notations made by James O. Hoover, the Washington examiner. He took exception to O'Keefe's views notwithstanding the fact that O'Keefe had made a careful check.

The source of the information which the notations reflect is not stated, and there is no indication of when the notations were made.

James O. Hoover was the Washington examiner

Bergen's report was received in Washington on March 28, 1950. It may be a coincidence that Rowe telephoned Willett about the loan on that same day, and that he did so again 3 days later. It may also be a coincidence that he had visited Willett on March 23 and on that occasion was accorded the opportunity to talk to James Hoover.

In his report on the loan application, Examiner Hoover said with reference to O'Keefe's report:

> It appears to undersigned that Appraiser O'Keefe is considering sale of inventory in a distressed situation, that is, that only $197,000 would be recovered if applicant discontinued operations. * * * The undersigned believes the approach of appraiser is extreme in establishing liquidating value of inventory. It is anticipated that this enterprise will continue and that in any event, firearms will be manufactured under the trade name H & R, which has been established since 1871.

The point of view employed by O'Keefe is consistent with RFC policy in the establishment of liquidating values. The point of view taken by Hoover is not.

Hoover's work was done without delay. He talked to Rowe on March 23, 1950, then received the assignment as Washington examiner on the application on or after March 28, 1950, a Tuesday, when Bergen's report first became available in Washington. In the next 13 days which included 2 week-ends, he made an examination which controverted Bergen's findings to his satisfaction, he prepared his report and he submitted it for review and got it presented for Board action.

Hoover's report has the unqualified concurrence of Frank Prince, Chief of the Loan Operations Division in the Washington office of RFC. Why it does is not clear, since this is not usually required—presumably it strengthened Hoover's affirmative findings.

Prince served with Rowe as an official of Smaller War Plants Corporation before that instrumentality was merged with RFC. He was present on March 23, 1950, when Rowe conferred with Hoover.

At the meeting held on April 10, 1950, the Board voted to grant the loan. Henry Mulligan was not present at the meeting but the other four Directors were, and all voted affirmatively.

Willett telephoned Rowe on April 10, 1950, presumably to advise him of the success of his application.

The properties were not pledged—too great a task:

Harrington & Richardson did not offer to pledge its physical properties as collateral to the RFC loan. These properties were unencumbered but, quoting from Bergen's report:

> * * * owing to the widespread distribution of the class A stock and the reported apathy on the part of that class of stockholder, the obtaining of a two-

thirds assent to the pledging of fixed assets from the class A stockholders is claimed to be a task which would take some months of intensive effort to accomplish. For this reason therefore, the fixed assets are not offered as collateral.

Bergen suggested that it would not have been unreasonable for the applicant to have anticipated the need for the pledging of the plant properties. He suggested that the necessary steps to obtain the stockholders' assent should have been taken "sometime ago." Bergen's report went on to point out that RFC might be exposed to an unnecessary hazard if it did not insist on the pledge of the properties. It says:

> Merely as a casual observation, it will be noted that the State and Federal excise and income taxes as of December 31, 1949, exceed the liquidating value of the fixed assets and were this Corporation to make a loan solely on inventory and then have the Government place a tax lien on the fixed assets, a most unsatisfactory situation could ensue.

At the time the loan application was filed with RFC, 77,906 class A shares were outstanding and 42,723 had been reacquired and were held, uncanceled, in the company's treasury. Two-thirds of the outstanding class A stock would be 51,938 shares.

The company could have voted its treasury stock. This being the case, it seems that the practical problem of obtaining the assent of two-thirds of the class A shareholders consisted of lining up 9,216 out of 35,185 votes. The 35,185 shares were held by 307 people, but 11,418 shares were held by only 20, a circumstance which indicates that the problem may not have been as serious as it was indicated. On May 15, 1945, when the corporate charter was amended, 61,505 votes were cast by or on behalf of the then holders of 104,678 class A shares.

In any event RFC finally went along with the applicant, and with the Washington examiner, and waived the pledge of plant properties. Ordinarily it would not have done so.

No guaranties were offered

Another waiver of RFC's normal requirements as to collateral had to do with the personal guaranties of the principal owners of the company.

Bergen's report said:

> No guaranties are offered. Personal financial statements of principals were requested by examiner but not furnished. It was indicated that principals were unwilling to guarantee any part of the loan.

Hoover did not mention the matter of personal guaranties in his report although he did comment on the management people. He referred to C. Edward Rowe as "the driving force" and he said Rowe "has the assistance of Mr. Cowdrey, Jr., vice president." He did not undertake to explain his omission to deal with the subject of guaranties.

The Washington Review Committee concurred with Hoover's recommendation that a $300,000 2-year inventory loan should be made. However, the review committee conditioned its concurrence on the further recommendation that "President C. F. Cowdrey, Jr., and Chairman of the Board, C. E. Rowe, to guarantee in the ratios of their stockholdings (total approximately 75 percent.)"

In approving the application the RFC Board went along with Hoover and omitted the personal-guaranty requirements. No reason was recorded for its election to do so.

Willett and Rowe

The subcommittee has had the opportunity to review the entries in Director Willett's office records and this was the source of the information stated earlier in this report, that Rowe telephoned Willett the day the Boston examiner's report reached Washington.

Rowe was in relatively frequent contact with Willett during the entire period covered by the office records. He phoned and visited Willett every now and then during 1949, sometimes about the Waltham Watch Co. loan and sometimes about other matters. It seems from the entries that Willett may have proposed Rowe's appointment as a trustee for Waltham Watch Co. in May of 1949 but Rowe declined the honor and the responsibility.

During the period of the Harrington & Richardson loan negotiations, the contacts became more frequent.

RFC LOAN TO NATIONAL UNION RADIO CORP.

National Union Radio Corp. of Orange, N. J., is a manufacturer of radio, radar, and cathode ray tubes for radio sets, radar equipment, and television sets. Also, it is a distributor of panel lights, batteries, and related items.

The corporation applied for an 8-year RFC loan of $1,750,000 on August 29, 1949, intending that the proceeds be used for working capital to the extent of about $900,000, the payment of $670,000 in debts and the purchase of equipment costing $180,000.

In reporting on this application, the examiner for the RFC loan agency in New York proposed that a loan of $1,500,000 be approved if C. Russell Feldman, the applicant's chairman would agree to give his guaranty for 60 percent of the total. No guaranties had been offered. The agency review and advisory committees recommended that the application be declined for lack of assurance that the loan could be repaid from earnings. .

Washington examiner James O. Hoover recommended that a loan of $1,400,000 be approved, substantially under the conditions outlined by the agency examiner. The Washington review committee recommended "decline for agency's reasons."

On December 12, 1949, the RFC Board granted a loan of $1,400,000. The loan resolution required that Feldman provide a 60-percent guaranty as suggested by the examiners, and also that he provide a personal financial statement to indicate the worth of the guaranty. Feldman objected to the latter requirement and on March 15, 1950, Robert Dudley, of the firm of Goodwin, Rosenbaum, Meacham & Bailen, wrote to Willett expressing his hope that the Board would not insist. On March 16, 1950, RFC amended its resolution. Under the amendment Feldman's affidavit was deemed satisfactory evidence of the worth of the guaranty.

Goodwin, Rosenbaum, Meacham & Bailen acted as advocates for the applicant. Their fee was set at $15,000. In addition, according to a letter written by Joseph H. Rosenbaum on May 29, 1950, there was an agreement that the firm would receive a retainer of $500 per month for general legal services.

The New York Loan Agency of RFC reviewed the Rosenbaum fee billing in considerable detail and concluded with respect to the legal work of which it was aware, that it could approve a fee of only $5,000

instead of the $15,000 proposed. The difference was referred to the RFC office in Washington for approval. It was in abeyance in Washington for about 2 months. On December 15, 1950, Robert Dudley advised RFC that the loan had been repaid in full and, accordingly, the matter was dropped without decision.

The subcommittee has not made a detailed study of the loan to National Union Radio Corp. The principal purpose of this section of this interim report is to present the following memorandum from the files of the RFC loan agency in New York. It contains a detailed commentary on the fee charged for its services by Goodwin, Rosenbaum, Meacham & Bailen, and it points out that the applicant's other counsel did most of the legal work on the application of which the New York loan agency is aware:

MEMORANDUM

OCTOBER 10, 1950.

To: Messrs. J. P. Ringen and J. W. Myers.
From: Harold E. Jacobsen.
Re: National Union Radio Corp. (Orange, N. J.). Loan No. 5931. Authorized amount $1,400,000; amount disbursed, $1,211,603.36. Legal fees.

In connection with the bills for legal services in the above loan, we have examined and for various details of the services, refer you to the following:

1. A bill dated June 6, 1950, of Goodwin, Rosenbaum, Meacham & Bailen, Washington, D. C. (hereinafter called "Washington counsel") in the amount of $15,000, forwarded with borrower's letter to the agency dated June 29, 1950.

2. A bill dated June 20, 1950, of Pitney, Hardin & Ward, Newark, N. J. (hereinafter called "New Jersey counsel"), in the amount of $900.

3. A letter of borrower, dated August 11, 1950, advising that its Pennsylvania counsel, Souser & Schumacker, Philadelphia, Pa., will make no charge for their services rendered in connection with this loan (apparently in view of their regular retainer).

4. A copy of a letter from Washington counsel to borrower, dated June 6, 1950, containing an itemization of the time spent by various representatives of the firm in the performance of their services pertaining to the loan.

5. A letter dated July 28, 1950, addressed to borrower by Daniel O. Dechert, of Washington counsel, attached to which is a detailed statement of the services rendered by Mr. Dechert and the number of hours involved.

6. Letter from New Jersey counsel to borrower, dated July 31, 1950, concerning their bill for $900.

7. Memorandum dated August 16, 1950, of Robert W. Dudley, of Washington counsel, containing a brief general statement of the nature of his services and the time he spent in their performance, attached to which is a schedule of the dates on which such services were rendered and of the time spent on each such date.

8. Memorandum dated August 16, 1950, of Stephen G. Lax, of Washington counsel, containing a brief general statement of the nature of his services and the time he spent in their performance, attached to which is a schedule of the dates on which such services were rendered and of the time spent on each such date.

9. A memorandum dated August 15, 1950, with respect to services rendered by Joseph E. Casey, of Washington counsel.

10. A letter from Washington counsel to this Corporation dated September 22, 1950, containing an itemized statement of their disbursements in the amount of $1,573.41. It states the amount has been paid by borrower.

The loan was authorized by resolution of the Board of Directors of this Corporation adopted on December 12, 1949, which we received on December 23, 1949. The first advance of $1,211,603.36 was made on June 1, 1950. The collateral for the loan consists of a mortgage of real property and plant machinery and equipment in Pennsylvania, a mortgage of real property in New Jersey, and a mortgage of chattels in New Jersey. In addition, a guaranty of payment of the loan was required on one individual and lessor's agreements were obtained from the owners of premises occupied by borrower in New Jersey, as lessee. No extraordinary legal problems arose in this loan as far as we know, except one or two title problems involving Pennsylvania law which we understand were effectively cleared by borrower's Pennsylvania counsel and our Philadelphia agency counsel. The lapse

of time between receipt of the loan resolution and disbursement, was not the result of any serious legal complications with which borrower's counsel had to contend.

$900 FEE OF NEW JERSEY COUNSEL

New Jersey counsel, as indicated in their bill, did the bulk of work necessary to clear up various exceptions which appeared in the title report pertaining to borrower's real property in New Jersey, as well as the obtaining of various lessor's agreements required in connection with the loan. Some of the title exceptions required considerable effort in their clearance and the services rendered by New Jersey counsel were performed in a competent and efficient manner. Considering the standing of New Jersey counsel (one of the leading law firms in Newark), the nature of the services rendered, the summary of the services set forth in the bill, our estimate of the time involved, the efficient manner in which they were performed and the other factors usually taken into consideration by us, it is our opinion that the amount requested namely $900, is reasonable. This amount includes incidental disbursements, not separately itemized, according to a statement in the bill. The above letter of New Jersey counsel dated July 31, 1950, states that the amount does not include services for any subsequent advance.

SERVICES OF BORROWER'S PENNSYLVANIA COUNSEL

With respect to all matters in this loan involving the law of Pennsylvania, borrower engaged the services of the law firm of Souser & Schumacker, Philadelphia, Pa. As indicated in the aforesaid letter of borrower dated August 11, 1950, we understand that such counsel will make no charge for services rendered in connection with the loan.

$15,000 FEE OF WASHINGTON COUNSEL

The total time stated to have been spent in the performance of services pertaining to the loan by Washington counsel is 730 hours. In their above letter of June 6, this time is allocated as follows:

Name	Out of Washington	In Washington
J. H. Rosenbaum	2	38
Joseph F. Casey	0	16
Robert W. Dudley	21	79
Stephen G. Lax	46	122
Daniel O. Dechert	397	9
Total	466	264
	264	
Grand total	730	

Mr. Cartenuto, a member of our legal staff who was in charge of the loan closing, had no dealings in this loan with any members of the firm other than Mr. Dechert, although Mr. Dudley did stop in to see Mr. Cartenuto for about 5 minutes on one occasion, accompanied by Mr. Dechert. Messrs. J. E. Flynn and Ludwig Lewis, examiners, reported to us that the total time spent with them by members of the firm other than Mr. Dechert, did not exceed 2½ hours. Except for the extremely brief statements of the nature of their services and the time spent, we have no information upon which we could, in all fairness, pass upon those portions of the bill allocable to the services performed by Messrs. Dudley, Lax, Casey, and Rosenbaum. Their services involved approximately 324 hours. The only statement of Mr. Rosenbaum's services is the general one set forth in the above-listed letter of June 6. The remaining three attorneys submitted their statements of services listed above. You will note from such statements and letter that most of the services rendered by these four last-named individuals, were performed in Washington and had to do mostly with the filing of the loan application and in conferring with representatives of RFC in the Washington office and with others, and in furnishing information with respect thereto. We believe, therefore, that counsel or other representatives of this Corporation in the Washington office are in a far better position to pass upon such phase of the services because of their knowledge thereof, and we recommend that copies of the relevant papers listed above be sent to Washington for such purpose.

Under the circumstances our comments on the so-called application phase of the services of Washington counsel, are limited to the following: As we analyze the statements supporting their charge various representatives of the firm (some partners and others, associates), other than Mr. Dechert, spent approximately 250 hours in compiling the application, in conferences with respect thereto and in furnishing information requested in connection therewith. It is most difficult to conceive of the necessity for devoting so much time to this work. In effect, it amounts to more than 30 days (each of 8 hours) of continuous work. It is also difficult for us to understand why so much time was necessary, since we were informed by Mr. Lewis, the examiner, that all of his requests for information needed in connection with the processing of the application were made to and apparently complied with by Mr. W. H. Carey, borrower's treasurer. As I have stated, however, these are matters which primarily concern the Washington office.

With respect to the services stated to have been rendered by Mr. Dechert after the loan was authorized, with which this office is familiar and which, according to his statement (referred to in his above letter of July 28) required 406¾ hours, we again cannot understand the necessity for devoting so much time thereto, particularly since, as indicated above, the legal problems involved in this loan were not particularly complicated, and any problems which did arise were, we understand, taken care of primarily by either New Jersey counsel or Pennsylvania counsel. Most of the required legal documents were drafted by Mr. Cartenuto. Washington counsel rendered no opinion with respect to those phases of the loan involving New Jersey or Pennsylvania law. This left very little to be covered in the opinion they did give.

Mr. Dechert's statement indicates that he spent a large amount of time in telephone calls and conferences, the need for which is not readily apparent. For instance, with respect to the New Jersey phases of the loan Mr. Cartenuto dealt with Mr. O'Brien, of borrower's New Jersey counsel, who did the necessary work in connection therewith. In almost every instance where a problem was raised and explained to borrower's New Jersey counsel, Mr. Dechert saw fit to discuss the problem in its entirety with Mr. Cartenuto and apparently with borrower's New Jersey counsel. It appears to us that this duplication was to a great extent unnecessary and did not serve any useful purpose. In fact, it may have had a delaying effect because of the time consumed in going over with Mr. Dechert matters which had been discussed with borrower's New Jersey counsel. While the Pennsylvania phases of this loan were handled in our behalf by our Philadelphia agency counsel, Mr. Frantz, I understand that Mr. Dechert followed the same procedure there as he did in New Jersey. We believe that most of the telephone calls and conferences enumerated in Mr. Dechert's statement were devoted to efforts to expedite the closing of the loan, all of which are commendable, whether or not necessary, but in and of themselves they did not, to any great extent, speed up the clearance of the various problems involved nor the preparation of the closing documents. More important, they are not of such nature that will support as reasonable a substantial fee based primarily on additional time spent in these pursuits. We are not saying that Washington counsel should not be paid for services of this nature rendered by Mr. Dechert, or any other of their representatives, but time so spent does not have the value of time devoted to strictly legal service.

Another item on page 11 of Mr. Dechert's statement should be noted. After setting forth in the first 10 pages thereof what seems to be a minutely detailed record in diary form of all conferences, telephone or otherwise, and of other telephone calls and the dates and amount of time spent on each item, on page 11 he lumps together, in one item of 125 hours, services described as "receiving telephone calls" and "unallocated time spent in conferences, study of files and study of law."

Allowing 8 hours for each day, which we believe is a generous average work day for an attorney, Mr. Dechert apparently spent about 51 days in the performance of his services. From the date Mr. Dechert came into the picture, namely, December 16, 1949, to the date of disbursement of the loan, June 1, 1950, there were only approximately 110 business days. It would appear, therefore, that Mr. Dechert devoted almost half of his working time to this particular loan. Considering the problems involved in the loan, the fact that the clearance of most of such problems was handled by borrower's New Jersey and Pennsylvania counsel and allowing for a general supervision of all the legal work of other counsel for borrower, it is our opinion that Mr. Dechert devoted much more time to the performance of the services than was warranted by the need therefor and the results achieved.

Considering the $15,000 fee as a whole and the 730 hours involved, the charge on an hourly basis is approximately $20 an hour. On such basis the fee may not

generally seem excessive, particularly where the services are performed by partners or senior attorneys of the firm. However, an hourly charge is only one of the criteria to be considered. The above-mentioned letter of Washington counsel dated June 6 stated that their usual hourly charge is $35 and that on such basis the fee would be $25,500. Since the total amount of time involved is, in our opinion, not shown to be reasonably necessary under all the circumstances, we cannot conclude that $20 an hour is a reasonable charge for the services in question and thus cannot approve the fee charged on such a basis.

The location of the property required to be mortgaged in this loan made it necessary for borrower to retain counsel in different jurisdictions, in addition to borrower's Washington counsel, who represented it generally in this loan. Obviously, to the extent that adequate services are rendered by other counsel, a borrower's general counsel is not justified in charging for a duplication of the services performed by such other counsel. We believe that much of the time in fact spent by Washington counsel overlaps services efficiently performed by borrower's other counsel. In a similar manner four attorneys in the office of borrower's counsel worked on the application phase of the loan. This would seem to involve necessarily a certain amount of overlapping of services.

It may well be, as is the case here, that borrower does not object to any of the charges of its several counsel but this has only a slight bearing on the point at issue, namely whether RFC determines that the charges are reasonable. We do not doubt in the slightest the statement of the number of hours spent by counsel but feel that where the time appears excessive, it relates to the efficiency of the services performed and consequently does have a bearing upon the amount of a reasonable fee. What services were rendered by Mr. Dechert, as far as we can determine from personal contact, were competently performed.

Based upon the above-mentioned statements of services rendered by Mr. Dechert and other representatives of his firm in connection with the legal requirements for closing the loan, the nature of such services, the time spent by him and others in rendering them, the legal work required of Washington counsel in connection with the closing, the amount of the loan, the reputation and standing of the firm among the bar in Washington, D. C., the generally competent manner in which the services were performed, and other usual factors, in our opinion a fee of $5,000 for that part of the services of Washington counsel rendered by Mr. Dechert would be a generous one under the circumstances. To such amount as may be approved with respect to the services rendered by Mr. Dechert, there should, of course, be added whatever amount may be determined as reasonable for the services stated to have been rendered by the representatives of Washington counsel other than Mr. Dechert. We assume that you will refer to the Washington office for determination, the reasonableness of the remaining portion ($10,000) of the total fee of $15,000 charged.

DISBURSEMENTS BY WASHINGTON COUNSEL

Disbursements made by Washington counsel in connection with the loan aggregated $1,573.41 as reported in their above letter of September 22, 1950. The letter also states that such disbursements have been paid by borrower. While, as indicated above, we believe that many of the long-distance telephone calls and possibly trips, could have been dispensed with, they were apparently in fact made and approved by borrower. Since borrower, whose place of business is near New York City (Orange, N. J.), found it desirable to retain counsel whose principal office is in Washington, D. C., it must necessarily expect to pay substantial disbursements caused by travel between Washington, New York City, Orange, N. J., and borrower's place of business in Pennsylvania. Based upon the disbursements listed in said letter and the circumstances involved in this loan, we cannot say that the total amount is unreasonable.

[S] H. E. J.,
HAROLD E. JACOBSEN, *Agency Counsel.*

SALE OF FACILITIES OF AIREON MANUFACTURING CORP.

On January 23, 1947, by action of its executive committee, the RFC lent $1,500,000 (75 percent of a participation loan of $2,000,000) to the Aireon Manufacturing Corp. of Kansas City, Kans., a manufacturer of juke boxes. Board approval followed. Because of questionable repayment prospects, the loan bordered on abuse of the

Corporation's authority and it was criticized in the audit report of the Comptroller General of the United States covering the 2-year period ended June 30, 1947. Only 8 months or so after the loan had been made, the borrower was bankrupt, and eventually RFC became the owner of the assets which had been pledged to secure repayment.

After the Korean conflict broke out in the summer of 1950, considerable interest in the Aireon facilities began to be displayed by prospective purchasers, and the time seemed right for their sale. RFC first received offers to dispose of them by negotiated sale. It was then decided that the properties should be advertised for sale to the highest bidder on a sealed-bid basis. However, the manager of the Kansas City agency contended that the sale should be by negotiation, and the RFC changed its plans a second time. This apparent indecision brought sharp criticism from Senator Hubert Humphrey, who wrote on behalf of a prospective purchaser from Minnesota on August 23, 1950. The Senator complained specifically that—

> the procedure followed to date is surely not a businesslike one and can lead to all sorts of conclusions in the minds of people who have suffered because of the procrastination, delay, and inconsistency.

The final decision to sell by negotiation was made because of technical difficulties which might interfere with the effectiveness of any offer to sell on sealed bids. The Aireon facilities stand on land leased from the city of Kansas City, Kans. The plant itself is owned by the land-lessee, a corporation, which had leased it first to Aireon, and then by succession and assignment to the RFC. The lease on the plant contains a scale of rentals which is seriously outdated and would be disadvantageous to the lessor at present-day price levels. This circumstance interfered with secondary assignment of the lease and threatened to precipitate litigation if attempts were made to consummate a sale not wholly satisfactory to the lessor. In the face of this complication the RFC finally decided that a negotiated sale would be preferable to a sale on sealed bids. The Corporation has the authority to make such an election.

On September 25, 1950, the subcommittee learned that RFC was about to consummate sale of the Aireon properties to the Starrett Television Corp., a corporation owned by one Jacob Freidus and his wife, Claire F. Freidus. Freidus and his father-in-law, Sam Aaron, were under indictment for income-tax evasion. The indictment charged that taxes totaling about $218,000 were evaded, for the years 1942 and 1943. It appears that Freidus and Aaron, doing business as Aaron Machinery Co., had purchased and sold equipment in 1942 and 1943 at black-market prices in violation of the criminal provisions of OPA regulations. They willfully failed to record these transactions in their accounts and to pay taxes on the profits. The case had been set for trial in February 1951 in the United States District Court for the Southern District of New York.

Learning this, the subcommittee made inquiries about RFC's intention regarding completion of the sale. The inquiries precipitated postponement of the closing of the transaction, and the Board of Directors undertook to reconsider the matter.

Immediately after the subcommittee had begun to question the propriety of the transaction the RFC Investigations Division and an RFC auditor made inquiries and issued the following report:

OCTOBER 5, 1950.

Memorandum to the Board.
Re Aireon Manufacturing Corp.

By Secretary's letter dated September 1, 1950, the Kansas City agency was advised of the terms and conditions which the RFC Board of Directors imposed in connection with the sale for $700,000 of the property acquired from the captioned concern to a corporation to be formed by Starrett Television Corp.

The more pertinent of these conditions are (a) the injection of $200,000 in working capital into the corporation to be formed; (b) a cash down payment of $100,000; (c) the balance secured by mortgage and assignment of lease; (e) the unpaid portion unconditionally guaranteed by Starrett Television Corp.; (f) agency counsel's opinion as to (1) whether the guaranty executed by Starrett Television Corp. is a valid and binding obligation, and (2) whether the purchasing corporation had been legally formed and the obligations undertaken by it were valid and binding; and (m) the financial condition of the purchaser must be satisfactory to the agency.

In connection with the proposed offer to buy, Starrett Television Corp., the guarantor, on August 2, 1950, submitted a financial statement as of February 28, 1950, signed by Mitchell Fein, former vice president, under date of May 4, 1950, which reflected total assets of $659,145.19; total liabilities of $209,725.18; capital stock of $340,000; and surplus of $109,420.01. Further representations made by the purchasing company and guarantor, through its principals, are as follows: By letter dated July 26, 1950, Larry Knohl, vice president of Starrett Television Corp. and proposed president of the recently formed Aireon-Starrett, Inc., stated that Starrett Realty Corp., having substantial assets, was a subsidiary of Starrett Television Corp.; that at least $200,000 would be made available in operating capital for the new enterprise, in addition to the down payment. By correspondence dated August 2, 1950, Mr. Knohl further represented to RFC that $200,000 had been added to the capital structure of Starrett Television Corp. since its last financial statement, making its net worth approximately $650,000; that Starrett Television Corp. proposed to spend $350,000 in Aireon-Starrett, Inc., formed to operate the new venture, and that this expenditure would not deplete the assets of Starrett Television Corp., the bidder and guarantor.

Prior to the consummation of the sale, or its final approval by the Kansas City Agency, investigation disclosed that Jacob Freidus, who, with his wife, is the sole owner of the stock of Starrett Television Corp. was under indictment in the United States District Court for the Southern District of New York, charged with tax frauds aggregating nearly a quarter of a million dollars; that Department of Justice officials in charge of this prosecution reported they had a very substantial case against Freidus; that Larry Knohl, vice president of Starrett Television Corp. and proposed president of the New Aireon-Starrett, Inc., had a criminal record, having served from 15 months to 2 years in the United States Penitentiary at Lewisburg for bankruptcy violations; and that Murray Daniels, former president of Starrett Television Corp. had a criminal record also.

Investigation further disclosed that representations made to the RFC by Starrett Television Corp. and its principals were not in accord with the facts.

(1) With respect to the financial statement of February 28, 1950, examination of the books and records of the guarantor by representatives of the Investigation and Audit Divisions disclosed that, although this financial statement submitted to RFC set forth under "Surplus" the amount of $109,420 01, actually a book deficit of approximately $191,000 existed as of that date, and that this "Surplus" was created by capitalizing "Loans payable" in the approximate amount of $300,000. These loans payable for the most part, represent advances made by Jacob Freidus from other corporations under his control.

(2) The financial statement of February 28, 1950, listed $340,000 in capital stock, $200 representing 200 shares of common stock and $339,800 representing 200 shares of preferred stock. Although the books of the corporation reflect the issuance of the stock as set forth in the financial statement, the corporation's stock-certificate books show no issuance of preferred stock, and correspondence in the corporation's files reflects that the secretary of state of New York has not, to date, approved such issuance, which fact was confirmed at said office.

(3) (*a*) The statement of Mr. Larry Knohl made in letter to the RFC dated August 2, 1950, to the effect that $200,000 had been added to the capital structure of Starrett Television Corp. since its last financial statement, making its net worth approximately $650,000, also appears to be contrary to the facts. The Starrett records as of this approximate date do reflect that additional advances had been made to the corporation, but these advances are recorded as a liability under "Loans payable" to Jacob Freidus and Claire Freidus.

(*b*) The statement of Larry Knohl in letter dated July 26, 1950, to RFC, to the effect that the Starrett Realty Corp. was a subsidiary of Starrett Television Corp., on the basis of Starrett Television Corp.'s records also appears, to be a misstatement.

(4) With respect to the statements of Mr. Knohl as set forth in his letter of August 2, 1950, to the RFC, to the effect that Starrett Television Corp. proposed to spend $350,000 in Aireon-Starrett, Inc., which expenditure would not deplete the assets of Starrett Television Corp., bidder and guarantor, it should be noted that, upon interview of Jacob Freidus in New York on October 2, 1950, he advised that no money had been advanced to Aireon-Starrett, Inc., as yet; that he considered RFC's condition that $200,000 in addition to the down payment be injected into this new corporation unreasonable; and that he had not definitely made up his mind, but believed they would operate the Aireon facilities as a division of Starrett Television Corp.

(5) It is the conclusion of the auditors and investigators, based upon their examination and analysis of the books and records of the Starrett Television Corp., that sustained losses have occurred throughout its operation; that at the present time it is insolvent and that its continued operation, or the operation of Aireon-Starrett, Inc., is wholly dependent upon Mr. Freidus' ability and willingness to supply the necessary funds.

OPINION

Based upon the foregoing, it is the undersigned's opinion that even though Starrett Television Corp., may be able to comply with the conditions of the sale, which there is reason to doubt, the Reconstruction Finance Corporation may rescind its action taken on August 31st, as contained in Mr. Nielson's memorandum of September 1, 1950, without incurring the possibility of being answerable in damages to the purchaser.

JAMES L. DOUGHERTY, *General Counsel.*

It is difficult to understand how the RFC permitted itself to be placed in such a position, particularly since a routine Dun & Bradstreet report would have shown the background of Freidus and Aaron and the fact that they were then under indictment on the tax-evasion charges.

The following quotations from the office records of Director Walter L. Dunham may supply the answer in part. Mr. Leo B. Parker, who is mentioned in these excerpts, is the attorney who represented the Starrett Television Corp. in the negotiations with RFC:

Wednesday, July 12, 1950.—Mr. Bill Boyle's office telephoned. Made appointment for Mr. Leo B. Parker, of Parker & Knipmeyer, attorneys, Kansas City, Mo., to see Mr. Dunham at 3 o'clock. Talked with Mr. Dunham re Preferred Accident.

Friday, July 14, 1950.—Mr. Leo B. Parker, of Kansas City, again called on Mr. Dunham at the suggestion of Mr. Bill Boyle.

Tuesday, July 25, 1950.—Mr. Leo B. Parker telephoned from Kansas City re purchase of Aireon plant. Said he had talked with Mr. Jobes but could not get sufficient information from him. Mr. Parker said his party would be prepared to meet every requirement; will offer $500,000 for the plant, with $50,000 down, the balance to be amortized over a period of 15 years. Interested party also prepared to put an additional $250,000 into the business for working capital. Mr. Dunham stated to Mr. Parker that the RFC has had several offers for this plant and in most cases the down payment was much larger than $50,000. Furthermore, the deal has to be handled in the full light of publicity, so, suggested to Mr. Parker that he discuss the matter at length with Mr. Jobes, so that he could get an idea of just what has taken place up to the present time. Mr. Dunham said we would, of course, have to wait until all the offers are in before

anything could be done and we would also have to consult the National Security Resources Board before disposing of any plant.

Thursday, July 27, 1950.—Mr. Leo Parker telephoned from St. Louis. Said he had talked further with Mr. Jobes re Aireon Plant. Mr. Jobes suggested he submit a bid in writing, as RFC will consider all bids on Monday. Mr. Parker stated his people are now prepared to offer $600,000—$100,000 down and the balance amortized over a period of 10 years at 4 percent. Mr. Dunham said this sounded reasonable to him—thinks they now have a chance. Suggested to Mr. Parker that he submit his bid immediately.

Monday, July 31, 1950.—Mr. Leo Parker, of Kansas City, came in to see Mr. Dunham. Mr. Dunham called Tom Williams and asked him to see Mr. Parker, which he did.

Monday, July 31, 1950.—Mr. Tom Williams phoned Mr. Dunham re his talk with Mr. Parker.

Thursday, August 31, 1950.—Mr. Leo Parker called with regard to Board action on Aireon Manufacturing Co. Mr. Dunham told him this had been deferred at the Board meeting this morning but that they were holding a special meeting today at 3 for action.

Thursday, August 31, 1950.—Mr. Leo Parker called with regard to Board action on Aireon Manufacturing. Mr. Dunham said that the sale price of $700,000 had been acceptable to the Board.

Only two prospective purchasers were in the running when negotiations for sale of the Aireon facilities entered their final stages. Starrett was one of them, and the New England Industries, Inc., was the other. Dun & Bradstreet reports had been requested and obtained on New England, but none were requested on Starrett. From this, it would seem that Parker's introduction to Dunham by the Democratic National Committee may have been deemed a sufficient warranty of the character and financial responsibility of his principal. It would seem also from this fact, and from the details reported in his office records, that Dunham was concerned directly with negotiations of the deal notwithstanding the fact that the necessary details were not at his disposal and the further fact that this responsibility had been delegated to David H. Powell, manager of the Kansas City Loan Agency.

Selection of Starrett as the successful bidder has another unusual aspect. Powell wrote to Washington on August 28, 1950, saying:

> It is my firm opinion that the offer of Starrett Television Corp. * * * should be approved. This offer, in the amount of $630,000 is the most favorable offer we have received, and I think the sale should be consummated immediately unless a better offer has been received by August 31.

However, this was not his final opinion for on August 29, 1950, the next day, Powell sent Washington a telegram which said:

> Recommend offer of New England Industries to purchase assets Aireon Manufacturing Corp. in the amount of $770,000 in accordance with our telephone conversation with you and Mr. Schumer attorney be accepted.

This was the agency's latest recommendation. Washington Examiner W. P. Watson compared the offers in some detail and concluded on August 31, 1950—

> that the offer of Starrett Television Corp. is preferable and, therefore, is being recommended for acceptance.

The Washington review committee concurred in Watson's recommendation—

> except that the sales price shall be $700,000.

The deal was approved by the Board on this basis, and accepted by Starrett. This seems on its face to be an inconclusive way to terminate negotiations seeking a sale on the most favorable terms obtainable.

On October 6, 1950, RFC Director Gunderson said that attempts were being made to persuade Starrett to release RFC from its commitment without the necessity for defending itself in litigation alleging breach of contract. He didn't know what RFC would do if Starrett refused to be persuaded.

Apparently no action has been taken to date against Starrett and its principals on the ground that misrepresentations were made in their proposal to buy the facilities. Under section 11 (a) of the RFC Act, specific penalties are provided for anyone who makes a false statement "for the purpose of influencing in any way the action of the Corporation * * *."

On November 3, 1950, the new Board of Directors rescinded the action which its predecessor had taken in approving the sale. Freidus and Aaron were sentenced to prison a few days later.

On December 7, 1950, the Marketing and Liquidation Division of RFC recommended that the Aireon facilities be reoffered for sale on a sealed-bid basis. It is the function of this division to conduct such sales. However, on December 15, Aaron Krock & Co., auctioneers, submitted a proposal that they be employed to conduct a public sale, and this offer was accepted by the Board of Directors on December 19, 1950, on the recommendation of Vice Chairman C. Edward Rowe. Rowe knew of the auctioneers. They are located in Worcester, Mass., which is also the site of Rowe's business enterprise, the Harrington & Richardson Arms Co.

If Aaron Krock & Co. are successful in disposing of the properties they will be paid a commission equal to 5 percent of the sales price. They will also receive reimbursement of all advertising expenses, estimated at not to exceed $8,000. If no sale is made at the offering to be held on January 29, 30, and 31, the auctioneer is to be reimbursed for out-of-pocket expenses estimated at about $5,000. RFC has authority to make such arrangements as these but it has used this authority heretofore only in unusual cases involving relatively small amounts of money.

Among the prospective purchasers whose inquiries were forwarded to Aaron Krock & Co. by RFC were the New England Industries, Inc., the unsuccessful bidder in the previous offering, and Edward Krock, who inquired on behalf of Edward Krock Industries, Inc., of Worcester, Mass. Edward Krock is said to be the brother of Aaron Krock.

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