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**FINANCIAL OR BUSINESS INTERESTS OF OFFICERS
OR EMPLOYEES OF THE SENATE**

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HEARINGS
BEFORE THE
COMMITTEE ON
RULES AND ADMINISTRATION
UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

FIRST AND SECOND SESSIONS

PURSUANT TO

S. Res. 212 and S. Res. 221

**RESOLUTIONS AUTHORIZING AN INVESTIGATION INTO THE
FINANCIAL OR BUSINESS INTERESTS OF ANY OFFICER OR
EMPLOYEE OR FORMER OFFICER OR EMPLOYEE OF THE
SENATE**

JANUARY 23 AND 24, 1964

PART 9

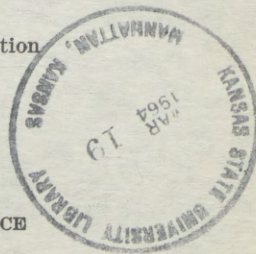
**Testimony of Lorin H. Drennan, Harry H. Cropper, Merideth
R. Hoffmaster, Robert Goodwin Rhett, Dorsey Hall Etzler,
William C. Rogers, Jr., Richard C. Darling, John H.
Yingling, Maywood Boggs, C. William Tayler and Harry
Johnson**

Printed for the use of the
Committee on Rules and Administration



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FINANCIAL OR BUSINESS INTERESTS OF OFFICERS OR EMPLOYEES OF THE SENATE

THURSDAY, JANUARY 23, 1964

U.S. SENATE,
COMMITTEE ON RULES AND ADMINISTRATION,
Washington, D.C.

The committee met, pursuant to recess, at 10:10 a.m., in the caucus room, Old Senate Office Building, Senator B. Everett Jordan (chairman) presiding.

Present: Senators Jordan, Hayden, Cannon, Pell, Scott, and Cooper.

Also present: Gordon F. Harrison, staff director; Hugh Alexander, chief counsel; L. P. McLendon, general counsel; Burkett Van Kirk, associate counsel; James Duffy, associate counsel; William B. Whitley, staff assistant to Senator Jordan; Walter Mote, professional staff member; William Ellis Meehan, investigator; Samuel Scott, investigator; Alice Clark, staff.

The CHAIRMAN. The committee will come to order.

I have a statement which is necessary to be read outlining the purpose of this meeting this morning of this investigation. I would appreciate all the witnesses who have been called to testify to listen to this statement in order that we don't have to read it over to each witness that will appear.

A quorum being present, the committee will please come to order.

The committee is acting by direction and under the authority of Senate Resolution 212, agreed to October 10, 1963, and Senate Resolution 221, agreed to November 1, 1963. Senate Resolution 212 authorizes and directs the Senate Committee on Rules and Administration to make a study and investigation with respect to financial or business interests or activities of any officer or employee or former officer or employee of the Senate for the purpose of ascertaining, first, whether any such interests or activities have involved conflicts of interest or other improprieties; and, second, whether additional laws, rules or regulations are necessary or desirable for the purpose of prohibiting or restricting any such activities.

Witnesses have been interviewed by the staff and heard both in executive and public session. Confidential evidence has been obtained and testimony received to date. Witnesses who have appeared previously or who will be called in the future possess information which the committee deems material and pertinent to the provisions of the resolution of direction and authorization and which will aid the committee in fulfilling its legislative purpose.

The Chair advises each witness that he is entitled under the rules of procedure of this committee to retain and be accompanied by counsel.

The counsel may advise the witness of his legal rights during the course of his testimony. Should the witness not fully understand any question, the witness may ask for clarification. Counsel, however, shall not coach the witness or answer for the witness.

The committee will now proceed to hear the testimony of Mr. Drennan.

Will you kindly rise, Mr. Drennan, and be sworn?

Raise your right hand, please, sir.

Do you solemnly swear that the evidence you are about to give before the committee in the matter now under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DRENNAN. I do.

The CHAIRMAN. General counsel may take over and proceed with the investigation.

Mr. McLENDON. Will you state your full name and residence?

TESTIMONY OF LORIN H. DRENNAN

Mr. DRENNAN. Lorin H. Drennan, Jr., 5903 37th Avenue, Hyattsville, Md.

Mr. McLENDON. Are you in the employment of any agency of the Government?

Mr. DRENNAN. Yes, sir; I am an Assistant Director of the Civil Accounting and Auditing Division of the U.S. General Accounting Office.

Mr. McLENDON. Have you been assigned to work with the investigating staff of the Senate Rules Committee in connection with this investigation?

Mr. DRENNAN. Yes, sir; since November of 1963.

Mr. McLENDON. And have you been on duty with the committee since that date?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. Mr. Drennan, have you examined the records of a number of banks and also the Small Business Administration in connection with loans obtained and the financing of what is known as the Carousel property in Maryland?

Mr. DRENNAN. Yes, sir; I have.

Mr. McLENDON. In that connection, have you inspected and obtained copies of financial statements filed with various banks by Robert G. Baker?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. Will you begin with the earliest one in point of date, and describe them, and state to the committee what the net worth of Robert G. Baker is shown to be on each of these statements, and comment on any other items that occur to you to be pertinent as you go along?

Mr. DRENNAN. Yes, sir.

The first financial statement that we have, which we will introduce into the record, is dated May 3, 1954, and is signed by Bobby G. Baker. This statement was submitted to the National Bank of Washington and shows a net worth of \$11,025. The principal assets shown on this statement are real estate, \$21,375, and stocks, 120 shares of Kerr-McGee Oil Co., valued by Mr. Baker at \$5,000.

(The statement referred to was marked "Drennan Exhibit 1," and is as follows:)

DRENNAN EXHIBIT 1

INDIVIDUAL

Name

Occupation or Business

Address

Bobby N. Baker
Asst. Sec. for Minority
On S. Senate Staff DC

To the NATIONAL BANK OF WASHINGTON, Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 3 day of May, 1954, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

ASSETS		LIABILITIES	
Cash on hand.....	<i>150</i>	Notes payable to banks.....	
Cash in..... Bank.....	<i>150</i>	Notes payable to others.....	
Notes Receivable (good) owing by customers.....	<i>500</i>	Open accounts payable.....	
Accounts Receivable (good) owing by customers.....		Borrowed on Life Insurance.....	<i>16 800</i>
Cash Value Life Insurance.....	<i>21 035</i>	Mortgages or liens on real estate.....	<i>250</i>
Real Estate (Itemize below).....		<i>Murphy Home Luth</i>	
Equipment used in business.....	<i>5 000</i>		
Stocks—(Itemize reverse side).....			
Bonds—(Itemize reverse side).....			
1st Mortgages—(Itemize reverse side).....			
2nd Mortgages—(Itemize reverse side).....	<i>100</i>	Total liabilities.....	<i>17 050</i>
<i>1st 2nd 3rd 4th</i>		Net Worth.....	<i>11 015</i>
TOTAL.....	<i>28 075</i>	TOTAL.....	<i>28 075</i>

REAL ESTATE:

(Please Give Particulars on Each Parcel Owned)

Lot	Square	Street and Number	Title in Name of	Cost	Assessed Value	Mortgages	Insurance
		<i>3244 - Washington St NW.</i>	<i>Bobby N. Baker</i>				

State annual net income from real estate and securities.....

State annual net income from business or profession.....

Salary per annum.....

Other income.....

Amount of life insurance carried, \$ *3,000* Beneficiary.....

Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser.....

Are any of your assets, other than real estate, pledged or hypothecated in any way? *No*Are you a partner in any firm? *No*

Is there any other person interested in your business, either as a special or limited partner?

(over)

760 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

DRENNAN EXHIBIT 1—Continued

STU 1151

Number of Shares	Name of Company	Kind of Stock	Market Values
120	Ken McQuibb Co	Comm.	\$ 5,000

BONDS:

Par Values	Name of Company	Description	Market Values
\$			\$

FIRST MORTGAGES OR FIRST TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total Trust	Amount Owned
				\$	\$

SECOND MORTGAGES OR SECOND TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total 1st	Total 2d	Amount Owned
				\$	\$	\$

REFERENCES:

Ken McQuibb Co
Bobby G. Baker

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Signature

(Date signed)

May 4,

1951

Bobby G. Baker

Mr. DRENNAN. The next financial statement is dated June 28, 1957, signed by Bobby G. Baker, also submitted to the National Bank of Washington, showing a net worth of \$84,133. The principal assets shown on this financial statement are real estate valued at \$40,000, which includes his home and investment in an apartment in Pickens, S.C. The other items are stocks valued at \$54,200—the stocks of four companies—and shows a value for those stocks. He also lists 10 shares of Don Reynolds Insurance Co., with an unknown value marked beside them.

Mr. McLENDON. Is the word "unknown" used?

Mr. DRENNAN. The word "unknown" is used. I might mention at this point that in all the subsequent financial statements that I will discuss, Mr. Baker shows that he owns 10 shares of Don Reynolds Insurance Co., valued at \$5,000, in each of those statements.

Mr. McLENDON. Is that in all of them except the one that you—

Mr. DRENNAN. All the ones that I will refer to hereafter.

Mr. McLENDON. All right.

Mr. DRENNAN. As you know, Major, Mr. Reynolds has testified before this committee to the effect that Mr. Baker has never owned any shares in his company.

(The statement referred to was marked "Drennan Exhibit 2," and is as follows:)

DRENNAN EXHIBIT 2

STATE-INDIVIDUAL RECEIVED
 July 5 1957
 By mail ☐

Name Bobby G. Baker

Occupation or Business _____

Address _____

To the NATIONAL BANK OF WASHINGTON, Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the _____ day of _____, 19____, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified, it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit accounts from time to time existing to secure all obligations of the undersigned held by you.

ASSETS		LIABILITIES	
Cash on hand	825 00	Notes payable to banks	1 800 00
Cash in _____ Bank	308 00	Notes payable to others	
Notes Receivable (good) owing by customers	0	Open accounts payable	400 00
Accounts Receivable (good) owing by customers	0	Borrowed on Life Insurance	0
Cash Value Life Insurance	1 000 00	Mortgages or liens on real estate	14 000 00
Real Estate (Itemize below)	40 000 00		
Equipment used in business	4 000 00		
Stocks—(Itemize reverse side)	54 200 00		
Bonds—(Itemize reverse side)			
1st Mortgages—(Itemize reverse side)			
2nd Mortgages—(Itemize reverse side)			
		Total Liabilities	16 200 00
		Net Worth	84 130 00
TOTAL	100 333 00	TOTAL	100 333 00

REAL ESTATE:

(Please Give Particulars on Each Parcel Owned)

Lot	Square	Street and Number	Title in Name of	Cost	Assessed Value	Mortgages	Insurance
		3324 Northampton St. N.W.	Bobby G. Baker	\$21,316 00	\$	\$14,000 00	\$18,000 00
		Improvements		6,000 00			
		2 1/2 Berwyn Ave. S.E., P.O. Box, S.E.		27,378 00			
				10,000 00			

State annual net income from real estate and securities

State annual net income from business or profession

Salary per annum

Other income

Amount of life insurance carried, \$50,000

Beneficiary Wife

Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser

Are any of your assets, other than real estate, pledged or hypothecated in any way?

Are you a partner in any firm?

Is there any other person interested in your business, either as a special or limited partner?

11-2-22

DRENNAN EXHIBIT 2—Continued

Number of Shares	Name of Company	Kind of Stock	Market Values
60	Kerr Inc. O.C.	Common	\$42.00.00
3,300	Carolina Pipeline Co.	Common	30.00.00
71	Boat Service, INC.	Common	70.00.00
35	Blue Ridge Development Corp.	Common	70.00.00
10	Don Reginald's I.R.B. INC.	Common	Common

BONDS:

Per Values	Name of Company	Description	Market Values
\$			\$

FIRST MORTGAGES OR FIRST TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total Trust	Amount Owned
				\$	\$

SECOND MORTGAGES OR SECOND TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total 1st	Total 2d	Amount Owned
				\$	\$	\$

REFERENCES:

Senator Robert Kerr
 Union Trust Co.
 Senator by James Johnston
 Senator George Smathers

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Signature

(Date signed)

Billy G. Baker June 18, 1957

Mr. DRENNAN. The next financial statement is dated January 23, 1959, signed by Bobby G. Baker, also submitted to the National Bank of Washington. This shows a net worth of \$114,944. The principal assets shown in this financial statement are real estate valued at \$47,000 and included in this real estate is an item valued at \$10,000, described as Orlando, Fla., subdivision. The other principal item shown in this financial statement is stocks valued at \$77,900, and he lists 11 companies in which he has stock investments.

(The statement referred to was marked "Drennan Exhibit 3," and is as follows:)

DRENNAN EXHIBIT 3

INDIVIDUAL
Received 1/23/59

Name Robert C. Bobby, Jr. G. Baker
Occupation or Business Attorney - State of Maryland, U.S.
Address 2000 P. St. N.W., Suite 605, O.R. Bldg. Capital

To the NATIONAL BANK OF WASHINGTON, Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the _____ day of _____, 19____ and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

ASSETS				LIABILITIES			
Cash on hand			1450 00	Notes payable to banks	17	00	00
Cash in _____ Bank			864 00	Notes payable to others	0	00	00
Notes Receivable (good) owing by customers				Open accounts payable		120	00
Accounts Receivable (good) owing by customers				Borrowed on Life Insurance	0	00	00
Cash Value Life Insurance			700 00	Mortgages or liens on real estate	16	00	00
Real Estate (Itemize below)			27 00				
Equipment used in business			25 00				
Stocks—(Itemize reverse side)			77 89				
Bonds—(Itemize reverse side)			0 00				
1st Mortgages—(Itemize reverse side)			0 00				
2nd Mortgages—(Itemize reverse side)			0 00				
				Total liabilities	33	00	00
				Net Worth	18	00	00
TOTAL			1450 39	TOTAL	14	00	00

REAL ESTATE:

(Please Give Particulars on Each Parcel Owned)

Lot	Square	Street and Number	Title in Name of	Cost - 1	Assessed Value	Mortgages	Insurance
		3324 Northampton NW	Robert C. Bobby, Jr.	\$32,000	\$	\$16,000	\$21,000
		Blair Ridge Dr. NW	Bobby G. Bobby, Jr.	5,000		0	5,000
		Parkside, S.E.					
		C. R. Nichols Pl. NW	Robert C. Bobby, Jr.	10,000		0	
		Subd. U.S. 04					

State annual net income from real estate and securities \$2,000 to \$10,000
State annual net income from business or profession \$2,000 to \$25,000
Salary per annum \$17,000
Other income Wife's SALARY \$10,000
Amount of life insurance carried, \$ 150,000 Beneficiary Wife
Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser None

Are any of your assets, other than real estate, pledged or hypothecated in any way? Yes: SPIRITUAL (150 Shares) 11,144 Divid.
(100 Shares), Rev. Mr. G. C. (60 Shares), Columbia Pipeline (2,500) pledged to S.C. Banks
Are you a partner in any firm? Yes, LAW FIRM, TUCKER AND BAKER
Is there any other person interested in your business, either as a special or limited partner? No

DRENNAN EXHIBIT 3—Continued

STOCKS:

Number of Shares	Name of Company	Kind of Stock	Market Values
60	New Mac Inc	Common	\$3,600.00
165	Spiegel	"	4,042.00
100	WILLIAM DIXIE	"	4,250.00
100	GREENVILLE S.C. County	"	12,000.00
250	COLUMBIA PIPE LINE	"	25,000.00
25	Blue Ridge Div. Equipment	"	11,000.00
14	CROFT BUREAU INC. East	"	10,000.00
10	Don Reynolds and Assoc's Inc	"	5,000.00
48	PICKENS BANK	"	2,000.00
75	Natl. Bank of Maryland	"	1,500.00
15	CONGRESSIONAL INDUSTR. CLUB	"	1,500.00

BONDS:

#77,892.00

Par Values	Name of Company	Description	Market Values
\$			\$

FIRST MORTGAGES OR FIRST TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total Trust	Amount Owned
				\$	\$

SECOND MORTGAGES OR SECOND TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total 1st	Total 2d	Amount Owned
				\$	\$	\$

REFERENCES:

Clark Clifford, Attorney, President of
your Board of Directors.

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Signature

(Date signed)

23, 1959 Bobby G. Baker

Mr. DRENNAN. The next financial statement we have is dated February 9, 1960, and this one is signed Robert G. Baker instead of Bobby G. Baker.

This financial statement was submitted to the American Security & Trust Co. It shows a net worth of \$262,102. The principal assets shown are real estate, \$142,000; and under the item of real estate he shows a one-third interest in two blocks of land at Ocean City, Md., and his share of that land is shown as \$83,000.

He also shows under the category of real estate a one-half interest in a \$17,600 timber farm at Oakland, Md., and indicates the title of this farm in the name of Don B. Reynolds and Robert G. Baker. This is the only time that this particular item is shown in any of the financial statements we have. And, as you recall, Mr. Reynolds has testified that Mr. Baker made a \$1,000 earnest money deposit on this transaction, but never in fact was an owner of the land and the deposit was returned.

The other sizable assets shown in this financial statement are stocks valued by him at \$159,530. He lists 12—ownership of stock in 12 companies, and of particular interest is that he shows ownership of 28 shares of Mortgage Guaranty Insurance Co., valued by him at \$48,300. This is the first financial statement that we have which indicates ownership of the so-called MAGIC stock.

Mr. McLENDON. Did you say 28 shares?

Mr. DRENNAN. Twenty-eight shares.

(The statement referred to was marked "Drennan Exhibit 4," and is as follows:)

DRENNAN EXHIBIT 4

FINANCIAL STATEMENT

INDIVIDUAL

Name: **ROBERT G. BAKER**
 Occupation or Business: **ATTORNEY - SEC. FOR MAJORITY, U.S. SENATE**
 Address: **F-80 CAPITOL BLDG., WASH. 25, D.C.** Capitol 4-3121
 Tel Ext. 3735

To The AMERICAN SECURITY AND TRUST COMPANY, Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 17th day of Feb., 1960, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit, the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

ASSETS				LIABILITIES			
Cash on hand.....			340	Notes payable for merchandise			
Cash in Bank #	14		242	Notes payable to banks	50	33	500 00
Notes Receivable (good) owing by customers.....				Notes payable to others			
Accounts Receivable (good) owing by customers.....	32		000	Open accounts payable.....			310 00
Merchandise (How valued?.....)				Mortgages or liens on real estate			
Real Estate (Itemize below).....	142		133	Total mortgages		52	333 34
Furniture and fixtures.....	2		000				
Stocks—(Itemize reverse side).....	159		530				
Bonds—(Itemize reverse side).....				Total liabilities		86	143 34
1st Mortgages—(Itemize reverse side).....				Net worth.....	262,101.66		
2d Mortgages—(Itemize reverse side).....							
	348		245				
TOTAL	348	245		TOTAL	348	245	

Please Give Particulars of Each Parcel of Real Estate Owned

Street and Number	Title in Name of	Purchase Price	Mortgages	Annual Payments Principal Interest	Balance Due	Held By
See Attachment		\$	\$	\$	\$	

State annual net income from real estate and securities..... 1959 tax return \$14,000
 State annual net income from business or profession..... due in 1960 \$22,000
 Salary per annum..... \$17,050
 Other income..... Wife's income \$10,400
 Amount of life insurance carried, 100,000 — Beneficiary: Wife
 Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser.....
 Co-Endorser for Ernest R. Baker - Union Trust Co., \$1,000.00
 Are any of your assets, other than real estate, pledged or hypothecated in any way? Yes - Stock
 Are you a partner in any firm? Yes - Tucker and Baker, 2000 P Street, NW
 Is there any other person interested in your business, either as a special or limited partner? No
 Of what country are you a citizen? Yes

(OVER)

FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES 769

DRENNAN EXHIBIT 4—Continued

STOCKS:

Number of Shares	Name of Company	Kind of Stock	What Exchange Listed on	Market Values
See Attachment				\$

BONDS:

Par Values	Name of Company	Description	What Exchange Listed on	Market Values
\$				\$

FIRST MORTGAGES OR FIRST TRUST NOTES:

Property	Street Number	Lot	Sq.	Total Trust	Amount Owned
				\$	\$

SECOND MORTGAGES OR SECOND TRUST NOTES:

Property	Street Number	Lot	Sq.	Total 1st	Total 2d	Amount Owned
				\$	\$	\$

TRADE REFERENCES: Edisto Bank, Denmark, South Carolina
 Suburban Trust Company, 8582 Georgia Ave., Silver Spring,
 Maryland - Mr. Harry Switzer
 Raleigh Haberdasher, Washington, D. C.

REMARKS:

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

Signature Robert C. Baker

(Date signed) Feb. 7, 1966

DRENNAN EXHIBIT 4—Continued

Robert G. Baker

STOCKS

100	Mecklenberg, Inc.	\$14,000		
100	Winn-Dixie	4,250	"	4300.
2,500	Carolina Pipe Line ✓	30,000	7	17500
5,000	Carolina Investment Co.	16,500		
75	National Bank of Maryland	1,600	21	1575.
50	Blue Ridge Development Corp.	15,000		
48	Pickens Bank	1,680	75	3600.
20	Credit Bureau of Easley, Inc.	5,000		
✓ 10	Don Reynolds Insurance Co.	5,000		
100	Greenville, S.C. Memorial Gardens	10,000		
100	Specter Mid-States	1,700		
28	Mortgage Guaranty Ins. Co.	48,300		
	Cash in Retirement Fund	7,500		
		<u>\$159,530</u>		

DRENNAN EXHIBIT 4—Continued

<u>STREET AND NUMBER</u>	<u>TITLE IN NAME OF</u>	<u>PURCHASE PRICE AND IMPROVEMENT</u>	<u>MORTGAGES</u>	<u>ANNUAL PAYMENTS</u>	<u>BALANCE DUE BY ME</u>	<u>HELD BY</u>
3324 Northampton St., NW	Bobby G. and Dorothy C. Baker	\$35,000.00	\$15,000.00	\$1,530.00	\$15,000.00	Home Bldg. and Loan Assoc.
Blue Ridge Drive, Pickens, S. C. [2 one-bdrm apts. 1 3-bdrm house]	Robert G. Baker D. A. Holder	\$30,000.00	\$6,700.00	\$360.00	\$3,350.00	Building & Loan Assoc. Easley, S. C.
Entire block, ocean front, Fenwick, Md. English Ave. to Southern Ave.	Robert G. Baker Alfred and Don Novak	\$125,000.00	\$56,000.00	\$5,000.00	\$15,700	Bert Cropper and Brothers Ocean City, Md.
Entire block ocean front, North Ocean City, Md. 47th St. to 48th St.	Robert G. Baker Alfred and Don Novak	\$125,000.00	\$56,300.00	\$5,000.00	\$15,800.00	Mrs. Florence Freed 376 No. 5th St., Reading, Penna.
Timber Farm, Oakland, Md.	Don B. Reynolds Robert G. Baker	\$17,600.00	\$8,000.00	\$600.00	\$4,000.00	Bank of Oakland

Robert G. Baker

Mr. DRENNAN. The next financial statement that we have is dated September 26, 1960, signed by Robert G. Baker and Bobby G. Baker. This was submitted to the National Bank of Washington. It shows a net worth of \$278,476. The principal assets shown are real estate, \$132,000, and stocks valued at \$183,952. He lists ownership of stocks in 11 companies, the principal item being 6,400 shares of MGIC stock, valued by him at \$66,172.

(The statement referred to was marked "Drennan Exhibit 5," and is as follows:)

DRENNAN EXHIBIT 5

INDIVIDUAL Name **Robert G. Baker**
Occupation or Business **Attorney - Sec. for Majority, U.S. Senate**
Address **F-8- Capitol Bldg., Washington 25, D.C.**

To the NATIONAL BANK OF WASHINGTON, Washington, D. C.

The undersigned, for the purpose of procuring and maintaining credit from time to time in any form whatsoever with the above named Bank, for claims and demands against the undersigned, submits the following as being a true and accurate statement of his financial condition on the 26 day of Sept, 1960, and agrees that if any change occurs that materially reduces the means or ability of the undersigned to pay all claims or demands against him, the undersigned will immediately and without delay notify the said Bank, and unless the Bank is so notified it may continue to rely upon the statement herein given as a true and accurate statement of the financial condition of the undersigned.

In consideration of the granting of such credit the undersigned agrees that if the undersigned at any time fails or becomes insolvent, or commits an Act of Bankruptcy, or if any of the representations made below prove to be untrue, or if the undersigned fails to notify you of any material change as before agreed; then and in either such case all obligations of the undersigned held by you shall, at your election, immediately become due and payable without demand or notice, and the same may be charged against the balance of any deposit of the undersigned with you, the undersigned hereby giving a continuing lien upon such balance of deposit account from time to time existing to secure all obligations of the undersigned held by you.

ASSETS			LIABILITIES	
Cash on hand		560.00	Notes payable to banks	27,000.00
Cash in Bank	4,	814.00	Notes payable to others	0
Notes Receivable (good) owing by customers	8,	000.00	Open accounts payable	400.00
Accounts Receivable (good) owing by customers	20,	500.00	Borrowed on Life Insurance	0
Cash Value Life Insurance	1,	000.00	Mortgages or liens on real estate	48,950.00
Real Estate (Itemize below)	132,	000.00		
Equipment used in business	4,	000.00		
Stocks—(Itemize reverse side)	183,	952.00		
Bonds—(Itemize reverse side)	0			
1st Mortgages—(Itemize reverse side)	0			
2nd Mortgages—(Itemize reverse side)	0			
			Total liabilities	76,350.00
			Net Worth	278,476.00
TOTAL	354,	826.00	TOTAL	76,350.00

REAL ESTATE:

(Please Give Particulars on Each Parcel Owned)

Date Acquired	Street and Number	Title in Name of	Cost	Estimated Value	Mortgages	Insurance
	(See Attachment)		\$	\$	\$	\$

State annual net income from real estate and securities..... \$ 21,000.00
 State annual net income from business or profession..... \$ 18,000.00
 Salary per annum..... (Wife's Income) \$ 18,328.75
 Other income..... \$ 11,200.00
 Amount of life insurance carried, \$ 135,000 Beneficiary **Wife** *Neto-Total \$ 68,528.75*
 Give details of contingent liability of any kind or nature, as endorser or guarantor, or accommodation endorser.....
Co-endorser for Ernest R. Baker, Jr. \$600 Union Trust Co.
 Are any of your assets, other than real estate, pledged or hypothecated in any way? **Yes - Stock**
 Are you a partner in any firm? **Yes. Tucker and Baker, Attorneys, 2000 P St. N.W.**
 Is there any other person interested in your business, either as a special or limited partner? **No.**

DRENNAN EXHIBIT 5—Continued

Number of Shares	Name of Company	Kind of Stock	Market Values
	(See Attachment)		\$

BONDS:

Par Values	Name of Company	Description	Market Values
\$	0		\$

FIRST MORTGAGES OR FIRST TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total Trust	Amount Owned
				\$	\$

SECOND MORTGAGES OR SECOND TRUST NOTES:

Property	Street and Number	Lot	Sq.	Total 1st	Total 2d	Amount Owned
				\$	\$	\$

REFERENCES:

American Security and Trust Co., East Capitol Branch, Wash., D.C.
 Edisto Bank, Denmark, South Carolina
 Suburban Trust Co., Silver Spring, Md.

I hereby certify that the above is a true and correct statement as of the date above stated and I understand that any credit now or hereafter given me is made upon the strength of the statements contained herein.

(Date signed) Sept. 26, 1965 Signature Robert G. Baker
 Betty G. Baker

Robert G. Baker

*Retirement + Medical 1961
- 1/4 part open 3000***COPY**
STOCKS*pledged to Bureau
for \$50,000 -
received \$50,000*

100	Mecklenberg, Inc.	\$30,000
✓ 100	Winn-Dixie	5,000
✓ 2,500	Carolina Pipe Line	20,000
5,000	Carolina Investment Co.	16,500
✓ 75	National Bank of Maryland	1,600
50	Blue Ridge Development Corp.	15,000
✓ 48	Pickens Bank	1,680
20	Credit Bureau of Easley, Inc.	5,000
10	Don Reynolds Insurance Co.	5,000
✓ 180	Greenville, S. C. Memorial Gardens	10,000
6,400	Mortgage Guarantee Ins. Co.	66,172
	Cash in Retirement Fund	<u>8,000</u>
TOTAL		\$183,952

DRENNAN EXHIBIT 5—Continued

Robert G. Baker

REAL ESTATE

<u>STREET AND NUMBER</u>	<u>TITLE IN NAME OF</u>	<u>PURCHASE PRICE & IMPROVEMENT</u>	<u>MORTGAGES</u>	<u>ANNUAL PAYMENTS</u>	<u>BALANCE DUE BY ME</u>	<u>HELD BY</u>
3324 Northampton St. N.W., Wash., D. C.	Bobby G. and Dorothy C. Baker	\$35,000.00	\$15,000.00	\$1,530.00	\$15,000.00	Home Bldg. & Loan Assn. Washington, D. C.
Blue Ridge Drive Pickens, S. C. (2 one-bedroom apts. 1 three-bedroom house)	Robert G. Baker D. A. Holder	30,000.00	6,700.00	360.00	3,350.00	Building and Loan Assn. Easley, S. C.
Entire block, ocean front, Edwick, Md. English Ave. to Southern Ave.	Robert G. Baker Alfred and Don Novak	125,000.00	56,000.00	5,000.00	14,800.00	Bert Cropper and Brothers Ocean City, Md.
Entire block, ocean front, North Ocean City, Md. 47th St. to 48th St.	Robert G. Baker Alfred and Don Novak	125,000.00	56,300.00	5,000.00	15,800.00	Mrs. Florence Freed 376 No. 5th Street Reading, Pennsylvania

776 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

Mr. DRENNAN. The next financial statement we have is dated February 5, 1962, and we will introduce this one into the record.

Mr. McLENDON. Mark that, Mr. Reporter.

(The document referred to was marked "Drennan Exhibit 6," and is as follows:)

DRENNAN EXHIBIT 6

MILLARD T. CHARLTON AND COMPANY

CHARTERED PUBLIC ACCOUNTANTS

1200 K STREET, N.W.

WASHINGTON 4, D. C.

February 17, 1962

Mr. Robert C. Baker,
3324 Northampton Street, N.W.,
Washington, D. C.

Dear Mr. Baker:

Transmitted herewith, in duplicate, are Statement of Condition as at February 5, 1962, Statement of Estimated Income and Expenses for the year 1961, and supporting schedules.

The above financial statements and schedules were prepared from data furnished to us without audit or verification.

As requested by you, this office contemplates, and will make the arrangements for, a complete review of your records for the preparation of financial statements in the near future.

Very truly yours,

Millard T. Charlton & Co.

Enclosure

DRENNAN EXHIBIT 6—Continued

ROBERT G. DRENNAN

WASHINGTON, D. C.

as shown

FINANCIAL STATEMENTS

PERIOD 9. 1962

DRENNAN EXHIBIT 6—Continued

ROBERT C. BAKER

WASHINGTON, D. C.

STATEMENT OF CONDITIONFEBRUARY 3, 1962ASSETS

Market Value
of Assets
February 3, 1962

Current Assets:

Cash on Hand and in Banks	\$ 8,701.00	
Accounts Receivable	24,760.00	
Notes Receivable	8,000.00	
Cash Surrender Value of Life Insurance	1,100.00	
U. S. Government Retirement Reserve	10,000.00	
Stocks (Schedule 1)	\$85,860.00	\$ 857,421.00

Fixed Assets:

Real Estate Owned (Schedule 2)	706,444.00
Furniture and Equipment	5,000.00

TOTAL ASSETS

\$1,570,087.00

DRENNAN EXHIBIT 6—Continued

RECEIVED

LIABILITIES AND NET WORTHCurrent Liabilities:

Accounts Payable	0	900.00	
Mortgages Payable - Installments Due Within One Year (Schedule 2)		46,890.00	
Notes Payable - Banks, Secured by Stocks (Schedule 3)	284,700.00	0	331,890.00

Fixed Liabilities:

Mortgages Payable (Schedule 2)	8241,500.00		
Less Installments Due Within One Year	46,890.00		234,610.00

Total Liabilities

0 331,890.00

Net Worth

1,601,407.00

TOTAL LIABILITIES AND NET WORTH

1,933,297.00

DRENNAN EXHIBIT 6—Continued

b6
b7C

ROBERT G. BAKER

WASHINGTON, D. C.

STATEMENT OF ESTIMATED INCOME AND EXPENSES

YEAR 1961

Income:		
Salaries:		
Robert G. Baker	\$16,500.00	
Bartholomew C. Baker	<u>12,500.00</u>	\$29,000.00
Partnership Income:		
Baker and Baker	\$10,000.00	
Don Reynolds and Associates	<u>10,000.00</u>	20,000.00
Capital Gains on Sale of Stock		<u>12,000.00</u>
		\$51,000.00
Expenses and Payments:		
Estimated First Year Loss on		
Charlotte Hotel and Restaurant	\$20,000.00(1)	
Interest and Taxes	10,000.00	
Office Business Expenses	5,000.00	
Living Expenses	15,000.00	
Federal Income Taxes - Estimated	<u>10,000.00</u>	60,000.00
ESTIMATED NET INCOME - YEAR 1961		<u>\$11,000.00</u>

(1) Expected income of \$10,000.00 for the year 1962.
Due partially to first 47 weeks of operations.

DRENNAN EXHIBIT 6—Continued

Description

Mortgage Guaranty Insurance Co.

Winn Dixie

Carolina Pipeline Co.

Southern Bank of Norfolk

Blue Ridge Development Corp.

Greenville, South Carolina Memorial Gardens

Waikiki Savings and Loan Association

Don Reynolds Insurance Co.

Manorfield Industries

Truck Insurance Exchange

Pickens Bank

National Bank of Maryland

TOTAL MARKET VALUE OF STOCKS
OWNED AT FEBRUARY 9, 1962

DRENNAN EXHIBIT 6—Continued

ROBERT G. BAKER

WASHINGTON, D. C.

REAL ESTATE OWNED AND INTERESTS OWNED

PERMANENT 3, 1962

Description	Title In Name Of	Market Value February 5, 1962	
		Share	Amount
Residences: 3324 Northampton Street, N.W., Washington, D. C.	Robert G. and Dorothy G. Baker	(100%)	\$ 35,000.00
1 House and 2 Apartments: Blue Ridge Drive, Fletcher, North Carolina	Robert G. Baker D. A. Holder	(50%)	10,000.00
47 Unit Motel: Ocean City, Maryland	Robert G. Baker Alfred and Don Hawk	(50%)	\$50,000.00
Retire Block Ocean Front: 47th Street to 48th Street, North Ocean City, Maryland	Robert G. Baker Alfred and Don Hawk	(35%)	\$1,666.00
40 Acres: Collegeville Road, Allover Spring Extended, Maryland	Robert G. Baker Don Hawk	(50%)	\$20,000.00
42 Unit Motel: Howard Johnson Motel and Restaurant, Charlotte, North Carolina	Wachtlenberg Enterprises	(50%)	\$50,000.00
TOTAL MARKET VALUE, PERMANENT 3, 1962			\$106,666.00

TOTAL PERMANENT PAYABLE
(ROBERT G. BAKER'S SHARE), PERMANENT 3, 1962

TOTAL ANNUAL PAYMENT FOR PERMANENT

DRENNAN EXHIBIT 6—Continued

ROBERT G. RAUER

WASHINGTON, D. C.

REAL ESTATE OWNED AND INTERESTS PAYABLE

FEBRUARY 5, 1962

Title, In Name Of	Market Value February 5, 1962		Amount	Enclosed Payable	Annual Payment
	Share Owned	Amount			
Abby G. and Dorothy G. Rauer	(100%)	\$ 35,000.00	\$ 11,000.00		\$ 1,530.00
Robert G. Rauer D. A. Holder	(90%)	10,000.00	2,500.00		360.00
Robert G. Peter Alfred and Don Horak	(90%)	230,000.00	135,000.00		15,000.00
Robert G. Peter Alfred and Don Horak	(33%)	41,444.00	19,000.00		5,000.00
Robert G. Rauer Don Horak	(90%)	130,000.00	15,000.00		10,000.00
Wacklenberg Interposed	(90%)	230,000.00 \$206,466.00	100,000.00		15,000.00
			\$281,500.00		\$18,000.00

DRENNAN EXHIBIT 6—Continued

Schedule 3

ROBERT G. BAIRD**WASHINGTON, D. C.****POWER NOTES PAYABLE TO BAIRD****FEBRUARY 1, 1962**

First National Bank of Dallas, Dallas, Texas	\$156,300.00
American Security and Trust Company, Washington, D. C.	100,000.00
South Carolina National Bank, Greenville, South Carolina	8,000.00
Pickens Bank, Pickens, South Carolina	7,000.00
Anderson Trust Company, Silver Spring, Maryland	<u>2,400.00</u>
TOTAL	\$273,700.00

Notes
Description placed as collateral for
the above loans are listed in Schedule 1.

DRENNAN EXHIBIT 6—Continued

HOWARD JOHNSON'S MOTOR LODGE

SCHEDULE A

CHARLOTTE, NORTH CAROLINA

Weekly Report No. 47

Week Ending January 25, 1948

	THIS WEEK	THIS YEAR TO DATE	SAME WEEK LAST YEAR	DAYS LAST YEAR
Total Number of Guests	361	17402		
Average Number per Day	51.5	55.5		
Total Rooms Occupied	206	9057		
Percentage of Occupancy	70.1	71.3		
Total Room Earnings	2,469.00	97,829.73		
Average Room Earnings	8.51	8.90		
Total Room Earnings to Date				
Receipts				
BALANCE LAST WEEK	29,649.40			
Bank				
Currency	2,440.36			
DIRECTIONS/PAYMENTS	1,491.12			
Bank				
Currency				
BALANCE THIS WEEK	29,649.72			
Bank				
Currency	579.00			
Total Room Revenue				
Outstanding				
Total Reservations				
Outstanding	183.90			
Amount Pending	591.27			
			CHECKS	
		898	Blackburn Enterprises, Inc.	404.77
		899	Charles Harrison	38.00
		900	HJL, Greensboro, N. C.	14.48
		901	Southern Bell Tel. & Tel. Co.	334.47
		902	Charlotte Water Dept.	87.56
		903	Fleming Natural Gas Co.	394.87
		904	Duke Power Company	4.00
		905	Shining Laundry & Cleaners	247.33
		906	Interstate Adv. Co.	90.00
		907	Gray Laundry & Cleaners, Inc.	21.32
		908	Charlotte 85 Restaurant, Inc.	2.76
		909	Butler Enterprises, Inc.	40.69
		910	A. Z. Price & Associates, Inc.	89.90
		911	Fennell Tool & Supply Co.	7.47
		912	Will Power Supply Company	43.24
		913	Wood Hotel Supply Corp.	6.94
		914	Sally B. Jones	19.47
		915	H. F. Porter Plumbing Co.	7.00
		916	Long Island Hot Company	22.11
				1,744.13

Mr. DRENNAN. Submitted to the American National Bank of Silver Spring. It shows a net worth of \$1,003,587. I would like to point out that this particular financial statement was prepared by the public accounting firm of Millard T. Charlton & Co. However, as indicated in the letter which we have attached to the financial statement, these statements were prepared on the basis of information given by Mr. Baker which was not verified by this CPA firm.

Mr. McLendon. Does the letter so state?

Mr. DRENNAN. The letter so states. So that the fact that the CPA firm has prepared the statements does not add to the validity of the statements themselves.

Mr. McLendon. This one we are introducing in evidence. The reporter has that.

Mr. DRENNAN. Yes, sir.

The CHAIRMAN. Was that the statement of February 5, 1962?

Mr. DRENNAN. Yes, sir.

The CHAIRMAN. What did you say that figure was?

Mr. DRENNAN. The net worth is \$1,003,587. The principal assets shown on this statement are real estate valued at \$706,666. The new items of interest under the classification of real estate—one-half interest in 40 acres of land on Colesville Road, and his interest is valued by him at \$120,000.

(At this point, Senator Scott entered the hearing room.)

Mr. DRENNAN. He also shows one-half interest in a Howard Johnson motel and restaurant, which he states the title is in the Mecklenberg Enterprises.

(At this point, Senator Hayden withdrew from the hearing room.)

Mr. DRENNAN. He shows the value of his interest in this motel and restaurant at \$250,000. The other principal classification of assets are stocks valued at \$805,860. He lists ownership of stocks in 12 companies, the principal item being 15,130 shares of MGIC stock, valued by him at \$695,980.

The last and most recent financial statement that we have obtained is dated February 1, 1963, and is signed by Robert G. Baker, submitted to the Fraternity Federal Savings & Loan Association of Baltimore, Md.

We will introduce this statement into the record.

Mr. McLendon. Mark that, Mr. Reporter.

(The statement referred to was marked "Drennan Exhibit 7," and is as follows:)

DRENNAN EXHIBIT 7

ROBERT G. LEHR

WASHINGTON, D. C.

STATEMENT OF ASSETS

February 2, 1963

ASSETSMarket Value
of Assets
February 2, 1963Current Assets:
Cash on Hand and in Banks
Accounts Receivable\$ 51,000.00
56,000.00Notes Receivable
Cash Surrender Value of
Life Insurance
U. S. Government Retirement Reserve
Stocks (Schedule 1)287,000.00
2,000.00
10,000.00
1,482,630.00Fixed Assets:

Real Estate Owned (Schedule 2)

\$ 456,666.00

Furniture and Equipment

5,000.00

TOTAL ASSETS

\$ 2,680,296.00

LIABILITIES AND NET WORTHCurrent Liabilities:Accounts Payable
Mortgages Payable -
Installments
due within one year
(Schedule 2)\$ 45,000.00
21,500.00Notes Payable -
Bonds secured by
stocks
(Schedule 3)

280,000.00

\$2,158,630.00

Fixed Liabilities:

Mortgages Payable (Schedule 2) -

\$ 120,000.00

Less installment
due within one year

21,500.00

\$ 98,500.00

TOTAL LIABILITIES

\$ 98,500.00

NET WORTH

TOTAL ASSETS - TOTAL LIABILITIES

\$ 2,581,796.00

Robert G. Lehr

DRENNAN EXHIBIT 7—Continued

ROBERT G. EAKER

WASHINGTON, D. C.

REAL ESTATE OWNED AND MORTGAGES HELD

FEBRUARY 1, 1963

RESIDENT	DATE IN NAME OF	MARKET VALUE ESTIMATED IN 1963		MORTGAGES HELD	
		SHARES OWNED	AMOUNT	AMOUNT	AMOUNT PAID
Residence: 312 Northampton Street, N.W. Washington, D. C.	Thorothy G. and Robert G. Eaker	100%	\$ 25,000.00	\$ 12,000.00	\$ 1,250.00
Home and Apartments: Blue Ridge Drive, Farmingdale, South Carolina	Robert G. Eaker and L. A. Reiner	100%	10,000.00	2,500.00	350.00
Home Eileen (near Front) and Street 10 1/2th Street, North Green City, Maryland	Robert G. Eaker Gertrude and Don Novak	100%	42,666.00	15,000.00	5,000.00
Home: Colesville Road, Silver Spring, Maryland, Maryland	Robert G. Eaker and Don Novak	50%	120,000.00	15,000.00	10,000.00
Hotel: Howard Johnson Washington, North Carolina	McKinnery Enterprises	50%	250,000.00	75,000.00	15,000.00
			\$ 426,666.00		
			\$ 12,500.00		

REAL ESTATE OWNED AND MORTGAGES HELD FEBRUARY 1, 1963

REAL ESTATE OWNED AND MORTGAGES HELD FEBRUARY 1, 1963

DRENNAN EXHIBIT 7—Continued

STOCK OWNED,
ROBERT G. ELLER, CONT.

Description	Share Owned	Market Value February 1, 1963	Pledged as Collateral
Truck Insurance Exchange	50	\$ 2,400.00	48 Shares with Suburban Trust Company Silver Spring, Maryland
Pickens Bank	48	1,680.00	
National Bank of Maryland	75	2,250.00	75 Shares with Suburban Trust Company
TOTAL MARKET VALUE OF STOCK February 1, 1963		<u>1,582,630.00</u>	

DRENNAN EXHIBIT 7—Continued

SCHEDULE 7

ROBERT G. DAWK

WASHINGTON, D. C.

DEMAND NOTES PAYABLE TO NAME

FEBRUARY 1, 1963

First National Bank of Dallas Dallas, Texas	\$ 156,300.00
American Security and Trust Company Washington, D. C.	13,000.00
Fidelity National Bank and Trust Company Oklahoma City, Oklahoma	300,000.00
South Carolina National Bank Greenville, South Carolina	8,000.00
Fidelity Bank Fletcher, South Carolina	7,000.00
Commerce Trust Company Baltimore, Maryland	5,400.00
McLachlen Banking Corporation Washington, D. C.	8,000.00
TOTAL	\$ 497,700.00

All Notes except the McLachlen Note are secured by Stock.

Mr. DRENNAN. This statement shows a net worth of \$2,166,886. The principal assets shown are \$456,666 under the caption of "Real Estate," and it would be noted at this point that he shows no interest in the real estate at the Carousel Motel, which had been sold about that time.

Mr. McLENDON. This statement was prepared subsequent to the date that the Carousel property was sold to Serv-U Corp.; is that correct?

Mr. DRENNAN. The sale had not been officially recorded, but I think that the sale had in fact been made. It was made as of January 1, 1963.

Mr. McLENDON. And the Carousel property does not appear as an asset in this statement?

Mr. DRENNAN. That is correct.

Mr. McLENDON. All right.

Mr. DRENNAN. Under the caption of "Stocks," stock in 14 companies is shown, with a total value placed upon it by Mr. Baker of \$1,582,630. The principal new item shown in this statement is the ownership of 2,850 shares of stock in the Serv-U Corp., which is valued by Mr. Baker in this statement at \$1 million, and there is an indication there that this amount was arrived at by multiplying 5 times earnings. I would like to point out at this time that, in the last statement that we have submitted, there are two significant inconsistencies between—

Mr. McLENDON. Before you get into that, let me interrupt to ask you a question: This last statement, dated February 1963—that is the one you are talking about now?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. How many shares does he list in the Mortgage Guaranty Insurance Co., as being owned by him, and of what value?

Mr. DRENNAN. 15,000—I am sorry. I will have to refer to the statement, Major; 15,130 shares. The value is \$453,900.

Mr. McLENDON. Do you find an item on this statement for February 1963 listed as "D.C.," evidently meaning District of Columbia, National Bank, 1,500 shares, valued at \$45,000?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. Do you find an item on this last statement of Waikiki Savings & Loan Association, 2,500 shares, valued at \$8,000?

Mr. DRENNAN. Yes, sir; that is correct.

Mr. McLENDON. I believe you already said this statement and all of them subsequent to the first one carried 10 shares of Don Reynolds Insurance Co. stock valued at \$5,000.

Mr. DRENNAN. That is correct.

Mr. McLENDON. All right. Go ahead.

Any further comment?

Mr. DRENNAN. Yes, sir. In connection with the last statement, dated February 1, 1963, I would like to point out that there are two major inconsistencies in the statements themselves. The first inconsistency relates to the balance sheet, which is page 1, on which, under the assets, there are listed under the caption "Current Assets" some six items, and then there is a subtotal of those six items brought out to the next column, and that total that is typed in the statement is \$2,158,630. However, the total of the individual items listed on the statement comes to only \$1,990,630, or \$168,000 less than the total that is shown on the balance sheet.

Mr. McLendon. Let me be sure we all understand that. The current assets listed in this statement is, in effect, inflated by the amount of \$168,000?

(At this point, Senator Cannon entered the hearing room.)

Mr. Drennan. Well, the items that are shown to support the current asset total do not total to the amount shown in the column. This may be a mathematical error. Something may have been left out. We do not know.

Mr. McLendon. At any rate, the addition of the items, the individual items listed, is \$168,000 less than the total shown on the statement?

Mr. Drennan. That is correct.

Mr. McLendon. All right. Go ahead. What other error did you find?

Mr. Drennan. The balance sheet on the liability side shows under the caption, "Notes Payable Bank Secured by Stocks" an item of \$290,000, and makes reference to schedule 3 as supporting that figure. Schedule 3 lists under the caption, "Demand Notes Payable to Banks" a total amount of \$497,700, or \$207,700 more than was brought forward to the balance sheet.

Mr. McLendon. The schedule shows a total of \$497,700 owing in notes?

Mr. Drennan. Right.

Mr. McLendon. When the figure is carried forward to the balance sheet—it appears as \$364,000?

Mr. Drennan. It appears \$290,000.

Mr. McLendon. The difference being how much?

Mr. Drennan. \$207,700.

Mr. McLendon. Less than the total of the notes shown on the schedule?

Mr. Drennan. Right. Now, if the supporting figures, the detail figures that we have referred to in these two instances are used rather than the summary figures, then the net worth on this balance sheet would be reduced by \$375,700, and would then total \$1,791,186, rather than the figure shown on the balance sheet of \$2,166,886.

Senator Scott. How much did you say it should show?

Mr. Drennan. If you substitute the detailed figures for the summary figures, the net worth would be \$1,791,186.

This concludes my testimony on the financial statements. Unless there are further questions, we will proceed to the financial arrangements of the Carousel Motel.

Senator Cooper. Mr. Chairman, I must leave in 10 minutes and I will be gone for an hour. I would like to ask some questions before I leave.

Mr. Drennan, you have introduced Mr. Baker's statement of net worth—the first one being dated May 3, 1954. Is that correct?

Mr. Drennan. Yes, sir.

Senator Cooper. At that time, Mr. Baker showed assets of \$28,075, liabilities \$17,050, net worth \$11,025. I believe the next statement you placed in the record, the one dated February 1, 1963—

Mr. Drennan. The next one placed in the record would be February 5, 1962.

Senator COOPER. February 5, 1962. This shows net worth of \$1 million—

Mr. DRENNAN. \$1,003,587, sir.

Senator COOPER. In something less than 8 years, the net worth of Mr. Baker has increased from \$11,025 to over a million dollars?

Mr. DRENNAN. That is correct.

Senator COOPER. Do you have any financial statements made by Mr. Baker between May 3, 1954, and February 5, 1962?

Mr. DRENNAN. Yes, sir; those were the ones I described. We have four statements with dates between that period, which I have described.

Senator COOPER. Do you have those statements itemized, as you have itemized the statements of May 3, 1954, February 5, 1962, and February 1, 1963? Do you have the complete statements?

Mr. DRENNAN. Yes, sir.

Senator COOPER. I think, Mr. Chairman, they should be placed in the record.

Mr. McLendon. We would be glad to do that.

Senator COOPER. Could you place them in the record?

Mr. DRENNAN. Yes, sir.

Senator COOPER. In what statement did the so-called MGIC stock first appear?

Mr. DRENNAN. That was a statement signed February 9, 1960.

Senator COOPER. How many shares were listed at that time?

Mr. DRENNAN. Twenty-eight shares, valued at \$48,300.

Senator COOPER. Now, in the next statement how many shares were listed?

Mr. DRENNAN. The next one—

Senator COOPER. And designate the date of the statement.

Mr. DRENNAN. Dated September 26, 1960, and Mr. Baker lists 6,400 shares of MGIC stock, valued at \$66,172.

Senator COOPER. How many shares?

Mr. DRENNAN. 6,400.

Senator COOPER. In the statement that followed after that, was there any change in the number of shares of MGIC stock?

Mr. DRENNAN. Yes, sir. The next two statements, one dated February 5, 1962, and the next one dated February 1, 1963, show ownership of 15,130 shares, and the value is different, of course, at the two dates.

Senator COOPER. In what statement did Serve-U Corp. first appear listed as an asset?

Mr. DRENNAN. The first one we have is the last statement introduced into the record, dated February 1, 1963.

Senator COOPER. And no statement prior to that had Serv-U listed?

Mr. DRENNAN. No, sir.

Senator COOPER. You have called attention to the difference in the liabilities on the February 1, 1963, statement, and the itemized liabilities, and as they are carried forward in the compilation of the net worth.

Mr. DRENNAN. Yes, sir.

Senator COOPER. Could you read off the demand notes which appeared in the statement of February 1, 1963?

Mr. DRENNAN (reading):

Schedule 3, Robert G. Baker, Washington, D.C., demand notes payable to banks, February 1, 1963:

First National Bank of Dallas, Dallas, Tex.....	\$156,300
American Security & Trust Co., Washington, D.C.....	13,000
Fidelity National Bank & Trust Co., Oklahoma City, Okla.....	300,000
South Carolina National Bank, Greenville, S.C.....	8,000
Pickens Bank, Pickens, S.C.....	7,000
Suburban Trust Co., Silver Spring, Md.....	5,400
McLachlen Banking Corp., Washington, D.C.....	8,000
Total.....	497,700

And there is a footnote here that all notes except the McLachlen note are secured by stock.

Senator COOPER. Have you verified at these banks this statement of Mr. Baker's?

Mr. DRENNAN. We have not completed our verification on this.

Senator COOPER. What is your answer?

Mr. DRENNAN. I say we have not completed our verification on this, Senator.

Senator COOPER. You don't know whether these are secured in any other way except by the pledging of stock?

Mr. DRENNAN. We do not know at this time, Senator.

Senator COOPER. Do you know whether or not this part of the statement is being verified to determine its accuracy?

Mr. DRENNAN. Whether it is now being verified?

Senator COOPER. Yes.

Mr. DRENNAN. Some aspects of the statement have been checked out, but I don't think we are verifying this statement per se at the moment.

Senator COOPER. That is all I have at present.

The CHAIRMAN. Senator Cannon?

Senator CANNON. No questions.

(At this point, Senator Pell entered the hearing room.)

The CHAIRMAN. Senator Pell?

Senator PELL. No questions.

Senator SCOTT. I have no questions.

The CHAIRMAN. You may proceed.

Mr. McLendon. Mr. Drennan, now will you take up the bank loans, and tell the committee what records you found in connection with the bank borrowings?

Mr. DRENNAN. Yes, sir. I might say first that in April 1959, Robert G. Baker, Alfred S. Novak, and Donald J. Novak purchased a block of ocean front land at Ocean City, Md., from the Fenwick Corp. for \$75,000. Each of these three individuals had a one-third interest in this land.

We will now go into the financing of the construction of the Carousel Motel, which was built on this same land.

(At this point, Senator Cooper withdrew from the hearing room.)

Mr. DRENNAN. On June 19, 1961, Mr. Baker and his partners applied to the Fraternity Federal Savings & Loan Association of Baltimore, Md., for a \$275,000 loan to construct a motel on the property that I have just described.

Mr. McLendon. Was that—do you have the letter from Mr. Baker of that date?

Mr. Drennan. Yes, sir. We will introduce that at this time, and also a copy of the application which accompanied the letter.

Mr. McLendon. Directing your attention to the letter, do you find on the second page a short paragraph reading as follows:

I advised Bill Rogers, Jr., this morning that you can have the grand opening of your branch at 9 a.m. on August 1.

Mr. Drennan. Yes, sir.

Mr. McLendon. And this letter is signed "Robert G. Baker"?

Mr. Drennan. Yes, sir.

Mr. McLendon. Go ahead.

(The documents referred to were marked "Drennan Exhibit 8" and "Drennan Exhibit 9", and are as follows:)

DRENNAN EXHIBIT 8

TELEPHONE
COLUMBIA 5-7003

ERNEST C. TUCKER
ROBERT C. BAKER

LAW OFFICES
TUCKER AND BAKER
SUITE 605 HEADQUARTERS BUILDING
2000 F STREET, N.W. AT DUFONT CIRCLE
WASHINGTON 6, D. C.

SOUTH CAROLINA OFFICE
101 SO. FENDLETON ST.
EASLEY, SOUTH CAROLINA
TELEPHONE 8468

June 19, 1961

Mr. Thomas J. Stoddard
President
Fraternity Federal Savings and Loan Association
764 Washington Boulevard
Baltimore 3, Maryland

Dear Mr. Stoddard:

Under separate cover I am sending two copies of the blue prints of our proposed motel-apartments. The blue prints show 63 units. We plan to build 42 units as motel-apartment rooms, and we will use the space of 5 for a restaurant.

Based upon the best computation available, it appears that it will cost us approximately \$11 thousand dollars per unit to build this project. We are constructing a water system for at least 100 units plus sewage for the same. It will increase our cost appreciably over the cost of the 42 units. We are contemplating installing central heat and air-conditioning in each unit.

We plan to sell stock to purchasers of these units who will not receive titles in any form to the units they purchase until our mortgage has been paid in full. What I am saying is that we will be 100% responsible for the \$270 thousand dollar loan we are seeking, and if there should ever be any default, my partners and I will be personally liable, and foreclosure can be had immediately on the entire project. The total cost of this project will be over \$500,000 dollars.

We plan to sell these units for \$15,000 dollars, with a \$5,000 dollar down payment, and a \$10,000 dollar note from the purchaser to us. The proceeds of such payments will be used by us to pay our note to you, or we will pay the loan out of our personal funds.

We will work with your attorneys in every way when we actually draw up the contract for the selling of stock to the purchaser to make certain that you and your association are always protected.

DRENNAN EXHIBIT 8—Continued

My partners in this endeavor are Mr. Alfred Novak and Mr. Donald Novak of 5502 Montgomery Street, Chevy Chase, Maryland.

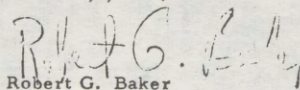
In this preliminary application we have not submitted our personal financial statement since these were not requested in the form given me in Mr. Roger's office. If your board should approve the application, we will provide you with any data requested.

I am also enclosing a paperback brochure which includes a plot plan and our firm price that we had received from different companies when we were considering 63 units. The cost of building 42 units plus a restaurant will be \$500,000 + dollars. The cost of the original 63 units was \$700,000 + dollars. There is a copy of the title guarantee enclosed.

I advised Bill Rogers, Jr. this morning that you can have the grand opening of your branch at 9:00 a.m. on August 1st.

I was very grateful for the opportunity of meeting you, and I sincerely hope we shall have a long friendship.

Cordially yours,


Robert G. Baker

RGB:t

800 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

DRENNAN EXHIBIT 9

Application for Mortgage Loan FRATERNITY FEDERAL SAVINGS AND LOAN ASSOCIATION

151 WASHINGTON BOULEVARD - BALTIMORE 1, MARYLAND

Phone, LExington 9-1113

TYPE OF LOAN...Motel-Apartments.....

LOAN No. 68339

Date June 10, 1961

Application is hereby made by the undersigned for membership in the Association, and for a first mortgage loan of \$ 270,000 on the property described below. Repayment is to be made in installments of \$ per month, and is to be applied to interest at the rate of 6 % per annum, to the principal, to the payment of all taxes, water rent, public charges, ground rent, insurance, etc.

The following described property is offered as security: -

Location of Property - Tract situate at the southeast corner of Ocean Highway and English Avenue, Worcester County, Maryland.

English N Ave.	Further Directions:
Brick.....	
Frame.....	
Stucco.....	
Heat.....	
Size of Lot.....	
Date Built.....	
Date Purchased.....	
Purchase Price \$.....	
Street Paved...Asphalt.....	Assessed Value \$..... Taxes \$.....
Does Applicant occupy the house? No	Stories..... Rooms..... Baths.....
First Mortgage held by...Fenwick Corporation	Roof.....
Second Mortgage held by...None	Garage..... Families.....
Judgments, Liens, Personal Litigation which might result in Liens? None	
Furnace, hot water heater, oil burner, plumbing fixtures or other appliances purchased under a sales agreement upon which there is an unpaid balance...None	
Monthly pay't \$.....	Unpaid balance \$.....

Applicant(s) Name - Robert G. Baker & Dorothy C. Baker, his wife; Alfred S. Novak and Gertrude C. Novak, his wife; and Donald J. Novak and Anita M. Novak, his wife.

RESUME.....
Dependents - Novaks - 5502 Montgomery St., Chevy Chase, Maryland
Baker Employed by U.S. Senate Since Dec. 1942 Salary \$ 29,000 Position officer - wife clerk
Novak Employed by Self Since 1946 Salary \$ 30,000 Position Builder

Life Insurance Carried \$ 200,000 Name of Company Equitable Life and others

Other Real Estate \$..... Prior Liens \$.....

Remarks.. Will explain in detail when personal financial statements are requested.

Title Reference... Security Title Company
Name of Present Owner Robert G. Baker, Alfred Novak, Donald Novak
Name of Realtor... Cain Realty Phone Ocean City

The applicant agrees to pay all appraisal fees, attorney's fees, service charge, search and other fees and disbursements including recording fees connected with the examination of the property and the making of a loan. It is agreed that this Association may extend or revoke any loan granted at any time prior to the actual payment of the principal if the examination reveals an unmarketable or defective title or should develop facts materially different from those stated in this application, or any other fact impairing the security offered.

Applicant(s) Signature 1. Robert G. Baker, Dorothy C. Baker

Applicant(s) Signature 2. Alfred S. Novak

3. Donald J. Novak

Fm-33

Revised 10-31-59 and 5-26-53

Mr. DRENNAN. On August 14, 1961, William Rogers, Jr., an attorney for the bank, notified Mr. Baker the bank had approved a loan for \$270,000, to be repaid over a 15-year period at 6 percent interest, to be used for construction of a motel on the Carousel property. And I would like to introduce that letter.

This loan was settled October 20, 1961, and at that time the partners were required to pay off the existing debt on the land they had purchased, and they did pay \$34,700 to the Fenwick Corp., thus completing the purchase of the land.

(The letter referred to was marked "Drennan Exhibit 10," and is as follows:)

DRENNAN EXHIBIT 10

ASSOCIATES
E. TAYLOR BODEN
ESKIN T. BODEN, JR.
JOHN F. DAVIS
THOMAS E. KELLY, JR.
HERBERT C. MOORE
JOHN PAUL ROGERS
WILLIAM C. ROGERS, JR.

WILLIAM C. ROGERS
ATTORNEY AT L.
THE ROGERS BUILDING
113 EAST BALTIMORE STREET
BALTIMORE 2, MD.

TELEPHONE:
SARATOGA 7-4486

August 14, 1961,

Robert G. Baker, Esquire
3324 Northhampton Street, N. W.
Washington, D. C.

Re: Revised plat of Block 200 as shown on
revised and re-assembled plat No. 2 of
Fenwick - Worcester County, Md.

Dear Mr. Baker:

This is to advise you that the Fraternity Federal Savings and Loan Association has approved an application for a construction permanent mortgage in the amount of \$270,000.00 for a period of 15 years with interest at the rate of 6% per annum. Said mortgage is to be secured by a first lien on the above described property which property is a lot with a frontage of 344.38 feet on the Atlantic Ocean, 499.9926 feet on English Avenue, 191.82 feet and 52.04 feet on Ocean Highway and 510.003 feet on the Southern Boundary.

Any secondary financing is prohibited. The property above referred to is to be improved by a motel and related buildings as shown on plans prepared by Elliott and MacIntire, Architects, and is to consist of 42 units, 5 of which will be used as a restaurant. The office and service area are to be completed in accordance with said plans and specifications and the water and septic system installed is to be adequate to service a 100 unit motel. Further, this commitment calls for the erection of a swimming pool, finished grading, sodding and shrubbery, parking lot and sign, all as shown on the aforementioned plans and specifications.

The mortgage will be drawn on the form currently used by the Association and the title examination and settlement will be handled by us as attorneys for the Association.

It is to be understood that interest and expenses will be paid monthly for the first six months after settlement and that regular monthly amortization will commence with the seventh monthly payment. All payments are due on the first day of each succeeding month.

DRENNAN Exhibit 10—Continued

ASSOCIATES
E. TAYLOR HODEN
ERIKIN T. HODEN, JR.
JOHN F. DA
THAS E. KELLY, JR.
BERT C. MOORE
JOHN PAUL ROGERS
WILLIAM C. ROGERS, JR.

WILLIAM C. ROGERS
ATTORNEY AT LAW
THE ROGERS BUILDING
111 EAST BALTIMORE STREET
BALTIMORE 2, MD.

TELEPHONE:
SARATOGA 7-4486

Robert G. Baker, Esquire

No. 2

August 14, 1961

The \$270,000.00 herewith committed will be withheld at the time of settlement under a Trust Agreement prepared by us and disbursed as construction progresses. The proposed construction is to be fully completed within six months after settlement.

The aforementioned disbursements are to be handled in the following manner:

The Trustees under the aforementioned Trust Agreement will disburse 75% of the periodic architectural certification it being understood that the inspection and certification as to work completed and materials on site are to be made by a licensed architect who is also a member in good standing of the AIA. His certifications are to be on Forms AIA G-702 and AIA G-703. Said architect is to be engaged by you, but the Association reserves the right to approve said architect and to approve his form of certification.

This commitment is further conditioned on receipt from you of a satisfactory bonding company bond guaranteeing completion and protection against mechanics' liens, and it is further conditioned upon receipt by the aforementioned Trustees of a satisfactory location survey clearly noting the foundations with respect to any other structures and the outline of the lots. This survey must accompany the architect's first certification for a draw.

This commitment is made to you individually and as Agent for Alfred S. Novak and Donald J. Novak. Please note that the mortgage is to be signed by the three of you and your wives. Will you please let us have your wives' names.

This commitment is given with the further understanding that same is good for a period of 30 calendar days from the date hereof, after which it shall become null and void.

Acceptance of this commitment will be evidenced by your signing the enclosing application for title insurance and returning same to my attention together with the title reference to the property.

DRENNAN EXHIBIT 10—Continued

ASSOCIAT.
E. TAYLOR BODEN
ESKIN T. BODEN, JR.
JOHN F. DAVIS
THOMAS E. KELLY, JR.
HERBERT C. MOORE
JOHN PAUL ROGERS
WILLIAM C. ROGERS, JR.

WILLIAM C. ROGERS
ATTORNEY AT LAW
THE ROGERS BUILDING
112 EAST BALTIMORE STREET
BALTIMORE 2, MD.

TELEPHONE:
SARATOGA 7-4458

Robert G. Baker, Esquire No. 3

August 14, 1961

In accordance with regulations of said Association settlement must be consummated with 60 days from the date of acceptance of this commitment, at a time mutually convenient to you and to the Association.

PLEASE NOTE: No work may be commenced on the proposed construction and no materials for the proposed construction may be placed on your property at any time prior to settlement and recording of the above referred to mortgage.

Should either of these events occur, the occurrence will immediately invalidate this commitment.

Yours very truly,

WILLIAM C. ROGERS, JR.

WCR:JR:rlw
Enclosure (1)

Mr. DRENNAN. On January 30, 1962, the partners entered into an agreement whereby Baker now became a 50-percent owner in this venture, Donald Novak became a 25-percent owner, and Alfred S. Novak became a 25-percent owner. Previously, this had been on a one-third basis with the three partners.

On March 3, 1962, Alfred Novak died, and his widow, Mrs. Gertrude Novak, became the third partner in place of her husband.

On March 7, 1962, Mr. Baker and his partners applied to Fraternity Federal Savings & Loan Association of Baltimore to refinance their loan and to expand the facilities of the Carousel Motel, and they asked for a loan of \$360,000. This would be in place of the original loan of \$270,000.

Mr. McLENDON. It would pay the original loan of \$270,000, and the difference would be available for use?

Mr. DRENNAN. That is correct.

Mr. McLENDON. Is that application dated March 7, 1962, signed by Robert G. Baker, Dorothy C. Baker, Gertrude C. Novak, and Anita Novak, and Donald J.?

Mr. DRENNAN. Yes, sir; it is.

Mr. McLENDON. And you say this was after——

Mr. DRENNAN. This was after Alfred Novak had died.

Mr. McLENDON. All right. Go ahead.

Mr. DRENNAN. I will introduce that into the record.

(The document referred to was marked "Drennan Exhibit 11," and is as follows:)

DRENNAN EXHIBIT 11

Application for Mortgage Loan

FRATERNITY FEDERAL SAVINGS AND LOAN ASSOCIATION

764 WASHINGTON BOULEVARD • BALTIMORE 3, MARYLAND
Phone, LEeington 9-1313

TYPE OF LOAN..... D.R. 15%LOAN No. 63013Date 3/7/62

Application is hereby made by the undersigned for membership in the Association, and for a first mortgage loan of \$260,000.00 on the property described below. Repayment is to be made in installments of \$..... per month, and is to be applied to interest at the rate of 6 % per annum, to the principal, to the payment of all taxes, water rent, public charges, ground rent, insurance, etc.

The following described property is offered as security:

Location of Property - Tract situate at the southeast corner of Ocean Highway and English Avenue, Worcester County, Maryland.

Brick.....

Frame.....

Stucco.....

Heat.....

Size of Lot.....

Date Built.....

Date Purchased.....

Purchase Price \$.....

Street Paved.....

Does Applicant occupy the house?

First Mortgage held by.....

Present Amount \$..... Original Amount \$.....

Second Mortgage held by.....

Present Amount \$..... Original Amount \$.....

Judgments, Liens, Personal Litigation which might result in Liens?

NONE

Furnace, hot water heater, oil burner, plumbing fixtures or other appliances purchased under a sales agreement upon

Applicant(s) Name - GERTRUDE C. NOVAK, widow, DONALD J. NOVAK and ROBERT G. BAKER, Co-Partners trading as CAROUSEL MOTEL; and GERTRUDE C. NOVAK, widow, DONALD J. NOVAK and ANITA M. NOVAK, his wife, and ROBERT G. BAKER and DOROTHY C. BAKER, his wife, to join in Mortgage individually.

City - Frost & Truck - Co 5-7003 Wash. 46

Employed by..... Since..... Salary \$..... Position.....

Employed by..... Since..... Salary \$..... Position.....

Life Insurance Carried \$..... Name of Company.....

Other Real Estate \$..... Prior Liens \$.....

Remarks: Refinance existing mortgage and finance additional improvement

Title Reference.....

Name of Present Owner.....

Name of Realtor..... Phone.....

The applicant agrees to pay all appraisal fees, attorney's fees, service charges, search and other fees and disbursements including recording fee connected with the examination of the property and the making of a loan. It is agreed that this Association may reject or revoke any loan granted at any time prior to the actual payment of the principal if the examination reveals an unmarketable or defective title or should develop facts materially different from those stated in this application, or any other fact imperiling the security offered.

Applicant(s) Signature.....

Robert G. Baker

Applicant(s) Signature.....

Gertrude C. Novak

Fm-33

Revised 10-31-50 and 5-26-53

Donald J. Novak

Carroll Motel

E. J. Baker

Robert G. Baker

Donald J. Novak

Gertrude C. Novak

806 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

Mr. McLendon. In connection with this loan for \$360,000, did you find a copy of the commitment from the bank signed by Mr. Rogers, the bank's attorney, dated March 16, 1962?

Mr. DRENNAN. Yes, sir.

Mr. McLendon. At the bottom, is there an acceptance which says, "This commitment is accepted," signed by Robert G. Baker individually and as agent aforesaid?

Mr. DRENNAN. That is written on the document; yes, sir.

(The document referred to was marked "Drennan Exhibit 12," and is as follows:)

DRENNAN EXHIBIT 12

ASSOCIATES
E. TAYLOR BODEN
ESKIN T. BODEN, JR.
JOHN F. DAVIS
THOMAS E. KELLY, JR.
HERBERT C. MOORE
JOHN PAUL ROGERS
WILLIAM C. ROGERS, JR.

WILLIAM C. ROGERS
ATTORNEY AT LAW
THE ROGERS BUILDING
113 EAST BALTIMORE STREET
BALTIMORE 2, MD.

TELEPHONE:
SARATOGA 7-4455

March 16, 1962

Robert G. Baker, Esq.
3324 Northhampton Street, N. W.
Washington, D. C.

RE: Revised plat of Block 200 as shown on
revised and re-assembled plat No. 2 of
Fenwick - Worcester County, Maryland

Dear Mr. Baker:

This is to advise you that the Fraternity Federal Savings and Loan Association has approved your application to refinance your existing construction permanent mortgage on the above captioned property to the total amount of \$360,000.00 for a period of 15 years from the date of settlement with interest at the rate of 6% per annum. Please note that said mortgage is to be secured by a first lien on the above described property, which property is also described in the mortgage currently held by Fraternity Federal Savings and Loan Association.

Any secondary financing is prohibited with the exception of the mortgage you are presently negotiating with S.B.A. under S.P.A.'s emergency reconstruction plan. We wish to remind you that the mortgage proposed by this letter must be a lien of record prior to your consummating the contemplated S.B.A. emergency loan.

This commitment is subject to the property being improved in accordance with the plans and specifications submitted with your original application and said Association's commitment dated August 14, 1961, as amended by the plans and specifications submitted to said Association under date of March 5, 1962. For the purposes of this commitment, the aforementioned letter of August 14, 1961 is hereby adopted as part hereof with respect to the manner in which the property is to be improved. Further, it is understood that you are to add a 500 seat Convention Hall-Night Club in the basement of the building, plus six additional rooms with complete bath facilities in each room. Further, complete bathroom facilities for men and for women are to be added in the basement level. A coffee shop is to be constructed on the first floor level and to be of a size of not less than 15 X 70.

It is understood that you are to erect a 300 foot Sea Wall across the front of your property and that said Sea Wall is to be backed up by a patio 10 feet in width along the entire length of said Sea Wall.

DRENNAN EXHIBIT 12--Continued

-2-

Robert O. Parker, Esq.

March 16, 1962

Other improvements and additions are as shown on your plans and specifications by the original and as amended as set forth in your letter of March 5 and schedule attached thereto.

It is understood that the current existing mortgage is to be released and a new mortgage in the amount of \$360,000.00 as aforesaid is to be placed of record. Said new mortgage will be on the form currently used by said Association and title examination and settlement to be handled by us as attorneys for the Association.

Payments will be in the manner set forth in our commitment letter of August 14, 1961.

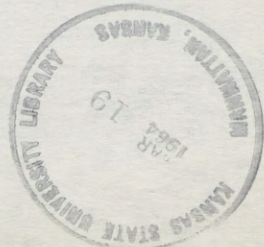
The balance of \$56,805.79 presently held by the Trustees under the mortgage committed August 14, 1961 will be used to assist in releasing the existing mortgage. The sum of \$146,805.79 will be deducted from the mortgage committed under this letter and will be placed in a Trust Agreement, which Trust Agreement will be similar in content and procedure as the Trust Agreement under which you are currently operating. It is understood by the parties hereto that the architect called for under the aforementioned Trust Agreement will be Mr. Alan Wood Fraser.

This commitment is subject to receipt from you of adequate and satisfactory amendments to your existing Builders' Contract, which amendments are to call for the changes shown in your amended plans and specifications. Further, we should be furnished with an amended location survey showing the existence of the improvements as called for under the amended plans and specifications.

We call your particular attention to the fact that this commitment is conditioned on receipt of an adequate and satisfactory bonding company bond guaranteeing completion of the property in accordance with the amended plans and specifications and the amended Builders' Contract. Since this mortgage will be placed of record after work has commenced on the lot, it is essential that said bond clearly protect our client against any question which may arise with respect to mechanics' and/or materialmen's liens.

This commitment is made to you individually and as agent for whatever corporation may presently hold title to the aforesaid property and as agent for your wife and Donald J. Novak and Anita M. Novak, his wife and Gertrude C. Novak, widow. It is understood that the mortgage will be signed by each of said parties individually, as well as by the corporation, if any.

This commitment is given with the understanding that same is good for a period of 30 calendar days from the date hereof, after which it shall become null and void. Acceptance of this commitment will be evidenced by your signing the copy of this commitment enclosed herewith and returning to the attention of the undersigned.



DRENNAN EXHIBIT 12—Continued

-3-

Robert G. Baker, Esq.

March 16, 1962

In accordance with the regulations of said Association, settlement must be consummated within 60 calendar days from the date of acceptance of this commitment, at a time mutually convenient to you and to the Association.

Very truly yours,

WILLIAM C. ROBERT, JR.

WCR:jrmch
Enclosure

P.S. If this commitment is accepted by you, we very strongly recommend that you have the Bonding Company forward their proposed new Bond or amended Bond, as soon as possible, and that you also forward to us immediately a copy of the amended Builders' Contract.

WCRJr.

This commitment accepted this _____ day of _____, 1962.

By:

ROBERT G. BAKER, Individually and
as Agent aforesaid.

Mr. DRENNAN. The loan settlement on the \$360,000 loan was made on April 9, 1962. Now, the Carousel Motel was opened for business about June 1, 1962, and thereafter, sometime in July, they had the official grand opening.

On February 25, 1963, Mr. Baker and his partners agreed to sell the Carousel Motel to the Serv-U Corp. The effective date of this agreement was January 1, 1963. One of the conditions of the sale was that the partners would arrange for a loan to finance additional construction of facilities at the Carousel Motel.

On February 1, 1963, Mr. Ernest C. Tucker, chairman of the board of Serv-U, wrote to William C. Rogers, Esq. In this letter he transmits an application for a new loan of \$746,000, which again is to replace—it is to pay off the old loan and provide additional funds for construction. In this letter, which I would like to introduce, Mr. Tucker explains the organization of the Serv-U Corp. On page 2 he describes Mr. Baker's interest in Serv-U, and also lists the officers of that company.

Mr. McLENDON. Would you read the part on page 2, beginning at the top of the page, in connection with the Serv-U Corp.—Mr. Tucker's description of the company?

Mr. DRENNAN. How far do you want me to read, Major?

Mr. McLENDON. Read down through the list of officers.

Mr. DRENNAN (reading):

Serv-U Corporation is a Delaware corporation—qualified to do business in Maryland—and is a little over a year old. At this time, our operation is vending alone and consists of vending coffee, cold drinks, cigarettes, school supplies, etc. Our operation office is in Inglewood, California, with the principal office in Washington, D.C. We serve North American Aviation Corporation in California and are taking over Northrop Aviation Corporation this month.

The corporation started business in January 1962, and closed the fiscal year August 31, 1962, with a tax loss of \$59,000—all due, of course, to normal organizational expenses. However, we are now showing a net profit, before taxes, of over \$40,000 per month. Also, this month we take over a new division of Northrop Aviation which will gross us an additional \$650,000 per year with a net before taxes of \$20,000 per month. In sum, with our new contract, our monthly net before taxes will be between \$65,000 and \$70,000 per month.

Serv-U Corporation is closely held and has 10,000 shares of authorized capital stock, of which Mr. Baker owns 28½ percent or 2,850 shares. Eighty-eight percent of the stock is outstanding; that is, 1,200 shares are being held as treasury stock. The board of directors is Ernest C. Tucker, Washington, D.C.; Eugene A. Hancock, Miami, Florida; and, James C. Walsh, Washington, D.C. The officers of the corporation are:

Chairman, Ernest C. Tucker
 President, Eugene A. Hancock
 Executive Vice President, Ernest C. Tucker
 Vice President, William R. Armstrong
 Secretary, Ernest C. Tucker
 Assistant Secretary, Charles—

either N. or M.—

Baker
 Treasurer, James C. Walsh

Mr. McLENDON. The next paragraph reads, does it not:

This loan, if granted, will be personally guaranteed by Mr. and Mrs. Robert G. Baker because of the restrictions against making loans to corporations without individual guarantee.

Mr. DRENNAN. Yes, sir; it does.

Mr. McLendon. That letter is signed by Ernest C. Tucker, who describes himself as being chairman of the board of directors?

Mr. DRENNAN. That is correct.

(The letter referred to was marked "Drennan Exhibit 13," and is as follows:)

DRENNAN EXHIBIT 13

February 1, 1963

William C. Rogers, Esquire
The Rogers Building
113 East Baltimore Street
Baltimore 2, Maryland

Re: Carousel Motel

Dear Mr. Rogers:

In accordance with our previous conversations, I am sending you the Mortgage Loan Application, together with supporting documents, for the proposed addition to the Carousel Motel.

The motel is now owned by Robert G. Baker (50%); Donald J. Novak (25%); and, Gertrude C. Novak (50%). As I explained to you, Serv-U-Corporation has agreed to purchase the motel from the present owners at book value and construct the new addition covered in this application.

As you know, the Carousel presently has 47 units, with 41 of them being ocean-front efficiencies. The addition of 36 ocean-front units will give us a total of 83 units. In addition, the new construction will have an unobstructed convention room which will seat approximately 300 people. At present, our night club - which also can be used for a convention - seats approximately 300 people. The Restaurant, Coffee Shop and Cocktail Lounge has a seating capacity of 220 people.

To our knowledge, the Carousel is the only all resort constructed motel in Ocean City and, of course, the new addition will match the existing structure.

Each room is equipped with sleeping facilities for six people, efficiency kitchen, central heating and air-conditioning, T.V., and continuous music and radio - the new units will have the same.

DRENNAN EXHIBIT 13—Continued

William C. Moore, require
February 1, 1963
Page Two

Serv-U-Corporation is a Delaware Corporation - qualified to do business in Maryland - and is a little over a year old. At this time, our operation is vending alone and consists of vending coffee, cold drinks, cigarettes, school supplies, etc. Our operational office is in Inglewood, California, with the principal office in Washington, D. C. We serve North American Aviation Corporation in California and are taking over Forthrop Aviation Corporation this month.

The corporation started business in January, 1962, and closed the fiscal year August 31, 1962, with a tax loss of \$59,000 - all due, of course, to normal organizational expenses. However, we are now showing a net profit, before taxes, of over \$40,000 per month. Also, this month we take over a new division of Forthrop Aviation which will gross us an additional \$450,000 per year with a net before taxes of \$20,000 per month. In sum, with our new contract, our monthly net before taxes will be between \$65,000 and \$70,000 per month.

Serv-U-Corporation is closely held and has 10,000 shares of authorized capital stock, of which Mr. Baker owns 28 1/2 per cent or 2,850 shares. Eighty-eight per cent of the stock is outstanding, that is, 1,200 shares are being held as treasury stock. The board of directors is Ernest C. Tucker, Washington, D. C.; Eugene H. Hancock, Miami, Florida; and, James C. Walsh, Washington, D. C. The officers of the corporation are:

Chairman, Ernest C. Tucker
President, Eugene A. Hancock
Executive Vice President, Ernest C. Tucker
Vice President, William R. Armstrong
Secretary, Ernest C. Tucker
Assistant Secretary, Charles M. Baker
Treasurer, James C. Walsh

This loan, if granted, will be personally guaranteed by Mr. and Mrs. Robert G. Baker because of the restrictions against making loans to corporations without individual guarantee.

I want to take this opportunity to thank you for your consideration and if there is any additional information which you need, please let me know.

Sincerely yours,

Ernest C. Tucker

Mr. McLENDON. The application to which you referred for the loan is signed by Serv-U Corp. by Ernest C. Tucker, chairman of the board of directors, and by Robert G. Baker and Dorothy A. Baker; is it not?

Mr. DRENNAN. That is correct.

Mr. McLENDON. Did you ascertain from the records in the bank that the mortgage was also signed by Robert G. Baker and his wife?

Mr. DRENNAN. Yes, sir.

(The document referred to was marked "Drennan Exhibit 14," and is as follows:)

DRENNAN EXHIBIT 14

A Application for Mortgage

FRATERNITY FEDERAL SAVINGS AND LOAN ASSOCIATION

764 WASHINGTON BOULEVARD • BALTIMORE 3, MARYLAND

Phone, 1-813-1010

TYPE OF LOAN 15 YearLOAN No. 63134Date JANUARY 22, 1963

Application is hereby made by the undersigned for membership in the Association, and for a first mortgage loan of \$ 385,990 on the property described below. Repayment is to be made in installments of \$ -- per month, and is to be applied to interest at the rate of 6 -- % per annum, to the principal, to the payment of all taxes, water rent, public charges, ground rent, insurance, etc.

The following described property is offered as security:

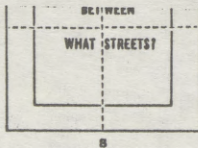
Location of Property - (I) Tract or parcel on the easterly side of and binding upon Fenwick Avenue or Ocean Highway; and
(II) Lot 12, Block 102, "Revised and Re-assembled Plat No. 2 of Fenwick, Maryland", located on the westerly side of and binding upon Wight Street, and on the northerly side of and binding upon English Avenue, Fenwick, 10th Election District, Worcester County, Md.

Heat CentralSize of Lot AttachedDate Built 1962

Date Purchased

Purchase Price \$

Street Paved

Assessed Value \$ AttachedStories 3 Rooms 47 Baths 47Roof concrete

Garage Families

Does Applicant occupy the house? Carousel Motel

3013 First Mortgage held by Fraternity Federal Present Amount \$ 354 Original Amount \$ 360
Second Mortgage held by Present Amount \$ 54.4 Original Amount \$ 54.4
Judgments, Liens, Personal Litigation which might result in Liens? None
Furnace, hot water heater, oil burner, plumbing fixtures or other appliances purchased under a sales agreement upon which there is an unpaid balance Furniture; Monthly pay't \$ 1,033.62 Unpaid balance \$ 62,000
(item)
Other Debts \$ See attachment*

Applicant(s) Name - Serv-U-Corporation - Robert G. Baker and Dorothy C. (wf.) -
to join in Mortgage individually.

Dependent Washington 6, D. C.

Employed by Since Salary \$ Position

Employed by Since Salary \$ Position

Life Insurance Carried \$ Name of Company

Other Real Estate \$ Prior Liens \$

Remarks: See Attachment for description.NOTE: SP. A. loan to be paid by joint check to SP. A.Title Reference Marcus J. Williams, Attorney, Berlin, MarylandName of Present Owner Robert G. and Dorothy Baker, Donald J. and Anita M. Novak~~NAME OF PRESENT OWNER~~ and Gertrude C. Novak, Widow. Phone

The applicant agrees to pay all appraisal fees, attorney's fees, service charge, search and other fees and disbursements including recording fees connected with the examination of the property and the making of a loan. It is agreed that this Association may reject or revoke any loan granted at any time prior to the actual payment of the principal if the examination reveals an unmarketable or defective title or should develop facts materially different from those stated in this application, or any other fact impairing the security offered.

Applicant(s) Signature

Serv-U-Corporation

Fm-33

Applicant's Signature

by: Ernest C. Tucker

Chairman, Board of Directors

Robert G. Baker

Revised 10-31-59 and 5-26-62

Mr. McLendon. Any other comment about that loan?

Mr. Drennan. Only that the loan settlement took place on March 15, 1963. And that concludes the testimony on the Fraternity Federal Savings & Loan Association.

Mr. McLendon. You have given the reporter each one of those documents constituting these exhibits?

Mr. Drennan. I don't know whether we referred to the letter dated February 27, 1963, from Mr. Rogers to Mr. Baker in which he advises Mr. Baker as agent for Serv-U that the \$746,000 loan had been approved.

Mr. McLendon. Does it carry on the bottom, acceptance of this commitment, signed by Robert G. Baker, individually and as agent?

Mr. Drennan. Yes.

Mr. McLendon. We will introduce that, too.

(The document referred to was marked "Drennan Exhibit 15," and is as follows:)

DRENNAN EXHIBIT 15

ASSOCIATES
E. TAYLOR ROSEN
ESKIN T. ROSEN, JR.
JOHN F. DAVIS
THOMAS E. KELLY, JR.
HERBERT C. MOORE
JOHN PAUL ROGERS
WILLIAM C. ROGERS, JR.

WILLIAM C. ROGERS
ATTORNEY AT LAW
THE ROGERS BUILDING
115 EAST BALTIMORE STREET
BALTIMORE 2, MD.

TELEPHONE:
SARATOGA 7-4666

February 27, 1963

Robert G. Baker, Esq.
c/o Tucker and Baker, Attorneys
Suite 605 Headquarters Building
2000 P Street, N. W. at DuPont Circle
Washington 6, D. C.

RE: Serv-U Corporation

Dear Mr. Baker:

This is to advise you, as Agent for Serv-U Corporation, that Fraternity Federal Savings and Loan Association has approved your application to refinance the existing mortgage on the hereinbelow described property.

The proposed mortgage will be a Construction permanent mortgage in the total amount of \$746,000.00 for a period of fifteen (15) years from the date of the settlement with interest at the rate of 6% per annum. Said mortgage is to be secured by a first lien on the hereinbelow described property and said lien shall be in the form of the mortgage currently in use by said Fraternity Federal Savings and Loan Association.

The property to be covered by said lien is briefly described as follows:

Lot 12, Block 102 on a plat known as "Revised and Re-assembled Plat No. 2 of Fenwick, Maryland" and being the same lot described in Deed recorded among the Land Records of Worcester County in Liber 163, folio 231. Also, all of that parcel known as Block 200 as shown on the Plat aforesaid, saving and excepting therefrom a parcel 60 feet in width running in a Southeasterly direction from Ocean Highway parallel to the Southern boundary of said Block 200 as more clearly shown on the plat accompanying your application, which plat was prepared by George Bert Cropper.

Any secondary financing is prohibited with the exception that permission is hereby granted to allow you to place a second mortgage on this property running in favor of The Small Business Administration in an amount not to exceed \$55,000.00. Please note that said second mortgage must be dated and recorded subsequent to the date and recording of the proposed Fraternity Federal Savings and Loan Association's mortgage and must clearly be secondary to the lien of said Fraternity Federal's mortgage.

The above described property is presently improved by the Carousel Motel and related services and it is the understanding of this commitment that said property is to be further improved as shown on the plans and specifications

DRENNAN EXHIBIT 15—Continued

-2-

Robert O. Baker, Esq.

February 27, 1963

prepared by Ken White Associates dated December 11, 1962, which plans and specifications accompanied your application.

Title Examination will be handled by us as Attorneys for Fraternity Federal Savings and Loan Association.

It is understood that the current mortgage covering said property and held by Fraternity Federal shall be paid in full and released of record from the proceeds of this proposed mortgage. Said mortgage is currently in the approximate amount of \$354,000.00.

All funds due you from the proposed mortgage less those funds needed aforesaid to release the Fraternity Federal mortgage on said property and less your settlement expenses, will be retained under a Trustee Agreement to be prepared by this office. Said trustee funds will be disbursed as construction progresses in the following manner:

The Trustees under said Trust Agreement will disburse 90% of the periodic architectural certifications made by a licensed architect who is also a member in good standing of the AIA. Certifications are to be on forms AIA G-702 and AIA G-703.

The architect referred to in the above paragraph is to be engaged by you, but the Association reserves the right to approve said architect and to approve his form of Certification.

This commitment is further conditioned on receipt from you of a satisfactory Casualty Company Bond guaranteeing completion and furnishing protection against Mechanics' Liens, and it is further conditioned upon receipt by the aforementioned Trustees, of a satisfactory Location Survey clearly noting the foundations of all buildings located on the mortgaged premises, including the proposed new construction with respect to any other structures and the outline of the lots. This Survey must accompany the architect's first Certification.

A Waiver of Liens is to be submitted with the request for final disbursement duly signed by all persons who furnished labor and/or materials. Said Waiver is to meet with the approval of Fraternity Federal and the Trustees. For your examination, we are enclosing our form of Waiver of Liens.

It is understood and it is a condition of the proposed mortgage that the proposed construction be fully and satisfactorily completed within six (6) months from the date of settlement. Further, interest on the funds advanced, plus one-twelfth (1/12) of the estimated annual expenses, including Fire Insurance and taxes are to be paid monthly on the first day of each and every month from the date of settlement. Regular amortization shall commence upon completion of the proposed improvements, but in any event, not later than six (6) months from the date of settlement.

DRENNAN EXHIBIT 15—Continued

-3-

Robert G. Baker, Esq.

February 27, 1963

We call your attention to the fact that we have not received a copy of your proposed Builder's Contract and this commitment is subject to the lending institution's approval of said proposed Contract.

Please note that no work may commence on this property and no materials may be stored thereon prior to the consummation of this proposed mortgage and the recording of said mortgage.

This commitment although addressed to you as Agent, calls for the execution of the proposed mortgage by Serv-U Corporation and by Robert G. Baker and Dorothy C. Baker, his wife.

This commitment is given with the understanding that same is good for a period of thirty (30) calendar days from the date hereof, after which it shall become null and void. Acceptance of this commitment will be evidenced by your signing the copy of this commitment enclosed herewith and returning to the attention of the undersigned.

In accordance with the regulations of said Association, settlement must be consummated within sixty (60) calendar days from the date of acceptance of this commitment, at a time mutually convenient to you and to the Association.

Very truly yours,

WILLIAM G. ROGERS, JR.

WCR:jrmch
Enclosures

P.S. If this commitment is accepted by you, we very strongly recommend that you have the Bonding Company forward their proposed Bond as soon as possible, and that you also forward to us immediately a copy of the proposed Builder's Contract.

WCRJr.

This commitment accepted this _____ day of _____, 1963.

BY: _____
ROBERT G. BAKER, individually and as
Agent aforesaid.

Mr. DRENNAN. This concludes the testimony on the loans from Fraternity Federal.

Mr. McLENDON. Just one other question. This mortgage loan about which you have been testifying the last few minutes, with the Federal—with the Fraternity Federal Savings & Loan Association, is the mortgage which was assumed by Serv-U Corp. at the time it purchased the Carousel property?

Mr. DRENNAN. I think the original mortgage for \$746,000 is a Serv-U mortgage.

Mr. McLENDON. And signed by Baker and his wife?

Mr. DRENNAN. Right.

The CHAIRMAN. Counsel—before we proceed further, Senator, do you have any questions?

Senator SCOTT. I have no questions.

The CHAIRMAN. Do you have any questions?

Senator CANNON. On that particular point, no.

The CHAIRMAN. Senator Pell?

Senator PELL. On this particular item—no.

Mr. McLENDON. All right. Then let's go to the next one.

Mr. DRENNAN. The next topic would be the loans from the American National Bank of Silver Spring, Md. In April 1962 the American National Bank, Silver Spring, agreed to make a loan to the partners of the Carousel, and a \$114,000 line of credit was extended to the partners to be used for the purchase of furniture and fixtures for the Carousel Motel. This loan was made on an unsecured signature basis and was disbursed during the period April through June 1962.

Mr. McLENDON. Was the note an obligation of each of the partners—all of the partners signed it?

Mr. DRENNAN. It was.

Mr. McLENDON. Go ahead.

Mr. DRENNAN. These disbursements during the period of April through June 1962 were evidenced by short-term notes which were later converted to a long-term note on August 17, 1962. At that time, the partners signed a note for \$142,500, payable in equal installments of \$2,375 each over a 5-year period. Now, the \$142,500 represents the loan of \$114,000 with the accumulated interest over the 5-year repayment period of the long-term note. This note is still outstanding, and is in the name of Mr. Baker and his partners. But under the terms of the sale of the Carousel to the Serv-U Corp., Serv-U is making the monthly payments, but the partners are personally liable.

Mr. McLENDON. Go ahead.

Mr. DRENNAN. In the latter part of March 1963, the American National Bank of Silver Spring agreed to lend the Serv-U Corp. a total of \$50,000 to be used to construct a waterline to the Carousel, and to help finance additional construction of facilities there. Now, this commitment was made and—there were several short-term unsecured loans made covering the \$50,000 during the period April through October 1963.

At December 31, 1963, these loans were represented by two notes, totaling \$48,000 from the Serv-U Corp., which are endorsed personally by Mr. and Mrs. Baker. The first note is dated October 14, 1963, in the face amount of \$23,000, and is to be paid \$2,000 a month plus 6 percent interest. The second note is a 90-day note for \$25,000, to be repaid January 22, 1964, with 6 percent interest. I don't know whether that note has in fact been paid. We have not contacted the bank on that.

Now, in addition to these two loans that I have described, on May 29, 1962, the American National Bank lent Mr. Baker and his partners \$100,000 for 15 days. The proceeds of this loan were to be deposited into a special account which could not be drawn upon by the partners. This special account was automatically closed at the end of the 15-day period.

I would like to introduce at this time two documents relating to this particular transaction.

The first is a memo to the files, dated May 29, 1962, which is initialed by Warren H. Lasher, who is the president of the American National Bank of Silver Spring, regarding a conversation with Mr. Baker in connection with this short-term loan.

(The document referred to was marked "Drennan Exhibit 16," and is as follows:)

DRENNAN EXHIBIT 16

May 29, 1962

MEMORANDUM

RE: CAROUSEL MOTEL

Mr. Robert Baker telephoned and asked for a \$100,000 loan for 15 days so that he could show evidence of having this amount on deposit. The note will be signed by Carousel, Inc. and endorsed by Mr. Baker and wife, Mrs. Al Novak and Mr. Donald Novak and wife.

It was agreed between us that the \$100,000 could be deposited in a new account "Carousel Motel - Account No. 2" and that account would be held as collateral for this loan and automatically paid at the end of 15 days.

W. H. Tusher

American National Bank

Carousel Motel - Account No. 2
c/o Ernest L. Tusher
2100 P St., N.W., Washington, D.C.

WHL:F

May 29

"Proceeds of Note" 100,000.00

"No Withdrawals"

↑
Hold

Mr. DRENNAN. The second document, which is also reproduced on the same page as this memo, is a deposit slip of the American National Bank of Silver Spring, dated May 29, 1962, and this did not come out very clear on the reproduction, and I would like to read the items that are not legible on this slip.

Mr. McLENDON. What is the date of it again?

Mr. DRENNAN. May 29, 1962.

Mr. McLENDON. All right.

Mr. DRENNAN. The items that are not legible are across the middle of the slip—there is a notation "Proceeds of Note" and in the amount column is \$100,000. And in handwriting across the bottom, on an angle, is a notation "No withdrawals."

Mr. McLENDON. "No withdrawals"?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. All right.

Mr. DRENNAN. I would also like to introduce a copy of the ledger sheet—

Mr. McLENDON. Before you get to that—you referred to the memorandum by Mr. Lasher of the American National Bank.

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. You have that?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. That is dated May 29, 1962; is it not?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. And headed "Memorandum."

Mr. DRENNAN. Right.

Mr. McLENDON. "Re Carousel Motel."

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. See if I read it correctly:

Mr. Robert Baker telephoned and asked for a \$100,000 loan for 15 days so that he could show evidence of having this amount on deposit. The note will be signed by Carousel, Inc., and endorsed by Mr. Baker and wife, Mrs. Al Novak, and Mr. Donald Novak and wife. It was agreed between us that the \$100,000 would be deposited in a new account, "Carousel Motel Account No. 2," and that account would be held as collateral for this loan and automatically paid at the end of 15 days—

with Mr. W. H. Lasher's name appearing in typewriting, and apparently his initials written in ink; is that correct?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. And then the document that you referred to bearing that same date showing a deposit of \$100,000 carries the words "Not to be withdrawn," or "No withdrawals"?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. Hand that to the reporter, please.

Mr. DRENNAN. The other item is a copy of the ledger sheet set up for the proceeds of this \$100,000 loan, and it shows that \$100,000 was deposited as a credit to this account on May 29, 1962, and that \$100,000 was charged against the account on June 13, 1962, 15 days later, with no other activity in the account. I would like to introduce that.

Mr. McLENDON. That is headed "Carousel Motel Account No. 2"; is it not?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. So no money was withdrawn from the account?

Mr. DRENNAN. That is correct.

822 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

(The document referred to was marked "Drennan Exhibit 17," and is as follows:)

DRENNAN EXHIBIT 17

Carousel Hotel. (Account #2)
% Ernest C. Tucker
2000 P Street, N. W.
Washington, D. C. 5-62

DEPOSITS & CHECKS	CHECKS & ANALYSIS	ITEMS	DATE	BALANCE
			MAY 29 62 *	.00 S
*100,000.00	5		MAY 29 62 *	100,000.00 1*
			JUN 13 62 *	100,000.00 2*
			JUN 13 62 *	.00 1*
				4
				5
				6
				7
				8
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LEDGER

AMERICAN NATIONAL BANK OF SILVER SPRING
SILVER SPRING, MD

2819



CH272 1 L8

Mr. McLendon. Tell the committee how this particular transaction arose.

Mr. Drennan. My testimony on this transaction is now complete. We have also completed the testimony on the loans from the American National Bank. The next subject will be the loans from the Small Business Administration, if there are no questions.

Mr. McLendon. All right.

The Chairman. Senator Scott, do you have any questions?

Senator Scott. Well—not at this moment—not until he goes through another phase of this.

Mr. McLendon. I think it will be more understandable, Mr. Chairman, if we let him go through the Small Business transaction.

Senator Cannon. Mr. Chairman, I have just one question.

Did it indicate that any interest was paid on that note?

Mr. Drennan. Yes, sir. There was interest charged to the liability ledger on the other notes that the partners had—5 percent interest was charged to the partners.

The Chairman. Proceed.

Mr. Drennan. I will now discuss the loan from the Small Business Administration.

In early March 1962 the Carousel Motel was damaged by storm. At that time, the motel was still under construction, and had not been in operation yet.

On April 2, 1962, Mr. Baker and his partners submitted an application to the Small Business Administration for a loan of \$54,400.

On May 4, 1962, the Small Business Administration authorized a 3-percent 20-year loan of \$54,400 to be made subject to a number of conditions. I would like to introduce at this time a copy of the authorization document relating to the disaster loan by the Small Business Administration.

Mr. McLendon. That is dated May 4, 1962?

Mr. Drennan. Yes, sir.

Mr. McLendon. Give a copy to the reporter.

(The document referred to was marked "Drennan Exhibit 18," and is as follows:)

DRENNAN EXHIBIT 18

UNITED STATES GOVERNMENT
SMALL BUSINESS ADMINISTRATION
RICHMOND REGIONAL OFFICE
RICHMOND, VIRGINIA

DISASTER - BUSINESS
DIRECT

AUTHORIZATION

There is hereby authorized a Loan by this Administration (pursuant to Section 7(b) of the Small Business Act, as amended) to ROBERT G. BAKER, JEROME C. BAKER, DONALD J. NOVAK, ANITA H. NOVAK, and GERTRUDE C. NOVAK, T/A COUNTRY HOTEL, Ocean City, Maryland. Temporary address: Suite #605, 1000 P Street N.W., Washington, D.C. (hereinafter called "Borrower"), on Borrower's application dated April 2, 1962, Docket No. DL-177,338-Balt, in the amount and upon the conditions as follows:

1. Amount: Fifty-Four Thousand Four Hundred Dollars (\$54,400).

2. Note Payable:

Twenty years from the date of Note, with interest at the rate of three percent (3%) per annum, payable monthly, beginning five months from date of Note and installments of principal each in the amount of \$1,360, payable semi-annually, beginning five months from date of Note, and the balance of principal and interest payable twenty years from date of Note; with the further provision that each said installment shall be applied first to interest accrued to the date of receipt of said installment, and the balance, if any, to principal.

3. Collateral:

- a. Mortgage of land, building, machinery, equipment (excluding automotive equipment), fixtures, and furniture now owned and hereafter acquired by Borrower subject only to prior liens on land and building held by Fraternity Federal Savings and Loan Association in the amount of \$360,000 and on furniture and fixtures held by American National Bank in the amount of \$114,000.

4. Use of Proceeds on Loan:

Approximately \$54,400 to repair damages to building, land, and equipment including automotive equipment not covered by comprehensive insurance.

5. Agreement of Borrower to limit compensations of:
ALL partners in the aggregate

Not more than 50%
of net earnings after
taxes and depreciation

6. After-acquired Property Agreement.

7. Fixed Asset Limitation of \$10,000, exclusive of the expenditures referred to in paragraph 4 hereof.

8. Loan Agreement on SBA Form 161.

9. On both the first and final disbursements, opinion of SBA Council on SBA Form 145, and, in addition, if the loan proceeds are to be used for construction or repair of Borrower's property, opinion of SBA Council Form 144 on final disbursement only.

DRENNAN EXHIBIT 18—Continued

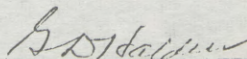
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DL-177,333-Balt

10. Agreement of Borrower that in the event the authorized amount of the Loan is in excess of the amount required to accomplish the purposes of the Loan as set forth in paragraph 4 hereof, then at the direction of Regional Director and, in his sole discretion, the authorized amount of the Loan will be reduced by an amount equal to such excess amount or such excess amount shall be applied on the installments of the principal owing on the Note in the inverse order of maturity.
11. Other conditions:
 - any
Prior to ~~to~~ disbursement on account of the Loan, Regional Director shall be in receipt of evidence satisfactory to him that the Borrowers have invested a total of at least \$160,000 in cash in the project in addition to the value of the land.
12. Borrowers shall provide and maintain hazard insurance in such amounts and for such coverages as shall be satisfactory to SEA.
13. Prior to the first disbursement, and to each subsequent disbursement on account of the Loan, Disaster Field Office Manager or Regional Director shall be in receipt of evidence satisfactory to either in his sole discretion, that there has been no adverse change since the date of the Application, or since any of the preceding disbursements, or that since the date of such Application or of any such disbursement, no facts or circumstances have become known or have arisen with respect to the organization, operations, business prospects, fixed or other property, personnel, or in the financial or any other condition of Borrower, which would warrant withholding or not making any such disbursement or any further disbursement.
14. Such other conditions as Disaster Field Office Manager, Regional Director, or SEA Counsel may impose pursuant to outstanding general requirements and instructions of this Administration.
15. Disbursement of the Loan shall be made by SEA Counsel from time to time in the discretion of said SEA Counsel against all the aforesaid collateral in accordance with the requirements of this Authorization and the applicable general requirements and instructions of this Administration provided, that no disbursement shall be made later than six months from the date of this Authorization.

The foregoing Authorization was duly approved by the Small Business Administration on May 4, 1962.

JOHN E. HORNE, ADMINISTRATOR

By 
 Acting Regional Director
 Small Business Administration

Mr. DRENNAN. I would like to refer to page 2, item 11, under the caption "Other Conditions."

Mr. McLENDON. Read that, please.

Mr. DRENNAN (reading):

Prior to any disbursement on account of the loan, regional director shall be in receipt of evidence satisfactory to him that the borrowers have invested a total of at least \$160,000 in cash in the project in addition to the value of the land.

Now, I might explain at this point that SBA had determined that the partners had invested \$60,000 in cash in the Carousel, in addition to their investment in the land, so that this requirement really meant that the partners had to put \$100,000 additional cash into the Carousel before the SBA loan could be disbursed to them.

The CHAIRMAN. Did the evidence show that had been declared a disaster area when they applied for the SBA loan?

Mr. DRENNAN. Yes, sir—the entire shoreline there was a disaster area.

The CHAIRMAN. Thank you.

Mr. DRENNAN. After this loan was authorized May 4, 1962, the Small Business Administration turned the loan over to Mr. Harry H. Cropper, attorney in Ocean City, Md. Mr. Cropper was under contract with SBA and acted as their agent in closing various disaster loans, including this one. His job was to obtain the necessary legal documents to close the loan, and to see that the requirements of the loan authorization were met before the loan was disbursed. This loan was actually disbursed to Mr. Baker and his partners on June 9, 1962.

I would like to introduce at this time a letter dated June 15, 1962, from Mr. Harry H. Cropper, the attorney who closed the loan, to the SBA, Baltimore branch. In this letter, Mr. Cropper comments on how the partners met the requirement that they put \$100,000 additional cash into the business. And attached to this letter there is a deposit receipt for \$100,000 dated May 29, 1962, apparently from the American National Bank of Silver Spring.

(The documents were marked "Drennan Exhibit 19" and "Drennan Exhibit 19-A," and are as follows:)

DRENNAN EXHIBIT 19

HARRY H. CROPPER
ATTORNEY AT LAW
303 SOUTH BALTIMORE AVENUE
OCEAN CITY, MARYLAND
ATLANTIC 8-8303

June 15, 1962

Small Business Administration
Room 611, Calvert Building
Baltimore 2, Maryland

Gentlemen:

Re: Robert G. Baker, et al.
T/A Carousel Motel
Ocean City, Maryland
DL-177,338-Balt.

In connection with the above Loan I enclose the following:

- (1) Conformed copy of Mortgage of real and personal property dated June 9, 1962 and recorded on June 11, 1962 among the Land Records of Worcester County in Liber F.W.H. No. 151, Folio 605.
- (2) 2 copies of Form 145.
- (3) 2 copies of Form 144.
- (4) Deposit receipt of American National Bank, Silver Spring, Maryland, dated May 29, 1962, showing a deposit by Carousel Motel in the amount of \$100,000.00

substantially been advised by the Baltimore Regional Office that Borrower had
referred to already satisfactorily demonstrated that at least \$60,000.00 in
R.O. Hanger, cash had been invested in the project in addition to the value of
in view of the land. That a deposit slip showing a deposit of an additional
page 2 of \$100,000.00 would be satisfactory evidence that the requirements
of of paragraph 11 of the Authorization had been complied with.

5/16 report I am in the process of preparing a chattel mortgage on the
that 6/9/62 furnishings located at the Motel. This item is incomplete due to
has already the fact that all furnishings have not been delivered. It is
been in- anticipated that the chattel mortgage will be completed and executed
fact, it during the coming week.

attached Fire and extended coverage policies with proper endorsements
of \$100,000 have also been requested and will be forwarded upon receipt.

date 6/9/62, the provision of Paragraph
11 of Authorization has been complied
with.
A. R. Hanger, mgr.
Bldg. office.
3/12/62

HHC/jmj
Enclosures 4

Sincerely yours,

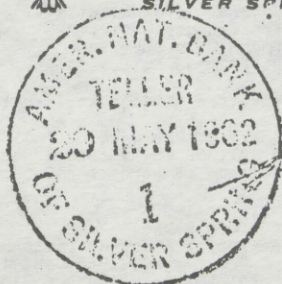
Harry H. Cropper
Harry H. Cropper

DRENNAN EXHIBIT 19-A

American National Bank



OF SILVER SPRING
SILVER SPRING, MARYLAND



DATE

AMOUNT

100,000.00

Carousel Motel, Ocean City, Md.
THIS IS A RECEIPT FOR YOUR DEPOSIT

DATE

AMOUNT

Mr. McLendon. It appears to be a printed form, does it not, with the name American National Bank at the top?

Mr. Drennan. Yes, sir.

Mr. McLendon. And a stamp on it showing "American National Bank teller."

Mr. Drennan. Yes, sir.

Mr. McLendon. Printed May 29, 1962.

Mr. Drennan. Yes, sir.

Mr. McLendon. And it shows the receipt of \$100,000 on deposit?

Mr. Drennan. Yes, sir.

Mr. McLendon. Does that document contain any language to indicate that that money was restricted and could not be withdrawn?

Mr. Drennan. It does not.

Mr. McLendon. Now, returning to Mr. Cropper's letter of June 15, it refers to the authorization of the loan of May 4, and this particular paragraph which you read about the requirement of an additional \$100,000 to be invested; does it not?

Mr. Drennan. Yes, sir.

Mr. McLendon. Will you read that paragraph from Mr. Cropper's letter?

Mr. Drennan. It says:

In connection with paragraph 11 of the authorization, I have been advised by the Baltimore regional office that borrower had already satisfactorily demonstrated that at least \$60,000 in cash had been invested in the project, in addition to the value of the land, that a deposit slip showing a deposit of an additional \$100,000 would be satisfactory evidence that the requirements of paragraph 11 of the authorization had been complied with.

Mr. McLendon. Now, from your examination of the records, are you satisfied that this \$100,000 was never available to Carousel?

Mr. Drennan. It was never available from the American National Bank of Silver Spring.

Mr. McLendon. In other words, it could not be drawn on and could not be used under the terms of the loan?

Mr. Drennan. That is correct.

Mr. McLendon. Now, who is Mr. M. R. Hoffmaster, I believe the name is?

Mr. Drennan. Yes, sir. This is Mr. Merideth Hoffmaster, who is the manager of the Small Business Administration branch office at Baltimore, Md.

Mr. McLendon. On this letter of Mr. Cropper, from which you have just read, concerning the \$100,000, do you find a notation on the margin in handwriting, pen and ink?

Mr. Drennan. Yes, sir.

Mr. McLendon. Can you read it, or would you have to depend on Mr. Hoffmaster to read it?

Mr. Drennan. It is hard to read. The gist of it is Mr. Hoffmaster accepted the \$100,000 deposit slip as meeting the requirements.

Mr. McLendon. And his name, Hoffmaster, appears there, with the letters MGR after it?

Mr. Drennan. Yes, sir.

Mr. McLendon. Baltimore office.

My copy seems to show it is dated 3-18. Shouldn't that be 8—August 18?

Mr. DRENNAN. It should be June 18. Apparently it was a mistake. It should be 6-18-62.

Mr. McLENDON. Well, he is here and will testify about it.

Mr. DRENNAN. All right.

Mr. McLENDON. I would like to ask you a question about this—perhaps duplicating what I have already asked you. This borrowing of \$100,000 to meet the conditions of the Small Business Administration as a condition precedent to their making the disaster loan was negotiated with this bank and the money stayed in the bank?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. And was used to pay the note at the bank?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. No part of it ever got into the bank account of the Serv-U Corp. or of the Bakers—

Mr. DRENNAN. Of the Baker partnership at that time. Serv-U was not involved at that time.

Mr. McLENDON. Well, it never got into the bank account of the Carousel partners?

Mr. DRENNAN. No, sir.

Mr. McLENDON. All right. Is there anything else now?

Mr. DRENNAN. Yes, sir. As we previously testified to, the motel—Carousel Motel—was refinanced in about March of 1963, and in connection with this refinancing of the total loan of \$746,000, on February 12, 1963, Mr. Baker wrote to Mr. Merideth Hoffmaster, the manager of SBA, Baltimore branch, asking if SBA would subordinate its disaster loan of \$54,400 to this new loan of \$746,000 which they were trying to obtain from the Fraternity Federal Savings & Loan Association.

Now, the SBA records show that there were numerous differences of opinion within SBA as to whether SBA should subordinate its loan. Two SBA employees in Baltimore recommended against subordination. Mr. Hoffmaster, the manager, recommended for subordination.

The comments from the Baltimore office were forwarded to SBA's regional office in Richmond, Va., where the regional director and one of his assistants both recommended against the subordination.

All these recommendations were forwarded to Washington for final action.

On March 1, 1963, Mr. R. G. Rhett, Chief of the Loan Service Division in Washington, authorized the Baltimore branch to make the subordination and the loan was in fact subordinated March 15, 1963.

This concludes the testimony on the SBA loan.

The next item I have, if there are no questions, is a brief summary of the partners' capital contributions to the Carousel Motel.

Mr. McLENDON. Well, give the committee the benefit of the information about their contributions.

Mr. DRENNAN. Yes, sir. The final principal source of financing of the Carousel Motel is the funds invested by the partners themselves.

The records of the American National Bank of Silver Spring and of the Carousel Motel show that the partners invested a total of \$339,984 of their own funds through December 31, 1962.

Now, December 31, 1962, is the cutoff date I have used because this is the effective date of the sale of the Serv-U Corp. So that all of the partners' contributions, or the substantial part of them, had been made by this time.

Of this total amount of \$339,984, Mr. Baker contributed \$233,804, and the Novaks contributed \$106,180. These funds were deposited into two bank accounts at the American National Bank of Silver Spring, except for \$90,860, which was paid directly by the partners in connection with the purchase of the land.

Mr. Baker's deposits in the American National Bank totaled \$186,124, of which \$32,000 is shown on the deposit slips as being deposits of currency. The balance of his deposits were either checks, or we were unable to identify the type of deposit made because of poor microfilm at the bank.

Mrs. Novak has previously testified regarding the \$32,000 of cash deposits that we were able to identify at this bank.

Mr. McLendon. You think the cash deposits made by Baker then included those testified to by Mrs. Novak?

Mr. Drennan. That is correct. And that concludes my testimony, Major.

Senator Scott. Mr. Chairman, may I go back now?

The Chairman. Yes indeed.

Senator Scott. Mr. Drennan, going back to the \$100,000 deposit, as I understand, what really happened here was there was a requirement under paragraph 11 of the authorization of the Small Business Administration that this motel, Bobby Baker's motel, could not get any payments on the Small Business loan until the regional director was satisfied that the borrower, Bobby Baker and others, had invested at least \$160,000 in cash in the project, in addition to the value of the land. That is what they were confronted with to begin with; is that right?

Mr. Drennan. Yes, sir.

(At this point, Senator Cannon withdrew from the hearing room.)

Senator Scott. Now, Mr. Cropper is an attorney at Ocean City, Md. What was his position in regard to the loan?

Mr. Drennan. He was employed by SBA on a fee basis, and he acted as their agent for finalizing various loans in the Ocean City area, which was a disaster area. So he acted as their agent in preparing the various legal documents, and in seeing to it that the various conditions of the loan were in fact met.

Senator Scott. So that he had to satisfy himself condition 11, among other conditions, was in fact met?

Mr. Drennan. Yes, sir.

Senator Scott. Now, as he writes his letter of June 15, 1962, he does make a finding that \$60,000 had been invested in the project earlier. Then he notes the deposit slip showing the deposit of the additional \$100,000, and states that that would be satisfactory evidence that the requirements of paragraph 11 had been met.

Mr. Drennan. He states that he had been advised by the Baltimore regional office that the deposit slip would be acceptable evidence—that he has, in effect, contacted the Baltimore regional office and obtained approval that this deposit, receipt, or deposit slip, would be

acceptable to SBA as evidence of the additional injection of \$100,000 cash into the business.

Senator SCOTT. Now, the deposit slip from the American National Bank shows the \$100,000, as of May 20, 1962, but does not show that this is not a bona fide loan. In other words, it doesn't show that this money can never be used by the borrowers for any purpose whatsoever.

Mr. DRENNAN. That is correct.

Senator SCOTT. Except to repay the same \$100,000. So that this is a wash or phony transaction in the sense that while interest—so-called interest—has been paid on it, the interest is not so much for the use of the money as for the opportunity to obtain a device, a deposit slip to convince the SBA that there is compliance with their requirements; isn't that about it?

Mr. DRENNAN. I think that is a pretty good conclusion.

Senator SCOTT. Now, the banker who arranged this transaction of \$100,000, and provided there could not be a withdrawal against it—that bank became a party to an agreement whereby a deposit slip could be shown for \$100,000, but protected the bank by providing not a penny of this could be used for any purpose except repayment. That is, he protected the bank. But have you interviewed the person responsible here, as to why he went along with a transaction, the effect of which was to deceive a Federal agency?

Mr. DRENNAN. We have interviewed Mr. Lasher. Unfortunately, he is out of town and won't be able to appear today. Mr. Lasher indicates pretty much that the transaction came about as indicated in the memo which we have introduced into the record. I would hesitate to comment much further on that in Mr. Lasher's absence. I believe he would consider this to be—he had no indication that this deposit slip would be used in the manner in which it was used. Let me put it that way.

(At this point, Senator Pell withdrew from the hearing room.)

Senator SCOTT. Well, Mr. Lasher's memo of May 29, 1962, is to the general effect, is it not, that Mr. Robert Baker telephoned, wanted a \$100,000 loan for 15 days, so that he, Baker, could show evidence of having this amount on deposit?

Mr. DRENNAN. Yes, sir.

Senator SCOTT. And stated how the note was to be made out, and the proceeds would be deposited in this new account, and would automatically be paid at the end of 15 days. This doesn't necessarily mean that Mr. Lasher would have known of any contemplated misuse or deceit in regard to the loan. Isn't that right?

Mr. DRENNAN. That is correct. And he so stated in his interview.

Senator SCOTT. I want to be sure we are fair to him here. To him as a banker this is about as perfect a way as you can get to make some money on the money you have got; isn't it?

Mr. DRENNAN. Yes, sir. There is no risk involved.

Senator SCOTT. You transfer it; you make a bookkeeping entry; 15 days later you get the money; and meanwhile you have charged something which you call interest on it.

Mr. DRENNAN. Yes, sir.

Senator SCOTT. Now, with regard to the subordination of the disaster loan, the effect of that approval to subordinate the disaster

loan of \$57,000 was to put the Federal Government some \$400,000 away from repayment—that is, in the standing of its lien or claim, the subordination moved the Federal agency, the SBA, \$400,000 further away from repayment by putting the increased loan of \$300,000—and some up to \$700,000—some ahead of them. Isn't that the effect of it?

Mr. DRENNAN. Well, I would not say that exactly, Senator. That is one way to put it. I think that we will have SBA people here to testify in that regard. Their testimony will be to the effect that the SBA considered that the loan that they made was more secure after subordination than it was before, because of the fact that they had—that there was additional capital put into the business by the partners. So that the Government was really in a better position than they were before the subordination. But I think that they can comment more fully on that aspect of it.

Senator SCOTT. Did they ever get repaid?

Mr. DRENNAN. It is being repaid. It is a 20-year loan, which was made in 1962. So there has been payment on it for 2 years, going on 2 years.

The CHAIRMAN. There is no indication that there has been any default on the payment of that SBA loan, is there?

Mr. DRENNAN. No, sir.

The CHAIRMAN. And there was no subordination of payments on that note, was there?

Mr. DRENNAN. No, sir. This is a matter of putting the additional loan from Fraternity Federal ahead in line in the event of foreclosure to the SBA loan.

The CHAIRMAN. But it did not put off their payments?

Mr. DRENNAN. No, sir; the payments, amounts, and dates, remain the same.

The CHAIRMAN. Thank you.

Senator SCOTT. But there is some \$700,000 ahead of them on the Carousel transaction, involving a mortgage or trust?

Mr. DRENNAN. That is correct.

Senator SCOTT. Now, have you interviewed Mr. Rhett, who over-ruled—

Mr. DRENNAN. Yes, sir. He is to testify here today.

Senator SCOTT. Thank you very much, Mr. Drennan. That is very helpful.

The CHAIRMAN. Does that complete your questions, sir?

Senator SCOTT. That is all.

The CHAIRMAN. Have you completed your testimony, Mr. Drennan?

Mr. DRENNAN. Yes, sir.

Mr. McLENDON. That is all, Mr. Drennan.

The CHAIRMAN. Counsel, you can move on.

Mr. Cropper, put your left hand on the Bible. Do you solemnly swear that the evidence you are about to give before this committee in the matter now under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CROPPER. I do.

Mr. McLENDON. Will you state your full name and residence, please?

TESTIMONY OF HARRY H. CROPPER

Mr. CROPPER. Harry H. Cropper, Ocean City, Md.

Mr. McLENDON. What connection, if any, did you have with the Small Business Administration in 1962?

Mr. CROPPER. I was one of three disaster fee counsel in Worcester County.

Mr. McLENDON. Was your work done in Baltimore?

Mr. CROPPER. In Ocean City.

Mr. McLENDON. What were your duties in that connection?

Mr. CROPPER. The settlement of SBA disaster loans.

Mr. McLENDON. Mr. Cropper, a letter signed by you dated June 15, 1962, has been introduced in evidence in connection with Mr. Drennan's testimony, which you heard, I am sure.

Mr. CROPPER. Yes, sir.

Mr. McLENDON. Do you have a copy of the letter before you?

Mr. CROPPER. Yes, sir.

Mr. McLENDON. Referring to that letter, will you make any explanation you like with respect to that letter and particularly with respect to the item of \$100,000 about which Mr. Drennan has testified and offered exhibits?

Mr. CROPPER. What explanation would you like me to make, sir? I think the letter is self-explanatory.

Mr. McLENDON. Well, I am not sure. If you like, I will ask you pointedly.

(At this point, Senator Scott withdrew from the hearing room.)

Mr. McLENDON. In paragraph 2 of the letter you say:

In connection with paragraph 11 of the authorization, I have been advised by the Baltimore regional office that the borrower had already satisfactorily demonstrated that at least \$60,000 in cash had been invested in the project, in addition to the value of the land.

What individual in the Baltimore regional office advised you of that?

Mr. CROPPER. I cannot recall the identity of that individual. My best recollection is that during the course of a telephone conversation with the Baltimore office, I was advised that certain things would constitute compliance with paragraph 11 of the authorization.

Mr. McLENDON. The next sentence says:

A deposit slip showing a deposit of an additional hundred thousand dollars would be satisfactory evidence that the requirements of paragraph 11 of the authorization had been complied with.

Mr. CROPPER. Yes, sir.

Mr. McLENDON. Did you see the deposit slip?

Mr. CROPPER. Yes, sir.

Mr. McLENDON. Is it one that you saw, the one introduced in evidence there, which is dated May 29, 1962?

Mr. CROPPER. Yes, sir.

Mr. McLENDON. And shows no restriction or limitation upon the deposit?

Mr. CROPPER. No, sir.

Mr. McLENDON. Who had this certificate of deposit when you saw it?

Mr. CROPPER. It is my recollection Mr. Baker handed it to me on June 9, 1962.

Mr. McLENDON. Where were you?

Mr. CROPPER. In my office in Ocean City.

Mr. McLENDON. Did he give you any other evidence, except this unqualified deposit slip?

Mr. CROPPER. No, sir.

Mr. McLENDON. Did it occur to you to ask him any question about it?

Mr. CROPPER. I had been previously advised by someone from SBA that that deposit slip would be sufficient evidence for compliance with the authorization. It was not my responsibility to see whether or not that provision was complied with—only that SBA itself was satisfied that it had been complied with.

Mr. McLENDON. You are not able to identify the person who gave you that advice?

Mr. CROPPER. No, sir; I cannot. I am sorry.

Mr. McLENDON. So you stated, then, your explanation of what you said in the letter with respect to the hundred thousand dollars?

Mr. CROPPER. Yes. My letter of June 15 actually constitutes my best recollection of what happened.

Mr. McLENDON. Now, I notice on the copy which was introduced in evidence, in handwriting, apparently signed by Mr. Hoffmaster—I assume that that was put on there after you wrote the letter—

Mr. CROPPER. I am sure it must have been. It didn't leave my office in that manner.

Mr. McLENDON. Any other comments you have to make about this transaction involving the hundred thousand dollars?

Mr. CROPPER. No, sir.

Mr. McLENDON. That is all, sir.

The CHAIRMAN. That will be all, sir.

Mr. CROPPER. Thank you.

Mr. McLENDON. Mr. Hoffmaster?

The CHAIRMAN. Mr. Hoffmaster, will you put your left hand on the Bible and raise your right hand?

Do you solemnly swear that the evidence you shall give before this committee will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOFFMASTER. I do, sir.

The CHAIRMAN. Thank you.

Mr. McLENDON. Will you state your name and address?

**TESTIMONY OF MERIDETH R. HOFFMASTER, ACCOMPANIED BY
ARTHUR M. BLACKLOW, ASSISTANT GENERAL COUNSEL, SMALL
BUSINESS ADMINISTRATION**

Mr. HOFFMASTER. Merideth R. Hoffmaster, 1113 Northern Parkway, Baltimore, Md.

Mr. McLENDON. Mr. Hoffmaster, in 1962, what position, if any, did you hold with the SBA?

Mr. HOFFMASTER. Manager of the Maryland office.

Mr. McLendon. Will you tell the committee exactly what you had to do with the application for the disaster loan on the Carousel Motel, and give the committee the benefit of any knowledge you have of it, and especially with reference to the \$100,000 deposit?

Mr. Hoffmaster. I would like to say at the outset at the time I talked to Messrs. Scott and Drennan, I did not have the benefit of the file. So that there may be—

Mr. McLendon. You are referring to Mr. Scott and Mr. Drennan, two of the committee's investigators?

Mr. Hoffmaster. Yes, sir.

Mr. McLendon. Go ahead.

Mr. Hoffmaster. I did not have the benefit of the file at that time. So there may be some slight inconsistencies in what I told them and what I may say to you today.

Mr. McLendon. All right.

Mr. Hoffmaster. As manager of the Maryland office, it was my responsibility to supervise the closing of these disaster loans made in the Ocean City area.

(At this point, Senator Scott entered the hearing room.)

Mr. Hoffmaster. This Carousel Motel loan, when I got it, had already been approved. The file was transferred to me by our regional office in Richmond.

Mr. McLendon. Richmond?

Mr. Hoffmaster. Yes, sir. At the same time the file was transferred to us, the closing papers, completed insofar as Richmond was able to complete them, had been forwarded to Mr. Harry Cropper, who was one of three fee counsel in that area charged with the responsibility of closing our disaster loans.

In connection with paragraph 11, I have a hazy recollection of talking to Mr. Cropper on the phone, where he inquired of me as to what evidence he would accept as compliance with paragraph 11. The subject of deposit slip came up; we kicked it around, and I told him—I am sure I told him—yes, a deposit receipt would be acceptable. Every time that you have an injection requirement, or an investment requirement, such as there is here involving a partnership, it is troublesome. Had this been a corporation, the problem of deposit receipt would never have arisen. Mr. Cropper would have taken either stock certificates or a corporate note.

But when you require a borrower who—in effect, to take money out of one pocket and put it into another, it always presents a problem, as far as implementation is concerned.

When I received Mr. Cropper's letter of June 15—it was received in my office on June 18—and, as Mr. Drennan indicated, the date that I have initialed there under my name should have been "6-18-62," rather than "3-18-62." It was a mental lapse on my part. We had in a matter of 2 or 3 weeks approximately 60 loan applications in the process of being closed by three fee counsel.

The second paragraph of Mr. Cropper's letter, which reads:

In connection with paragraph 11 of the authorization I have been advised by the Baltimore regional office—

I went on to read the letter, and I came back, and I underlined "Baltimore regional office," because Baltimore, first of all, is not a regional office; it is a branch office. I read the letter. I recall spending several hours going through the file, because I knew that I had had no conversation with Mr. Cropper or anyone else as to this \$60,000 having already been invested.

After checking the file, as I say, for approximately 2 hours, I concluded that undoubtedly Mr. Cropper meant the regional office, and my note in the margin reads as follows:

Undoubtedly Cropper means RO—

RO standing for Richmond regional office.

However, in view of the language of page 2 of the FS report—

FS standing for financial specialist—

that \$60,000 has already been injected and the attached deposit receipt for \$100,000 dated 5-29-62, the provisions of paragraph 11 of the authorization deemed complied with.

M. R. HOFFMASTER,
Manager, Baltimore Office.

And, as I say, I had a mental lapse there—I put "3-18" instead of "6-18."

I might say that with respect to paragraph 11—let me go back.

I mentioned page 2 of the FS report. I don't know whether the committee has that report in evidence or not.

Mr. McLendon. I don't think we do, Mr. Hoffmaster. Do you have it?

Mr. Hoffmaster. I have a picture of it that I brought with me.

The CHAIRMAN. Could you supply the committee with that photo-static copy?

Mr. McLendon. Mr. Drennan says we do have it on file.

The CHAIRMAN. We have it. Go ahead.

Mr. McLendon. Just a minute. I think we can find it.

(The document referred to was marked "Hoffmaster Exhibit 1," and is as follows:)

838 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

HOFFMASTER EXHIBIT 1

SMALL BUSINESS ADMINISTRATION

REGIONAL OFFICE, RICHMOND, VIRGINIA

FINANCIAL SPECIALIST'S REPORT ON DISASTER LOAN APPLICATION

Pocomoke City, Maryland

APPLICANT: Robert G. Baker, Dorothy C. Baker, DL-177,338-Balt
Donald J. Novak, Anita Novak and
Gertrude C. Novak, T/A
Carousel Motel

Address: c/o Tucker & Baker, Attorneys, Suite #605, 2000 P. Street, N. W.
Washington, D. C.

BUSINESS: Motel located on Ocean Highway, Ocean City, Maryland, with
restaurant and night club.

LOAN APPLIED FOR: \$54,406

Maturity: 20 years

Recommended 54,400

Maturity: 20 years

PURPOSE OF LOAN:

To reimburse applicant for damages caused by storm of March 6 - 8, 1962.

Restore and replace damages to building, land and equipment, in-
cluding automotive equipment not covered by comprehensive in-
surance -

\$54,406.

PROOF OF LOSS:

The amount of loss can only be established by photographs which were not
submitted in duplicate and are included in Branch file. Damage due to
the storm had been repaired and lot filled in to some extent prior to
visits by Appraiser and F/S on April 19 and 21. Based on the photographs
submitted, the SBA Appraiser, George Forensky, is of the opinion that the
estimate submitted covers the storm damage.

COLLATERAL OFFERED: Estimated cost of motel under construction:

Land: (Actual cost has been appreciated to \$150,000	\$ 96,500
Buildings, pool and seawall (Contract price)	504,400
Estimated cost of extras upon completion	35,000
Furniture and Fixtures (Estimated cost)	115,000
	<u>\$750,900</u>
Liens: First trust to Fraternity Federal Savings and	
Loan Association	\$ 360,000
Commitment of American Nat'l. Bk. on furnishings	114,000
Net cost value to secure SBA loan	<u>474,000</u>
	<u>\$276,900</u>

COMMENTS ON COLLATERAL:

Collateral offered taken with the net worth of the owners provides ample
security to protect the interest of the Government. The estimated cost
of the extras above of \$35,000 may increase or decrease as small changes
are being made and will continue to be made until construction is com-
pleted. The target date for completion of the building, including cock-
tail lounge and coffee shop is set for June 1, 1962, and for the night
club and convention hall for June 15, 1962.

APPLICANT'S FINANCIAL CONDITION:

Balance sheet included in application does not represent the present
financial condition or what the financial condition will be when the
building is completed, due to changes in the capital account being made
as the construction nears completion. The final financing of the project

HOFFMASTER EXHIBIT 1—Continued

Carousel Hotel - #2

Financial condition - continued.

was discussed with Ernest Tucker (Mr. Baker's law partner, who is apparently responsible to the partners in this matter) on April 24, 1962, and he provided the following details as to costs, owners' investment, etc. to make up the pro-forma balance sheet below, which does not include any figures on the damage from the storm.

<u>ASSETS</u>		<u>LIABILITIES AND NET WORTH</u>	
Cost of land	\$ 96,500	Due Bank on furniture and fix.	\$114,000
Appreciation of land based on appraisal by George Bert Cropper	53,500	Lien on land and buildings	360,000
Contract cost of building pool and seawall inc.	504,400	CAPITAL (All to be in cash from owners)	256,500
*-Furniture & Fixtures	115,000	Appreciation of land	53,500
Building extras (may vary)	35,000		
*-to be purchased	\$804,400		\$784,000

Mr. Tucker stated and the records to date showed the following investment of the owners:

Land at cost	\$ 96,500
Cash (invested to date)	60,000
	<u>\$156,500</u>

Mr. Tucker also stated that the owners would inject additional cash in an amount of at least \$100,000 upon completion, making a total \$256,500. Fifty percent of the capital is being provided by Mr. Baker and twenty-five percent each by Donald Novak and Gertrude Novak. The amount due on building extras may be as low as \$10,000 but is not expected to exceed \$35,000.

BANK PARTICIPATION: None.

Bank participation has not been requested, as the owners' equity will be substantial and the lien of the Fraternity Federal Savings and Loan Assoc. has been increased from \$270,000 to \$360,000 during the past month. Other consideration has been given to the partners' outside net worth outlined in the following paragraph

COMMENTS ON APPLICANT: Condensed balance sheets of partners:

Gertrude Novak: As of 3-15-62

C/A	\$ 62,863	C/L	\$ 56,300
F/A	371,475	O/L	118,763
O/A	22,375	N/W	281,650
	<u>\$456,713</u>		<u>\$456,713</u>

Donald J. and Anite M. Novak: As of 3-15-62

C/A	22,013	C/L	-
F/A	183,275	O/L	35,947
O/A	7,500	N/W	176,841
	<u>\$212,788</u>		<u>\$212,788</u>

Robert G. Baker: As of 2-5-62

C/A	\$847,421	C/L	\$331,890
F/A	711,666	O/L	234,610
O/A	11,000	N/W	1,003,587
	<u>\$1,570,087</u>		<u>\$1,570,087</u>

HOFFMASTER EXHIBIT 1—Continued

Carousel Hotel - #3

Comments on applicant - continued

Applicant submitted two projections of earnings, one with the application, which was incomplete and another on April 24, 1962, in which the expenses are itemized to include amortization of the liens. The later projection is as follows:

Net Sales	\$398,080
Operating Expenses	<u>191,000</u>
Net before fixed obligations	\$207,080
Mortgage payment including interest, taxes and insurance	\$40,200
Annual payments on F&F, inc. int.	27,360
Payments due SBA if loan is granted (Prin.)	2,720
Interest due SBA (First year)	<u>1,632</u>
	<u>71,912</u>
Balance prior to depreciation and taxes	\$135,168

Based on the writer's experience, both in the Ocean City area and in motels and hotels in general, the anticipated volume is attainable at least in the second year of operation, if not the first, but the operating expenses appear to be underestimated as an operation similar to this generally runs 60 to 70% (before owners withdrawals) of the volume which would amount to at least \$240,000, which would reduce the net before depreciation and taxes by approximately \$50,000. This would still provide reasonable assurance of ability to repay. Mr. Baker has agreed to limit the withdrawals of the partners to fifty percent of the net profit after depreciation and taxes. The depreciation should be ample to meet the payment of principal in all liens.

RECOMMENDATION:

Approval of a loan in the amount of \$54,400, maturity 20 years, with interest at the rate of three percent per annum, payable monthly, beginning five months from date of Note and installments of principal each in the amount of \$1,360, payable semi-annually, beginning five months from date of Note and the balance of principal and interest payable twenty years from date of Note, subject to the following conditions:

1. Mortgage of land, building, machinery, equipment, (excluding automotive equipment) fixtures and furniture now owned and hereafter acquired by Borrower, subject only to prior liens on land and building held by Fraternity Federal Savings and Loan Association in the amount \$360,000 and on furniture and fixtures held by American National Bank in the amount of \$114,000.
2. Prior to disbursement Regional Director shall receive evidence that the Borrowers have invested a total of \$160,000 in cash in the project in addition to the value of the land.
3. Total annual withdrawals of the partners of borrower shall be limited to fifty percent of the net profit after taxes and depreciation.
4. The usual standard conditions.

Alfred H. Tracy
Alfred H. Tracy, F/S

Date: April 25, 1962

CONCURRENCE:

Concure in recommendation of F/S and Advisory Committee.

April 27, 1962

John H. Fox
John H. Fox,
Disaster Field Office Manager

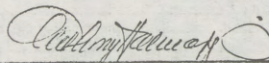
HOFFMASTER EXHIBIT 1—Continued

- 4 -

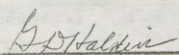
DL-177,338-Balt.

COMMENTS:

Concur in approval provided terms and conditions are fully complied with.


Anthony Halmagyi, Acting Chief
Financial Assistance Division 4/30/62

Apparently, Baker, who has a large stock interest in Mortgage Guaranty Insurance Company, could supply the funds needed. However, under the circumstances, concur in approval if terms and conditions are complied with.


G. D. Halton
Acting Regional Director 4/30/62

842 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

HOFFMASTER EXHIBIT 1—Continued

Small Business Administration
Regional Office - Richmond Virginia
AUTHORIZATION

SBA Form 305
Disaster - Business
(Direct Loan)

There is hereby authorized a Loan by this Administration (pursuant to Section 7(b) of the Small Business Act, as amended) to Robert B Baker, Dorothy C Baker, Donald S Novak, Anita M Novak, and Elizabeth E Novak, 114 Parkview Motel of Suite # 605 2000 P Street NW Washington, DC (hereinafter called "Borrower"), on Borrower's application dated April 2 1962, Docket No. DL 177, 238 B.H. in the amount and upon the conditions as follows:

1. Amount: \$54,400

2. Note Payable: twenty years from the date of Note, with interest at the rate of three percent (3%) per annum, and installments including principal and interest, payable as follows: payable monthly beginning five months from date of Note and
installments of principal each in the amount of \$1,160 payable
semi-annually beginning five months from date of Note
and the balance of principal and interest payable twenty years from date of Note; with the further provision that each said installment shall be applied first to interest accrued to the date of receipt of said installment, and the balance, if any, to principal.

3. Collateral:

a. Mortgage of land building machinery equipment (excluding automotive equipment) fixtures and furniture now owned and hereafter acquired by Borrower subject only to prior liens on land and building held by Fraternity Federal Savings and Loan Association in the amount \$360,000 and on furniture and fixtures held by American National Bank in the amount of \$114,400

4. ~~Continued on~~ SBA Form 148 of

4b. Use of Proceeds of Loan:

Approximately \$54,400 to repair damage to building, land, and equipment including automotive equipment not covered by comprehensive insurance.

HOFFMASTER EXHIBIT 1—Continued

SBA Form 139
(2-55)

- 2 -

6. Agreement of Borrower to limit annual compensation (including salaries, withdrawals, fees, bonuses, commissions, trapping accounts and other payments, whether direct or indirect, in money or otherwise) to the following named persons in the amount set opposite the respective name:

NAMEAMOUNT

plus such additional amount to each said person as may be necessary to pay his income taxes on said compensation computed on the basis that such compensation is his only income, provided that such additional amount shall not exceed the tax payable by each said person.

5. After-acquired Property Agreement.

8. Standby Agreement on SBA Form 139 of each of the following named individuals covering the total principal amount of Borrower's indebtedness to him ~~added to be in the amount set opposite his name~~, together with all accrued and future interest thereon.

NAMEAMOUNT

6a. Fixed Asset Limitation of \$ 10,000, exclusive of the expenditures referred to in paragraph 5 hereof.

7. Loan Agreement on SBA Form 161.

8. On both the first and final disbursements, opinion of SBA Counsel on SBA Form 145, and, in addition, if the loan proceeds are to be used for construction or repair of Borrower's property, opinion of SBA Counsel Form 144 on final disbursement only.

9. Agreement of Borrower that in the event the authorized amount of the Loan is in excess of the amount required to accomplish the purposes of the Loan as set forth in paragraph 5 hereof, then at the direction of Regional Director and, in his sole discretion, the authorized amount of the Loan will be reduced by an amount equal to such excess amount or such excess amount shall be applied on the installments of the principal owing on the Note in the inverse order of maturity.

Other conditions:

10. Prior to disbursement Regional Director shall receive evidence that the Borrowers have invested a total of at least \$160,000 in cash in the project in addition to the value of the land.
11. Total annual withdrawals of the partners of Borrower shall be limited to fifty percent of the net profit after taxes and depreciation.
12. Borrower shall provide and maintain hazard insurance in such amounts and for such coverages as shall be satisfactory to SBA.

27-211

VILLAGE OF

150A 56%

HOFFMASTER EXHIBIT 1—Continued

SBA Form 305
(2-59)

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14. Prior to the first disbursement, and to each subsequent disbursement on account of the Loan, _____ Disaster Field Office Manager or Regional Director shall be in receipt of evidence satisfactory to him in his sole discretion, that there has been no adverse change since the date of the Application, or since any of the preceding disbursements, or that since the date of such Application or of any such disbursement, no facts or circumstances have become known or have arisen with respect to the organization, operations, business prospects, fixed or other property, person, or in the financial or any other condition of Borrower, which would warrant withholding or not making any such disbursement or any further disbursement.

15. Such other conditions as Disaster Field Office Manager, Regional Director or SBA Counsel may impose pursuant to outstanding general requirements and instructions of this Administration.

16. Disbursement of the Loan shall be made by SBA Counsel located at _____ from time to time in the discretion of said SBA Counsel against all the aforesaid collateral in accordance with the requirements of this Authorization and the applicable general requirements and instructions of this Administration; provided, however, that

provided, further, that no disbursement shall be made later than six months from the date of this Authorization.

The foregoing Authorization was duly approved by the Small Business Administration on _____, 19____.

Small Business Administration

✓ Insert title of appropriate official, i.e., Disaster Field Office Manager, Regional Director.

✓ Insert any other conditions, including agreements of Borrower, conditions to be met prior to first disbursements, commencement of construction, etc.

✓ Insert name of disbursing agent, i.e., Disaster Field Office Manager, Regional Director, SBA Counsel, Name of Bank.

✓ Insert disbursement schedule, if any.

(At this point, Senator Cooper entered the hearing room.)

Mr. McLendon. We do now have a copy of financial specialist report of disaster loan application. Is that the document you are referring to?

Mr. Hoffmaster. Yes, sir.

Mr. McLendon. Go ahead. What is your comment about that?

Mr. Hoffmaster. On page 2, middle of the page, there is a pen and ink notation made at the same time I made the notation on Mr. Cropper's letter, and this reads, "Cross-reference letter from Harry Cropper dated 6-15-62, MRH." And I bracketed this language here. Do you want me to read it?

Mr. McLendon. Yes, please.

Mr. Hoffmaster. Let me go back above that. The pro forma balance sheet set up by the financial specialist who processed the loan shows as equity in the partnership \$256,500. The financial specialist goes on to say:

Mr. Tucker stated and the records to date show the following investment of the owners: Land at cost, \$96,500. Cash invested to date, \$60,000. Total, \$156,500. Mr. Tucker also stated that the owners would inject additional cash in an amount of at least a hundred thousand dollars upon completion, making a total of \$256,500.

Now, ordinarily we do not require equity injections on disaster loans.

Mr. McLendon. Do you know the individual to whom Mr. Tucker made that statement?

Mr. Hoffmaster. Yes. The report is written by Mr. Albert Tracy, who was a financial specialist on loans in our field office in Pocomoke from, I believe, the Boston region.

Mr. McLendon. Did you talk to Mr. Tucker yourself?

Mr. Hoffmaster. About this? No, sir.

Mr. McLendon. Or Baker?

Mr. Hoffmaster. No, sir.

Mr. McLendon. All right. Go ahead with your explanation.

Mr. Hoffmaster. I had nothing to do with processing the loan, Mr. McLendon.

Mr. McLendon. I see.

Mr. Hoffmaster. The loan was an accomplished fact when I got it. I would like to point out that had it not been for paragraph 11 in the authorization, we would have gotten the same thing—we would have gotten every bit as much as we had gotten if there had been no paragraph 11. Have I made myself clear?

Mr. McLendon. I am not sure you did. Say it again.

Mr. Hoffmaster. The purpose of paragraph 11 was to insure that we end up with a completed motel. We could only lend \$54,400, which was the extent of the damage. We didn't want to put our \$54,400 into a half-completed motel. And while this case was handled in a routine manner, it was unique in the sense that practically every other disaster loan that we made in Ocean City was to a going business, whereas this one has not opened. And that was the purpose of paragraph 11.

Mr. McLendon. Mr. Hoffmaster, referring to the memorandum in your own handwriting which you read a moment ago, on Mr. Crop-

per's letter of June 15, 1962, it states that the deposit slip for \$100,000 dated May 29, 1962, the provisions of paragraph 11 of the authorization "is deemed complied with." Did you pass on that?

Mr. HOFFMASTER. Yes, sir. That was my determination to make; not Mr. Cropper's.

Mr. McLENDON. Will you make it clear to the committee which deposit slip you had in your possession to which this memorandum refers?

Mr. HOFFMASTER. The one I have doesn't have an exhibit number on it.

Mr. McLENDON. Let's get the exhibit number so the record will be clear.

Mr. Reporter—that is exhibit 19-A. Will you refer to this deposit slip attached to the letter of May 4, 1962, signed by John E. Horne, Administrator, and tell the committee whether that is the deposit slip that you considered as sufficient compliance with paragraph 11 of the requirements?

Mr. HOFFMASTER. I didn't understand the question.

Mr. McLENDON. Look at this deposit slip, marked exhibit 19-A.

Mr. HOFFMASTER. 19-A—that is the deposit slip that I saw.

Mr. McLENDON. All right. And that carries no indication that that loan was restricted, does it?

Mr. HOFFMASTER. No, sir.

Mr. McLENDON. Did you have any knowledge at the time you passed on it that it was restricted?

Mr. HOFFMASTER. No, sir.

Mr. McLENDON. Were you under the impression from the face of this document, and what you had previously been told by Mr. Tucker, that this money was to be deposited and usable by—

Mr. HOFFMASTER. Counselor, I had not been told anything by Mr. Tucker.

Mr. McLENDON. Well, leaving out Mr. Tucker, did you consider this deposit as proof that that amount of money was available?

Mr. HOFFMASTER. Yes, indeed, sir.

Mr. McLENDON. Did you have any reason to believe it was not available?

Mr. HOFFMASTER. No, sir.

Mr. McLENDON. If you had known it was not available, and that it had been restricted so it could not be used, would you have approved it?

Mr. HOFFMASTER. I would not have authorized disbursement; no, sir.

Mr. McLENDON. Mr. Hoffmaster, is there anything else you want to say about this, so it will be clear to the committee?

Mr. HOFFMASTER. I have nothing else to say about the deposit receipt, unless there are some questions.

Mr. McLENDON. All right.

The CHAIRMAN. Senator Cooper, did you have a question?

Senator COOPER. Yes.

Who evidenced to you, gave you any information about this deposit slip for \$100,000, in the American National Bank of Silver Spring? Who told you about it first?

Mr. HOFFMASTER. No one, Senator. I didn't talk to the bank at all. The original deposit receipt was sent to me by Fee Counsel Cropper, attached to his letter of June 15. I had no contact with the bank whatsoever. I accepted the deposit receipt at face value, for what it appeared to be—a legitimate deposit receipt for a hundred thousand dollars.

Senator COOPER. I noticed that condition 11, on page 2 of the loan authorization, reads as follows:

Prior to any disbursement on account of the loan, regional director shall be in receipt of evidence satisfactory to him that the borrowers have invested a total of at least \$160,000 in cash in the project in addition to the value of the land.

I think it has been determined that the borrowers had invested, in addition to the value of the land, \$60,000. How could it be interpreted that a deposit slip of \$100,000 represented an investment in the Carousel?

Mr. HOFFMASTER. Well, Senator, as I said earlier—I believe you were absent then—if this had been a corporation, there would have been no problem. They could have put \$100,000 into the Carousel Corp., Carousel Corp. could have issued \$100,000 worth of stock, and this would have satisfied paragraph 11.

They could have lent the money to the corporation, the corporation could have given a note back to Baker and the other stockholders, if it had been a corporation. This, too, would have satisfied it—no problems.

But every time that you require an injection or an investment of capital in a sole proprietorship, or in a partnership, as in this instance, you have a problem.

Now, neither I nor anyone in my office prepared this authorization. As it reads, I don't know how on earth it could have been implemented other than by a deposit receipt. And, as I say, I accepted the deposit receipt at face value. I wasn't dealing—they were reputable business people. I had no reason to question it.

Senator COOPER. A deposit of \$100,000 to be made one hour and withdrawn the next hour?

Mr. HOFFMASTER. Senator, we had a built-in protection.

Senator COOPER. That is what I would like you to explain.

Mr. HOFFMASTER. We had a built-in protection absent paragraph 11. If paragraph 11 had not been there, we would have gotten everything we got anyway. The loan authorization required fee counsel—required the borrower to give us and fee counsel to get a mortgage—this is paragraph 3 of the authorization—again, I do not know what the exhibit number is. This is the loan authorization, dated May 4, 1962. That is exhibit 18, paragraph 3(a). (See p. 824.)

Mortgage of land, building, machinery, equipment, excluding automotive equipment, fixtures, and furniture now owned and hereafter acquired by borrower subject only to prior liens on lands and building held by Fraternity Federal Savings & Loan Association in the amount of \$360,000, and on furniture and fixtures held by American National Bank in the amount of \$114,000.

Now, fee counsel was required to get us this mortgage, subject only—this mortgage on land, buildings, furniture, and fixtures—subject only to these two prior existing mortgages.

In addition, in paragraph 9, at the bottom of the page, on both the first and final disbursements:

Opinion of SBA counsel on SBA form 145, and in addition if the loan proceeds are to be used for construction or repair of borrowers' property, opinion of SBA counsel, form 144, on final disbursement only.

Now, we also got that.

Now, the effect of fee counsel's opinion, in effect, says no material liens, no mechanics liens, no other prior mortgages, except those referred to in paragraph 3(a). And, as a matter of fact, Senator, I believe—I am not sure about this—I believe that on June 18, when I accepted this deposit receipt, I think this motel was completed, or just about completed.

As I said earlier, we were primarily concerned about getting the motel completed. This was the reason, I think, for—while we didn't put it in there—the reason for paragraph 11.

Senator COOPER. Was it the purpose of requirement 11 in Mr. Horne's letter, the loan authorization, that this \$100,000 should be invested in the Carousel property—that it should be put into the Carousel property to increase its assets?

Mr. HOFFMASTER. Pardon me a second, Senator.

The purpose—let me go back to the financial specialist who prepared the report. In talking to Mr. Tucker, Mr. Tucker made the gratuitous comment that the owners would inject additional cash in an amount of at least a hundred thousand dollars upon completion, making a total of \$256,000.

Now, ordinarily we do not require injections on disaster loans. I think this is rare that we do this. In my experience over 7 years we have not done it more than half a dozen times. The only reason that we did it here was to be sure that we ended up with a completed motel. But had Mr. Tucker not volunteered this information, I don't think that we—we would have been concerned about getting a completed motel, but we would not have been concerned about injecting additional capital, because in making disaster loans we are looking for two things only—one, good character, and reasonable assurance of ability to repay. Debt to net worth could be terrifically disproportionate. We still would not decline a disaster loan as long as we felt there was reasonable assurance of ability to repay.

Senator COOPER. Ordinarily, then, in making a disaster loan you would not require any additional investment in the property.

Mr. HOFFMASTER. Not for the purpose of overcoming disproportionate debt to net worth.

Senator COOPER. Then your statement is that Mr. Tucker at some point indicated to you, or to the Small Business Administration, that they would make available an additional \$100,000 of capital?

Mr. HOFFMASTER. Yes, sir—which would have given them a total capital of \$256,500. And, as a matter of fact, at the time of the subordination, that equity—well, as of December, the same year, I don't have a statement here, but my recollection is that the equity of the partners in the Carousel had increased to approximately \$400,000.

Senator COOPER. At the time this deposit slip was presented to you, was it represented to you—as an official of the Small Business Administration—that it was the additional \$100,000 of capital that had been promised or suggested by Mr. Tucker?

Mr. HOFFMASTER. Yes, sir. In Fee Counsel Cropper's letter of June 15.

Senator COOPER. In fact, it was not—the \$100,000—was not put into the capital structure.

Mr. HOFFMASTER. Apparently this \$100,000 was not. I might tell the Senator—I didn't know until this morning. I had intimations of what happened. But I did not know until this morning that this was actually—this money had been borrowed on May 29 and paid back on June 13, some 6 days before I did this.

Senator COOPER. Now, did the deposit slip which was submitted to you indicate that it could not be drawn against?

Mr. HOFFMASTER. No. There is no indication at all.

Senator COOPER. Or that it would have to be repaid in 15 days?

Mr. HOFFMASTER. It says nothing, except American National Bank of Silver Spring, Silver Spring, Md. It has got the bank stamp on it, American National Bank, Teller, 29 May 1962. Some scribbled initial from a teller or cashier. A hundred thousand dollars, Carousel Motel, Ocean City, Md. "This is a receipt for your deposit." That is all it says. I had no reason to look beyond this.

Senator COOPER. I understand that.

If the full facts had been made known to you, what would have been your action?

Mr. HOFFMASTER. I would not have authorized disbursement. We would have checked into it further to find out what it was all about.

Senator COOPER. In other words, you would not have approved the loan?

Mr. HOFFMASTER. Senator, the loan was approved. What I meant to say was I would not approve the disbursement.

Senator COOPER. That is all.

Senator SCOTT. Let me ask virtually the same question, Mr. Hoffmaster. Would the Small Business Administration, acting through your representation, have disbursed the \$64,000, approximately, loan if you had known that the \$100,000 so-called investment was actually a fiction?

Mr. HOFFMASTER. We would not have authorized disbursement.

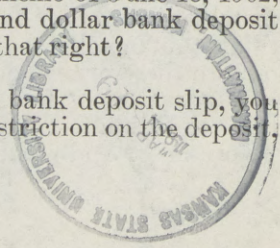
Senator SCOTT. Now, the hundred thousand dollars deposit had been withdrawn on the 13th of June, and, therefore, it was not in existence on the 15th of June, when Mr. Cropper wrote his letter. Mr. Cropper wrote his letter on the 15th of June. It would appear from this—of course, he had no knowledge of the withdrawal of the money. But his letter approving the hundred thousand dollars deposit as a part of the assets of the company was actually written 2 days after the hundred thousand dollars ceased to be in the form of a loan or bank deposit.

Mr. HOFFMASTER. Well, this wasn't the only loan that Mr. Cropper was handling. He had closed this particular loan on June 9.

Senator SCOTT. I am not blaming Mr. Cropper. I am just trying to fix the date. And it is a fact that in your memo of June 18, 1962, as you said a moment ago, the hundred thousand dollar bank deposit was not in effect and had not been for 6 days; is that right?

Mr. HOFFMASTER. That apparently is so.

Senator SCOTT. So, now, when you took the bank deposit slip, you already testified you knew nothing about the restriction on the deposit, no withdrawal.



Mr. HOFFMASTER. Not until this morning, Senator. I knew nothing about any restriction until this morning.

Senator SCOTT. As a matter of fact, at any time after you were shown the deposit slip, that hundred thousand dollars might have been withdrawn, and you could have been dealing with a ghost item all along, could you not?

Mr. HOFFMASTER. This is true, sir.

Senator SCOTT. And you approved the subordination of this loan—

Mr. HOFFMASTER. I didn't approve the subordination of the loan, Senator. I recommended that our loan be subordinated to the refunding mortgage.

Senator SCOTT. I am just trying to trace the chronology now. In your organization Mr. Fox said the loan should not be subordinated.

Mr. HOFFMASTER. That is right.

Senator SCOTT. And then Mr. Ingham agreed the loan should not be subordinated. Then you overruled Mr. Fox and Mr. Ingham; is that right?

Mr. HOFFMASTER. I didn't overrule them. I differed with them. But we often differ, Senator.

Senator SCOTT. As their superior, you made a different finding.

Mr. HOFFMASTER. Yes, sir.

Senator SCOTT. And you, in turn, were overruled by Mr. Holden, who agreed with Mr. Fox and Mr. Ingham; is that right?

Mr. HOFFMASTER. That is true.

Senator SCOTT. And Mr. Moore agreed with Mr. Holden and Mr. Fox and Mr. Ingham; is that right?

Mr. HOFFMASTER. That is true, sir.

Senator SCOTT. And then comes the last man on the list, Mr. Rhett, and he then overrules Mr. Moore and in effect upholds your action and subordinates the loan; is that right?

Mr. HOFFMASTER. Yes, sir. I think it was right.

Senator SCOTT. You still think it was right?

Mr. HOFFMASTER. Yes, sir.

Senator SCOTT. And would he have been right had he known of this fraud perpetrated on the association?

Mr. HOFFMASTER. Senator, I don't know that it is fraud. This is something someone else will have to decide.

Senator SCOTT. Would you still feel that he had been right and that you had been right had you known that the \$100,000 so-called investment was not an investment at all, but a restricted withdrawal which could not be used as an asset of the applicant?

Mr. HOFFMASTER. Senator, I think that this provision, first of all, was inserted here because of a gratuitous comment by Tucker. I think that, absent paragraph 11, absent the deposit slip, we would have gotten everything that we have gotten as the loan was set up, as it was closed.

After all, the partners were as interested in getting a completed motel as we were. And, as I mentioned earlier, I am not sure, but I think this motel was completed. And we had our mortgage subject only to these prior mortgages at the time that I took this deposit slip.

As a matter of fact, Senator, I spent several hours analyzing this, because I didn't—the loan docket file came to me maybe 2 or 3 weeks before this. And we didn't look—we had during this period of time 55

or 56 loans, over a 2- or 3-week period. And the only time that I or my counsel looked at a file was when we had a problem.

And after reading the loan specialist's report, Mr. Cropper's letter, going through the file, I concluded that this was perfunctory only. As I say, if the motel wasn't complete at that time, it was practically completed.

Senator SCOTT. Now, I will revert to the same question. Would you have approved the loan had you known that the \$100,000—

Mr. HOFFMASTER. Senator, I didn't have anything to do with approving this loan. You mean approve disbursement?

Senator SCOTT. Would you have recommended disbursement—

Mr. HOFFMASTER. No, sir.

Senator SCOTT. Had you known the hundred thousand dollars was not actually an investment?

Mr. HOFFMASTER. Senator, I probably would not have.

Senator SCOTT. You probably would not have?

Mr. HOFFMASTER. It would have depended on the facts.

Senator SCOTT. I am telling you what the facts are; I am telling you that the hundred thousand dollars was a restricted deposit, that it was a fiction so far as the investment is concerned.

Mr. HOFFMASTER. I would not have authorized—

Senator SCOTT. And in my judgment it was a fraud and intended to be a fraud. I am asking you on the basis of the facts—you draw your own judgment as to whether it was a fraud—but, acting for the taxpayers of this country and the Small Business Administration, would you have approved a loan knowing that one item which was a part of the transaction representing a hundred thousand dollars was not what it was pretended to be?

Mr. HOFFMASTER. No, I would not, Senator; absolutely not.

Senator SCOTT. This is what I am trying to get at.

Mr. HOFFMASTER. Absolutely not.

Senator SCOTT. I am trying to make it clear as a responsible employee of the SBA you would not have done anything as foolish as that. Now, during all of this period, with various people recommending the subordination of the loan, and the next crowd recommending you don't do it, and the next crowd saying you do, and the next crowd saying you don't, did anybody anywhere along the line think to ask the bank whether the hundred thousand dollars was still there?

Mr. HOFFMASTER. Senator, we didn't have to do this. The loan report showed a net worth of \$256,500, at the time the loan was approved. At the time the request for subordination was submitted to me, the equity in the motel was \$476,682, and we had a completed motel. As to why—I would be happy to enlarge on why I recommended the subordination.

One, we knew at the time, that is, SBA knew at the time the disaster loan was approved, the application disclosed that future expansion was contemplated, up to an additional hundred units, and a convention hall. Secondly, it was obvious to me that this motel, unless it expanded, would not be able to keep going. Thirdly, I felt that with the convention hall, the impending completion of the tunnel, bridge tunnel across the capes, that there would be considerable traffic generated year round in this area on the Delmarva Peninsula.

Our collateral position was enhanced. We ended up by subordinating our mortgage—or let me backtrack on that—the partners, by getting this refunding mortgage, and doing this additional construction. And they would not have been able to get this additional financing absent our subordination. We ended up with a motel costing \$3,325,000, which, as I said, with an equity of \$476,000. So actually, our position was much better after the subordination than it was before.

Senator SCOTT. The convention hall was built?

Mr. HOFFMASTER. I assume it has been built, Senator.

Senator SCOTT. While you say you were influenced by an equity of \$256,000—can you explain why there is no reference to any such equity as bearing on the loan in the letter from Mr. Cropper to the SBA?

Mr. HOFFMASTER. I don't understand that question.

Senator SCOTT. Well, Mr. Cropper passes on what he believes to be what you want to know—namely, is there compliance with paragraph 11?

Mr. HOFFMASTER. Oh, no; that was my decision to make, Senator. That was not Mr. Cropper's. It was—that, I think, is the only thing that he was required to come back to us on.

Senator SCOTT. Mr. Cropper confines himself to talking about the \$60,000 already there, and the hundred thousand dollars so-called deposit. He never discusses, as bearing on the loan in any way, what you have said about the \$256,000 equity anywhere in his letter. Why is that?

Mr. HOFFMASTER. Senator, we are talking about two different times. I am talking—I was explaining why I recommended the subordination, which was almost a year later—March of 1963.

Senator SCOTT. Well—

Mr. HOFFMASTER. As far as paragraph 11 is concerned, Mr. Cropper—this reads, "Prior to any disbursement on account of the loan, regional director." In this instance you read, "Branch manager," my title—"shall be in receipt of evidence satisfactory to him." And usually it goes on to say—unfortunately, it didn't here—"in his sole discretion."

Senator SCOTT. You see, Mr. Hoffmaster, the reason we are talking about two different things is that a moment ago you started talking about two different things. I asked you what affected your judgment with regard to the \$100,000 deposit, and you injected something that happened a year later, and said that you were influenced by the \$256,000 equity. Now, that \$256,000 equity was then not a factor which influenced you at the time of the letter from Mr. Cropper in June of 1962, was it? It has got to be either one way or the other.

Mr. HOFFMASTER. I don't understand it, Senator. I don't understand the question.

Senator SCOTT. You don't. Well, were you influenced at the time the letter came from Mr. Cropper regarding paragraph 11, his assertion that he believed it had been complied with—did you regard that as the reason for your action at that time, based on Mr. Cropper's recommendation, or were you acting on something other than Mr. Cropper's letter, something other than paragraph 11, something other than the \$160,000? If so, will you tell us what you were acting on?

Mr. HOFFMASTER. Everything that was in the file. Frankly, I did not understand the second paragraph, Senator, of Mr. Cropper's letter. I did not understand it. I hadn't looked at the file, wasn't familiar with the file. But after examination of the file, I agreed with Cropper that all we needed to have was evidence of an additional \$100,000. Now, this he tendered me in the form of a deposit slip.

I think prior to June 9, prior to closing, we must have discussed this on the phone. He must have said, "What do you want?" And I probably said, "What can you give us?" And he probably said, "The deposit slip." And I am sure we kicked it around. What else could we get? Frankly, I didn't know then; I don't know now. Other than a deposit slip.

Senator SCOTT. Well, now—

Mr. HOFFMASTER. We have taken them on other cases.

Senator SCOTT. Mr. Tucker seems—or Mr. Baker, or both—seems to have gone to a great deal of trouble to get the bank to put a hundred thousand dollars in their names for 15 days only. And yet you seem to be under the impression that this was all volunteered by Mr. Tucker, that he made all this trouble for himself, that nobody asked him. Then, having set up a situation which could cause him a lot of inconvenience and a certain amount of payments called interest, that all this is because he volunteered it—and he didn't really have to do it at all. But he went ahead and did it. Is that what you mean, sir?

Mr. HOFFMASTER. No, sir.

Senator SCOTT. That is what you said at one point. You said Tucker volunteered it "and I didn't regard it as important."

Mr. HOFFMASTER. Senator, what I said was that Tucker—ordinarily we do not require equity injections on disaster loans. The loan report shows that Tucker made the gratuitous comment, "We intend to inject at least another hundred thousand dollars into the business." Consequently, this was made paragraph 11 of the authorization. And I say that even had it not been in the authorization, we would have gotten everything that we got with it in there, and wouldn't have had all this trouble about a deposit receipt.

Senator SCOTT. But if you had—since it was in the authorization—

Mr. HOFFMASTER. Then I had to see that the authorization was complied with.

Senator SCOTT. Yes. And had you known that this was a fiction and not a fact, as to the hundred thousand dollars being called an investment, would that have affected your subsequent recommendation?

(At this point, Senator Pell entered the hearing room.)

Mr. HOFFMASTER. Senator, if I had even suspected it was a fiction, I would not have authorized disbursement.

Senator SCOTT. Well, that is what I am getting at. Mr. Hoffmaster, somewhere along the line you said you had accepted deposit slips in other cases. Is that right?

Mr. HOFFMASTER. I think I only have in one case in my office. But it has been done in SBA throughout the country.

Senator SCOTT. So the easy way to defraud SBA is to get a deposit slip, withdraw the money the next day, and nobody at SBA is going to check to see if you pulled out what you put in for the purpose of cheating the Government; is that right? Is that the way you operate?

Mr. HOFFMASTER. Senator, we assume that most people—

Senator SCOTT. No wonder so much of this money is going for motels and nightclubs and the rest of it, where it could go to actually fight the war on poverty, if that is the way you are operating.

Mr. HOFFMASTER. This is a disaster loan. We make them to any kind of business.

Senator SCOTT. It is a fact that nobody checked to see whether the money was there. As far as you know, nobody checked on these other instances to see if the money was there.

Mr. HOFFMASTER. Senator, I am not making alibis or excuses. This paragraph 11, if it had been prepared a little differently, it would have been very easy to control. Frankly, it would have been much better, easy to implement, easy to supervise, if it had been geared to prior to any disbursement for us to be in receipt of evidence satisfactory that a hundred thousand dollars had been injected into the business, and had been paid toward cost of construction. This is the way I would do it today, this is the way I have always done it. I did not prepare this authorization.

Senator SCOTT. Let me conclude with this question:

If you had a loan now, from now on, disaster loan or any other kind of loan in the SBA, and somebody walked in and said, "Here is a deposit slip to show my investment"—

Mr. HOFFMASTER. Oh, no, Senator; I am not taking any more deposit slips. I am going to find some method other than deposit slips.

Senator SCOTT. And if there were a deposit slip that somebody else had taken, would you accept the deposit slip on its face, or would you check to see if the money was still hanging around?

Mr. HOFFMASTER. Senator, as I said, I don't know what I am going to devise to satisfy us as to injection of equity into sole proprietorships and partnerships. But I am going to find something. And it is not going to be a deposit slip.

Senator SCOTT. That is what I hoped you would say.

That is all I have.

The CHAIRMAN. Senator Cooper, do you have any questions?

Senator COOPER. No; I think not.

The CHAIRMAN. Are you through, Senator Scott?

Senator SCOTT. Yes, sir.

Mr. McLENDON. Mr. Hoffmaster, did you at any time during these transactions have a personal acquaintance with Robert G. Baker?

Mr. HOFFMASTER. I met Mr. Baker for the first and only time in Mr. Rogers' office at Fraternity Federal on March 15, 1963, the day that we tied up this subordination agreement.

Mr. McLENDON. Did you know Tucker?

Mr. HOFFMASTER. I had met Tucker a couple of times—subsequent—I think I saw him a couple of times this summer, and once last summer.

Mr. McLENDON. Did you ever have any conversation with either one of them with respect to the deposit of a hundred thousand dollars in the account of Carousel, or with respect to the subordination of the Small Business Administration loan?

Mr. HOFFMASTER. I had no conversation with either one of them whatsoever with respect to the deposit receipt or the circumstances surrounding it. As a matter of fact, I had never met either one of

them—I might have talked to Tucker on the phone when this disaster occurred—I am not sure. But I had virtually no contact at all with either one of them until after this loan was closed, the latter part of the summer—I dropped in there with some friends, we had a drink or so, and I think I met Tucker at that time. Baker I did not meet until the time of the subordination—probably a day or so before the subordination was implemented, I probably had a telephone conversation either with Baker or Tucker with respect to getting some additional information. But that was the limit of it.

Mr. McLendon. Mrs. Novak has testified that she called someone at the Small Business Administration office with respect to this disaster loan. Do you have any knowledge of that?

Mr. Hoffmaster. I have no knowledge of it. My office?

Mr. McLendon. I didn't say your office. Someone in the Administration. I don't recall right now that she identified the person. Do you have any knowledge of her calling?

Mr. Hoffmaster. No personal knowledge.

Mr. McLendon. That is all.

The Chairman. Any other questions?

Mr. McLendon. That is all.

Mr. Hoffmaster. Thank you.

Mr. McLendon. Mr. Rhett?

The Chairman. Do you solemnly swear that the testimony you are about to give before this committee in the matter now under investigation will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Rhett. I do.

Mr. McLendon. Will you state your full name and your residence address?

**TESTIMONY OF ROBERT GOODWIN RHETT; ACCOMPANIED BY
ARTHUR M. BLACKLOW, ASSISTANT GENERAL COUNSEL, SMALL
BUSINESS ADMINISTRATION**

Mr. Rhett. Robert Goodwin Rhett, 2205 California Street NW.

Mr. McLendon. In 1962 and 1963 what position, if any, did you hold with the Small Business Administration?

Mr. Rhett. I held the same as I have now. I am Chief of the Loan Servicing Division.

Mr. McLendon. And what duties do you perform in that position?

Mr. Rhett. I have delegated authority to pass on practically all the servicing problems of cases that have come into Washington for action.

Mr. McLendon. Does that includes the approval of the loan requests?

Mr. Rhett. No, sir; nothing to do with loans. Only servicing. Nothing to do with making of the loan. Only the servicing.

Mr. McLendon. Only servicing the loans?

Mr. Rhett. Yes, sir.

Mr. McLendon. What did you have to do with the application of the Carousel owners for this disaster loan?

Mr. Rhett. Nothing whatsoever.

Mr. McLendon. Did you have any knowledge of it?

Mr. Rhett. I had knowledge of it when this matter came in in connection with the subordination, of course.

Mr. McLendon. Will you tell the committee what you did in that connection?

Mr. Rhett. Well, on March 1, 1963, this report came in from—through our Baltimore branch, to the Richmond office, and then into my office—concerning borrowers' request that we subordinate to an increased first loan, first mortgage loan, of \$746,000, by a building and loan association.

Mr. McLendon. Was it represented to you that the bank would make the loan for \$746,000, on condition that your loan, the SBA loan, was subordinated?

Mr. Rhett. They could not make it without that, because we would be ahead of them with our lien.

Mr. McLendon. All right. Go ahead.

Mr. Rhett. So this came into my office for action. There was a split recommendation, as there often are in these cases, as well as in making loans.

Mr. McLendon. Will you describe that a little more? What do you mean?

Mr. Rhett. Well, I mean even in the making of a loan, as well as in the servicing, it is required that various people along the line make recommendations.

In this particular case, there were two men in the Baltimore branch: one of them was a servicing specialist, and the Chief of the Financial Assistance Division there—they recommended decline. Mr. Hoffmaster, the branch manager, recommended approval. In Richmond, the Chief of the Financial Assistance Division recommended decline, as well as did the Regional Director. It came in to me, and I had authority to go either way. I thought the subordination was justified, and I approved it.

Mr. McLendon. And your approval was the final approval?

Mr. Rhett. Yes, sir. I had the delegated authority necessary to take the action.

Mr. McLendon. Would you mind telling the committee why you approved it?

Mr. Rhett. Because I thought, gentlemen, that the collateral was sufficient, and I thought there was a reasonable assurance of repayment.

Mr. McLendon. Were you influenced in any way by acquaintance with Robert G. Baker?

Mr. Rhett. No, sir; I was not. I met Mr. Baker when he was with Senator Maybank. I have not seen or talked to him since Senator Maybank died in 1954.

Mr. McLendon. Were you influenced in any respect by your acquaintance with Ernest Tucker?

Mr. Rhett. I did not know Mr. Tucker.

Mr. McLendon. Or the Novaks?

Mr. Rhett. I did not know the Novaks.

Mr. McLendon. You tell the committee, then, that this was your best judgment—the action you took was your best judgment?

Mr. Rhett. Yes, sir; I do.

Mr. McLendon. All right, sir. That is all.

Senator Scott. Mr. Rhett, if you had known that the hundred thousand dollars investment had been a part of the condition for—a part—if you had known that the hundred thousand dollars investment had been a part of the requirement for the making of the loan, and if you had then discovered that the hundred thousand dollars was not actually a part of the capital of the applicant, but was in the form of a device used, would you have recommended subordination of the loan, knowing that additional circumstance?

Mr. Rhett. Well, Senator, let me put it this way. If I had known there was any fraud connected with either the loan or the subordination, I would not have approved it.

Senator Scott. That is all I have.

Mr. McLendon. Off the record.

(Discussion off the record.)

Senator Scott. I would like to know generally whether any new regulations have been put in having to do with deposit slips and finding out whether the money is there or not when somebody tells you the money is there.

Mr. Suss. My name is Fred Suss.

Mr. McLendon. Your position, please?

Mr. Suss. I am the General Counsel of the Small Business Administration. Senator, the first information we had of this deposit slip and the circumstances surrounding it was this morning, in testimony presented to this committee. We certainly intend to discuss this matter with the Department of Justice and to get their advice.

Senator Scott. I would suggest that if other loans have been made on the basis of deposit slips, those loans be reexamined, and in so doing I am giving fair warning to anybody who has gotten an SBA loan on a deposit slip that he better hurry up in the next 2 or 3 days and get the money back in the bank.

Mr. Suss. We appreciate your suggestion, Senator.

Senator Scott. That is all I have.

The Chairman. Thank you, sir.

The committee will recess until 2 o'clock.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

(Present: Senators Jordan, Cannon, and Pell.)

The Chairman. The committee will come to order. A quorum is present. Counsel will call the next witness.

Mr. McLendon. Mr. Etzler.

The Chairman. Mr. Etzler, will you remain standing and put your left hand on the Bible and raise your right hand, please, sir?

Do you solemnly swear that the evidence you are about to give before this committee in the matter under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Etzler. I do.

The Chairman. Have a seat, sir.

Mr. McLendon. Will you give your name and address, please?

TESTIMONY OF DORSEY HALL ETZLER

Mr. ETZLER. Dorsey Hall Etzler, 5808 Edmundson Avenue, Baltimore, Md.

Mr. McLENDON. What position, if any, do you hold with the Fraternity Federal Savings & Loan Association of Baltimore?

Mr. ETZLER. Vice president.

Mr. McLENDON. How long have you been vice president?

Mr. ETZLER. Approximately 4 years; about 4 years now, sir.

Mr. McLENDON. Were you in the hearing room this morning to hear Mr. Drennan testify about the various loans?

Mr. ETZLER. Yes.

Mr. McLENDON. That were handled by your bank for Baker and others in connection with the Carousel property?

Mr. ETZLER. Yes, sir.

Mr. McLENDON. Mr. Etzler, were all those loans handled in the normal way by your bank?

Mr. ETZLER. Yes, sir; they were.

Mr. McLENDON. Was there anything abnormal about any of them?

Mr. ETZLER. No, sir.

Mr. McLENDON. Did you obtain in connection with most of them or all of them financial statements from Baker?

Mr. ETZLER. On the first and the last one we have financial statements; yes, sir.

Mr. McLENDON. In the letter addressed to Robert J. Stoddard, president of your bank, dated June 19, 1961, signed by Robert C. Baker; do you have a copy of that before you?

Mr. ETZLER. Yes; I have.

Mr. McLENDON. On the second page this language occurs:

"I"—meaning Baker—

advised Bill Rogers, Jr., this morning that you can have the grand opening of your branch at 9 a.m. on August 1.

First tell us who is Bill Rogers, Jr.

Mr. ETZLER. He is one of the attorneys for the association.

Mr. McLENDON. And what is the branch referred to?

Mr. ETZLER. The branch referred to here would be the branch of Fraternity Federal in the Normandy Shopping Center in Howard County, Md.

Mr. McLENDON. When was that branch established?

Mr. ETZLER. The approval was—I am not sure of the date, but I think it was in June—June 8, I think—we had received the approval from the Federal Home Loan Bank Board.

Mr. McLENDON. Why would Mr. Baker be advising your president that the branch could open on that particular day?

Mr. ETZLER. That I do not know, sir.

Mr. McLENDON. You can offer no explanation for it?

Mr. ETZLER. No; I cannot, with the exception of the fact that we received notification from the Federal Home Loan Bank or the Federal Home Loan Bank Board, one of the two, of our official opening dates. Approximately a week after that, or 2 weeks, we received a telegram which bore a different date. Now, whether the meeting right prior to this letter—there was a meeting in the attorney's office between Mr.

Baker, Mr. Stoddard, president of the association, and our attorney in reference to the mortgage on a motel in Ocean City—whether or not it came up, the conflict of dates came up at that meeting, I do not know.

Mr. McLendon. Will you state again who attended that meeting, sir.

Mr. ETZLER. Mr. Stoddard, president of the Fraternity.

Mr. McLendon. President of the bank?

Mr. ETZLER. Mr. Baker, to the best of my knowledge, and Mr. Rogers, Jr.

Mr. McLendon. Mr. Rogers, Jr., is here?

Mr. ETZLER. Yes; he is.

Mr. McLendon. The committee has some evidence, Mr. Etzler, to the effect that Baker said on one or more occasions that your bank was under obligation to him, and that he would have no difficulty in getting a loan from you because of that, and that the obligation grew out of some favors that he had done the bank. Now, I am not quoting literally. I am summarizing, in effect, testimony. My question is: Do you have any information that you can give the committee about any such statement as that?

Mr. ETZLER. No; I have no knowledge of that, sir.

Mr. McLendon. You have no knowledge of it?

Mr. ETZLER. None whatsoever.

Mr. McLendon. Do you have any information at all that Mr. Baker had anything to do with your application for the establishment of a branch bank in Ellicott City, Md.?

Mr. ETZLER. No, sir; I have not.

Mr. McLendon. Do you have any knowledge that anyone was asked by your bank to render any assistance in that way?

Mr. ETZLER. No, sir.

Mr. McLendon. That is all I want to ask this witness, Mr. Chairman.

The CHAIRMAN. Senator Cannon, do you have any questions to ask this witness?

Senator CANNON. No.

The CHAIRMAN. Senator Pell?

Senator PELL. No.

The CHAIRMAN. Thank you very much, sir.

Mr. McLendon. Mr. Rogers?

The CHAIRMAN. Mr. Rogers, will you raise your right hand, please, sir?

Do you solemnly swear that the evidence you are about to give before this committee in the matter now under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ROGERS. I do, sir.

Mr. McLendon. Will you state your full name and your residence address?

TESTIMONY OF WILLIAM C. ROGERS, JR.

Mr. ROGERS. Yes, sir. William C. Rogers, Jr. My residence is 5403 St. Albans Road, Baltimore.

Mr. McLendon. Mr. Rogers, are you attorney for the Fraternity Federal Savings & Loan Association in Baltimore?

Mr. ROGERS. I am cocounsel for them; yes, sir.

Mr. McLendon. How long have you occupied that position?

Mr. Rogers. Senator, I think about 6 years.

Mr. McLendon. About 6 years?

Mr. Rogers. This is a guess. It is about 6 years.

Mr. McLendon. All right. That is sufficient.

I call your attention, Mr. Rogers, to a statement appearing in the letter of Robert C. Baker addressed to Mr. Stoddard, the president of your bank, dated June 19, 1961, which is an exhibit before the committee.

Mr. Rogers. Yes, sir.

Mr. McLendon. You probably heard me read it. I read it again——

Mr. Rogers. I have a copy in front of me.

Mr. McLendon. You do have?

Mr. Rogers. Yes, sir.

Mr. McLendon. I ask you what comment do you have to make about the paragraph which I read a moment ago to Mr. Etzler?

Mr. Rogers. The only comment that I can make, Senator——

Mr. McLendon. I am not a Senator.

Mr. Rogers. I am sorry, Mr. McLendon.

Mr. McLendon. That is all right.

Mr. Rogers. The only comment that I can make, sir, is that first I have no direct memory of any question having been asked Baker about the opening. I have a very distinct memory of the confusion, relative to the effective date of our opening, or authorized date I think would be the right word. As Mr. Etzler testified, we received one notice stating that we could open on a date, and within a matter of days, I believe it was, we received another official notice, but it used a different date. Now, the only thing I can do is presume, sir, that this came up in the normal course of conversation. I remember the meeting that is mentioned here. I remember it very well.

Mr. McLendon. Where did that meeting occur?

Mr. Rogers. That meeting took place in my office, sir.

Mr. McLendon. And who was present?

Mr. Rogers. To the best of my memory, it was Mr. Stoddard, to whom this letter is addressed, Mr. Baker, and myself, sir.

Mr. McLendon. And what was the purpose of the meeting?

Mr. Rogers. The purpose of the meeting—Mr. Baker was gathering together the multitude of papers that we need for a construction mortgage of this nature and he asked if he could come over to Baltimore and go over these items with us, and that is exactly the purpose of the meeting. And it was held in my office rather than in the association at Mr. Baker's request. He said he knew downtown Baltimore but he wasn't at all sure that he would know how to find the association.

Mr. McLendon. This occurred near the date that the branch was opened, did it not? This meeting that you refer to.

Mr. Rogers. The approval of the branch, sir, was dated June 1. The branch actually opened somewhere around September 4 or 5; whatever date the shopping center was fully completed is when we actually opened.

Mr. McLendon. This letter, the statement in Mr. Baker's letter says that you can have the grand opening at 9 a.m., on August 1.

Mr. Rogers. Your approval, sir, would say—I don't know the exact language, but in effect it says that by Resolution No. so-and-so your

petition for a branch has been approved and you have authority to open on x date and you must be open before y date and I think there is a 6-month period between the date you may open and the date you must open.

Mr. McLendon. Is it possible, Mr. Rogers, that you gentlemen asked Mr. Baker to ascertain what date you could open a branch?

Mr. Rogers. Mr. McLendon, the only thing I can do is surmise because I know that there was a lot of talk about a million and one things, and this is purely a guess on my part, but the only logical explanation is that this came up in conversation, and he probably said, or somebody may have said, "Can't we find out?" And all this was, as I can see it was, a telephone call to find out what is the official date.

Mr. McLendon. What did Mr. Baker have to do, if anything, with securing permission for you to open the branch?

Mr. Rogers. Sir, if he had anything to do with it, I know nothing about it. He never said anything to me that he had anything to do with it, and to the best of my knowledge nobody ever said anything to him about helping. It was practically a fait accompli before he even became involved.

Mr. McLendon. Were you the attorney for the bank in that matter?

Mr. Rogers. Yes, sir; I was.

Mr. McLendon. And did you attend all the details of the application?

Mr. Rogers. I oversaw the gathering of the material, and I know I had a hand in presenting it, or putting it into its final form, and then I represented the association at the hearing; yes, sir.

Mr. McLendon. You say that as far as you know Mr. Baker had nothing to do with the application for this branch?

Mr. Rogers. That is correct, sir. He couldn't have, because this thing was just about finished before he even made contact with us about the application.

Mr. McLendon. Is there any other matter connected with your bank in which Mr. Baker had rendered services?

Mr. Rogers. Mr. Baker has never rendered any services that I am aware of. I have asked him on one occasion or two occasions whether or not—well, for example, I asked him whether or not there were any applications pending in Bel Air, Harford County, Md., and that is information that is public information if you know who to ask. Now, if that is service, yes; but other than that, I know of nothing.

Mr. McLendon. So any statement that he may have made to the effect that he had done favors to this bank and the bank was under obligation to him to loan him money, you would say there would be no basis for that sort of statement?

Mr. Rogers. Sir, I was told, and I think that it was in the paper, because I know several friends of mine told me that they had seen the statement made by one of your prior witnesses, I think the only concrete factual answer to that is that if he did any favors, it certainly was not recompensed because he paid the legal limit interest and he paid every other charge that is customary for this type of loan, sir.

Mr. McLendon. Were any favors given him with respect to the amount of the loan?

Mr. Rogers. No, sir; not to my knowledge, and I think that it is very clear that they weren't.

Mr. McLendon. You would say that it was a perfectly normal loan and handled in the usual normal manner?

Mr. ROGERS. To me, it seems to be a very normal loan.

Mr. McLendon. I believe Mr. Stoddard is not here today, the president of the bank.

Mr. ROGERS. No, sir; he is not.

Mr. McLendon. All right, sir. Now, Mr. Rogers, did you have any conversation with Mr. Baker at any time about the business connections in Puerto Rico?

Mr. ROGERS. Yes, sir.

(At this point, Senator Scott entered the hearing room.)

Mr. McLendon. Would you tell the committee about that?

Mr. ROGERS. Yes, sir. Mr. McLendon, I don't know, I don't remember the date of any first conversation, but I know that during the course of conversation, Baker mentioned that he had business interests, or some interests in Puerto Rico, and I can remember him asking whether Security Title, with whom I am affiliated, was qualified to do business there, and I think the first time that question came up, I can remember I talked with Baker, Warren Neil, and a Rinaldo Pondiagio Diaz and I asked a considerable number of questions about property transfer and the basic requisites for qualification, and nothing at all came of that.

Then I would guess it was around August of this year in a conversation with Baker it came out, we got to talking about reels and whatnot, and he mentioned Puerto Rico and other places, and I asked him at that time whether there was any possibility of going into Puerto Rico, or whether there was any interest, and he told me at that time that he would see if Warren Neil or anyone else down there was still interested. The result of that was that I received a telephone call from Baker telling me that Mr. Neil was interested in discussing a title insurance agency, and I went down there, I think, September 10 of this year, sir.

Mr. McLendon. Who is Mr. Neil?

Mr. ROGERS. Mr. Neil is a builder, a real estate developer in San Juan.

Mr. McLendon. Did Mr. Baker notify him that you were going and make an engagement for you to see him?

Mr. ROGERS. Yes, sir; he did.

Mr. McLendon. And what was your purpose in going to Puerto Rico to see Mr. Neil?

Mr. ROGERS. My purpose was to discuss with Mr. Neil whether or not there was any interest in developing a title insurance agency, and, secondarily, but of equal importance, whether there would be any interest on our part in going down there.

Mr. McLendon. Did you ascertain whether there was any business or social connection between Baker and Neil?

Mr. ROGERS. Mr. McLendon, I don't know whether there is or there isn't. I know there is a friendship there. There may be. I know that Mr. Baker said that he had interests in Puerto Rico, but what they are I don't know.

Mr. McLendon. Did he describe any other interests that he may have in Puerto Rico except his interest with this business which Mr. Neil was conducting, or maybe that is an unfair question? Let

me ask it differently: Did he say that he knew any other business people in Puerto Rico—other than Mr. Neil?

Mr. ROGERS. If he did, sir, I have no memory of it. I don't recall him ever talking about anything other than that.

Mr. McLendon. You have no recollection of his identifying himself with any other business activities in Puerto Rico?

Mr. ROGERS. No, sir.

Mr. McLendon. Now, you say you did go down there and see Mr. Neil?

Mr. ROGERS. Yes, sir.

Mr. McLendon. And nothing came of it?

Mr. ROGERS. Well, it is still in a state of discussion. This is not something that is done overnight.

Mr. McLendon. All right.

That is all.

The CHAIRMAN. You may be excused.

Senator SCOTT. May I ask a question?

The CHAIRMAN. Excuse me.

Senator SCOTT. Did Mr. Baker ever discuss with you any proposal to keep District savings and loan companies from going into Maryland? Did you ever have a conversation of that kind?

Mr. ROGERS. Did I ever have a conversation of that type?

Senator SCOTT. Yes; either you or Baker at any time?

Mr. ROGERS. Not—I don't ever remember talking to Baker about that. What I think you are referring to, Senator, was a bill that was passed in Maryland 10 or 12 years ago when, I believe, there was a law passed in Virginia which prohibited the Maryland savings and loans from branching into Virginia, and my memory—Senator, that must be more than 10 or 12 years ago. It must be at least 15 years ago. I can remember that Maryland passed a comparable law.

Senator SCOTT. Where do you send your bills for loans made to Serv-U?

Mr. ROGERS. This is hearsay. You are talking now about bills for interest?

Senator SCOTT. Bills for interest.

Mr. ROGERS. Yes. This is hearsay, Senator, but I believe they are sent to Mr. Ernest Tucker. They were sent to Ernest Tucker, and I can remember—I think it was during a discussion with Mr. Drennan that I heard for the first time that they are now being sent to California.

Senator SCOTT. The California office of Serv-U?

Mr. ROGERS. Yes, sir.

Senator SCOTT. The people who borrow from the lending institutions with which you are associated; are they ever required to buy title insurance from the Security Title Co., or is that left up to them?

Mr. ROGERS. They are required, so far as the mortgage is concerned, to have title insurance; yes, sir. So far as the owner is concerned, no. That is a voluntary thing. We couldn't control that or even suggest to them that they should have it.

Senator SCOTT. The purchase of the title insurance can be made from any title company?

Mr. ROGERS. No, sir. All of these things are local. In our Metropolitan Baltimore area the only ones who handle settlements for the savings and loans are the attorneys for the savings and loans. The association has for years now required title insurance, and since we are connected with Security Title, we use Security Title. When I say "we" I am referring to our law office.

Senator SCOTT. Was any commission paid to any person for placement of loans for the Carousel Co.?

Mr. ROGERS. Commission for the Carousel Co.?

Senator SCOTT. Commissions for securing the business of the Carousel Co., in connection with the making of loans?

Mr. ROGERS. No, sir. That would appear right on the settlement sheet. The only commissions that we ever pay would be on direct business that a realtor or a lawyer sent in.

Senator SCOTT. That is all I have.

The CHAIRMAN. I would like to make an announcement at this time, that the Premier and head of the Government of Tonga is in our audience. Would you introduce your guests back there, Senator Pell? We are, of course, delighted to have him visit the United States, and this hearing.

Senator PELL. I join with the chairman in expressing gratitude that the Chief of Government of Tonga is here at this hearing. I hope that it will help keep the hearing on the elevated plane we all trust it follows. [Applause.]

The CHAIRMAN. The committee will come back to order, please.

Mr. McLENDON. Mr. Richard C. Darling, come around.

Is Mr. Darling in the room?

Mr. YINGLING. Yes, sir.

Mr. McLENDON. These two witnesses were not here this morning, Mr. Chairman, when you read the statement.

The CHAIRMAN. You may be seated, until I read this copy here as to the purpose of this hearing, which is necessary to make this legal.

A quorum being present, the committee will please come to order.

This committee is acting by direction and under the authority of Senate Resolution 212 agreed to October 10, 1963, and Senate Resolution 221, agreed to on November 1, 1963. Senate Resolution 212 authorizes and directs the Senate Committee on Rules and Administration to make a study and investigation with respect to any financial or business interests or activities of any officer or employee or former officer or employee of the Senate for the purpose of ascertaining, one, whether any such interests or activities have involved conflicts of interest or other improprieties, and, two, whether additional laws, rules or regulations are necessary or desirable for the purpose of prohibiting or restricting any such activities.

Witnesses have been interviewed by the staff and heard both in executive and in public sessions. Considerable evidence has been obtained and testimony received to date. Witnesses who have appeared previously or who will be called in the future possess information which the committee believes is material and pertinent to the provisions of the resolutions of direction and authorization which will be of aid to the committee in fulfilling its legislative purpose.

The Chair advises each witness that he is entitled under the rules of procedure of this committee to obtain and be accompanied by coun-

sel. The counsel may advise the witness of his legal rights during the course of his testimony.

Should the witness not fully understand any question, the witness may ask for clarification. Counsel, however, shall not coach the witness or answer for the witness.

The committee will now follow and hear this testimony of Mr. Dick Darling.

Mr. Darling, will you rise, and put your hand on the Bible?

Will you raise your hand?

Do you solemnly swear that the evidence you are about to give before this committee in the matter now under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DARLING. I do.

Mr. McLendon. Will you state your full name and residence address, please?

TESTIMONY OF RICHARD C. DARLING

Mr. DARLING. Richard C. Darling, 6302 85th Place, Hyattsville, Md.

Mr. McLendon. That is in the District?

Mr. DARLING. No; it is in Maryland.

Mr. McLendon. Where are you now employed?

Mr. DARLING. In the office of the secretary for the majority. I am assigned to the Senate Democratic cloakroom.

Mr. McLendon. Cloakroom?

Mr. DARLING. Yes, sir.

Mr. McLendon. How long have you been employed in that office?

Mr. DARLING. I have been employed by the Senate for 18 years.

Mr. McLendon. And what different positions have you held?

Mr. DARLING. As a page boy, and in the cloakroom.

Mr. McLendon. What position did you occupy in October 1961?

Mr. DARLING. I was assigned to the Democratic cloakroom, my present position.

Mr. McLendon. The same position you hold now?

Mr. DARLING. Yes, sir.

Mr. McLendon. Was Mr. Baker at that time secretary to the majority?

Mr. DARLING. Yes, sir.

Mr. McLendon. Did you have a conversation with him in October 1961 concerning the purchase of some MGIC stock?

Mr. DARLING. Yes, sir.

Mr. McLendon. Will you tell the committee in your own way just exactly what occurred?

Mr. DARLING. Well, in October 1961 Mr. Baker asked me if I would purchase some stock for him, and I agreed to do so.

Mr. McLendon. Go ahead and tell what occurred.

Mr. DARLING. Well, a few days later he arrived at my home with an invitation from Bache & Co. to purchase the stock.

Mr. McLendon. Bache & Co. is the broker?

Mr. DARLING. He is the broker, and I took the invitation into the office and filled it out. Mr. Baker gave me the money.

Mr. McLendon. How?

Mr. DARLING. In cash.

Mr. McLendon. How much?

Mr. Darling. \$13,750.

Mr. McLendon. Where were you when he gave you the \$13,750 in cash?

Mr. Darling. At this time the office was being renovated, and I am not sure whether it was in the Capitol Building or in his law office.

Mr. McLendon. You can't recall which place?

Mr. Darling. I can't; no, sir.

Mr. McLendon. Did you give him a receipt for the \$13,750?

Mr. Darling. He asked me in the event something happened to me if I would type out a receipt, give it to him and sign it, which I did, and he gave me the money. I deposited it in my account and wrote my personal check for the stock.

Mr. McLendon. You deposited money in your own personal account?

Mr. Darling. Yes, sir.

Mr. McLendon. In the bank?

Mr. Darling. Yes, sir.

Mr. McLendon. And you drew a check against your bank account to the broker?

Mr. Darling. That is correct.

Mr. McLendon. For the total amount?

Mr. Darling. Yes, sir.

Mr. McLendon. Did you finally receive the certificate or certificates of stock?

Mr. Darling. Yes, sir.

Mr. McLendon. Were they delivered to you?

Mr. Darling. They were mailed to my home address; yes, sir.

Mr. McLendon. Did you give your home address to the broker when you filled out the application for the stock?

Mr. Darling. That is what it called for; yes, sir.

Mr. McLendon. And it was delivered according to your application?

Mr. Darling. Yes, sir.

Mr. McLendon. That you gave the broker?

Mr. Darling. Yes, sir.

Mr. McLendon. When you received the certificates, what did you do with them?

Mr. Darling. I endorsed them in blank and gave them to Mr. Baker and he gave me back my receipt.

Mr. McLendon. How many shares of stock did you get certificates for?

Mr. Darling. There was one certificate for 500 shares.

(At this point, Senator Pell withdrew from the hearing room.)

Mr. McLendon. Just one certificate?

Mr. Darling. That is correct.

Mr. McLendon. When you delivered the certificate to Mr. Baker, with your endorsement on it, did you get back your receipt?

Mr. Darling. Yes, sir.

Mr. McLendon. Did you keep the receipt?

Mr. Darling. No, sir.

Mr. McLendon. You destroyed it?

Mr. DARLING. As far as I know, I have; yes, sir. I have looked for it and can't find it.

Mr. McLendon. Can you, from your memory, tell the committee substantially what the receipt said?

Mr. DARLING. It simply stated, "I hereby acknowledge receipt of \$13,750 in return for which 500 shares will be given to Mr. Baker upon receipt of those shares."

Mr. McLendon. And you say when you delivered the certificate he gave you back your receipt?

Mr. DARLING. Yes, sir.

Mr. McLendon. And you destroyed it?

Mr. DARLING. Yes, sir.

Mr. McLendon. Thereafter, did you get any notices from the MGIC company that would ordinarily be mailed to stockholders?

Mr. DARLING. Yes, sir.

Mr. McLendon. Such as notices of meetings?

Mr. DARLING. Yes, sir.

Mr. McLendon. Notices of dividends, if any?

Mr. DARLING. Yes, sir.

Mr. McLendon. Did they come to your residence address?

Mr. DARLING. Yes, sir.

Mr. McLendon. Do you know whether that stock certificate has ever been changed from your name to anyone else's name?

Mr. DARLING. I have reason to believe it has not been changed.

Mr. McLendon. Why do you say that?

Mr. DARLING. Because I have received recently notices from the company.

Mr. McLendon. Have you ever said anything to Baker about the fact that you were still getting notices from the company?

Mr. DARLING. Well, not until all this came up I didn't; no, sir.

Mr. McLendon. I believe you said to those those who interviewed you that you became concerned about it and consulted a lawyer.

Mr. DARLING. Yes, sir; I did.

Mr. McLendon. And the lawyer you consulted told you that he didn't think you had any liability merely because the stock was in your name.

Mr. DARLING. That is correct.

Mr. McLendon. Is that the substance of the advice you got?

Mr. DARLING. Yes, sir.

Mr. McLendon. And, therefore, you did nothing more about it?

Mr. DARLING. Well, we attempted—we asked Mr. Baker's attorney if he would transfer title, and I assume they will do it.

Mr. McLendon. But you have no knowledge that that has been done?

Mr. DARLING. I have no knowledge.

Mr. McLendon. Mr. Darling, what explanation did Baker give you for asking you to take this stock in his name?

Mr. DARLING. Well, he said he needed 500 shares, and I assumed on my part that this was a closed corporation and that for some reason you could only buy in blocks of 500 shares. That is the way the invitation read, as I remember.

Mr. McLendon. Are you saying that you understood from the conversation with Baker that he could not buy any more shares in his name and, therefore, he wanted you to take it in your name?

Mr. Darling. I assumed that, but he did not say that.

Mr. McLendon. That was just your assumption?

Mr. Darling. That is right.

Mr. McLendon. Is this the only business transaction you ever had with Robert G. Baker?

Mr. Darling. Yes, sir.

Mr. McLendon. Had he ever invited you to invest in any stock or any other property?

Mr. Darling. I am sure he knew I wasn't able to.

Mr. McLendon. Had you ever borrowed any money from him?

Mr. Darling. Yes, sir.

Mr. McLendon. How much?

Mr. Darling. Well, he cosigned a note for me.

Mr. McLendon. At this time when the stock transaction took place had you paid the note or was the note still owing?

Mr. Darling. I don't remember.

Mr. McLendon. You don't remember?

Mr. Darling. I don't remember, but that had nothing to do with it at all.

Mr. McLendon. Did Mr. Baker compensate you for this service you rendered him?

Mr. Darling. No, sir.

Mr. McLendon. Did he offer to compensate you?

Mr. Darling. No, sir.

Mr. McLendon. Did you ask him to compensate you?

Mr. Darling. No, sir.

Mr. McLendon. Do you recall before you received the certificate from the company that Baker spoke to you and asked you whether you had received the certificate and that he was anxious to get possession of it?

Mr. Darling. Well, it was only a week or 10 days, and he didn't ask. He might have, but I don't remember now.

Mr. McLendon. You don't remember that?

Mr. Darling. But as soon as I got it, I gave it to him.

Mr. McLendon. That is all I want to ask, Mr. Chairman.

Senator Cannon. Senator Scott?

Senator Scott. Did Mr. Baker ever ask you for any money?

Mr. Darling. No, sir; no, sir.

Senator Scott. Did you regard it as unusual for Bobby Baker to give you \$13,750 cash with which to buy stock?

Mr. Darling. At the time, no, sir.

Senator Scott. It didn't strike you as unusual?

Mr. Darling. No, sir.

Senator Scott. Would you tell us why it would not seem unusual?

Mr. Darling. Well, he was an officer of the Senate. He had been elected by the Senate, and I took him at face value as an honest man, and so far as I know he is. This sort of transaction is not unheard of.

Senator Scott. Where in the office was the money when he brought it out?

Mr. DARLING. He gave it to me, and as I told the counsel I don't remember whether it was in the office in the Capitol Building or in his law office that I received it.

Senator SCOTT. Did he have it on his person?

Mr. DARLING. He had it on his person.

Senator SCOTT. And you took it from him?

Mr. DARLING. Yes, sir.

Senator SCOTT. Where did he carry the money?

Mr. DARLING. I assume in his pocket.

Senator SCOTT. Was it a rather bulky large envelope?

Mr. DARLING. It is the largest amount of money I had ever touched.

Senator SCOTT. Was it in \$100 or \$1,000 bills?

Mr. DARLING. Some small bills and some large bills. The bank would know, probably. When you deposit that amount I am sure that they would have these little receipts that you write out and you can find out.

Senator SCOTT. You have never seen any transaction involving anything like that amount of cash before, have you?

Mr. DARLING. Not I; no, sir.

Senator SCOTT. As you walked around the Senate offices you had never observed that amount of cash being handed around before, had you?

Mr. DARLING. No, sir; not \$13,000.

Senator SCOTT. You didn't think it was unusual?

Mr. DARLING. Well, I didn't think it was unusual because Mr. Baker had asked me to do it, and at the time he asked me to do it I had financial troubles of my own which he knew about, and if he had given me a check, the banker would not have allowed me to write my own check, and I think I might have called this to his attention, and this may be the reason why he gave me the cash.

Senator SCOTT. When you retained counsel, and you talked to someone inquiring whether, or why, Baker hadn't transferred title to the MGIC certificates to Baker, who was Baker's attorney at that time?

Mr. DARLING. I meant the counsel that I employed was a fellow student with me who graduated from the same law school I go to, about a year ago. His name is Joseph Duvall. We met in his office in Arlington, with a Mr. Fitzpatrick, and he employed Mr. Fitzpatrick for Arnold, Fortas & Porter, I believe is the name of the law firm, at that time handling Mr. Baker's affairs.

Senator SCOTT. I think that is all.

Mr. McLendon. That is all.

The CHAIRMAN. That will be all. Thank you.

Mr. DARLING. Thank you, sir.

The CHAIRMAN. Mr. Yingling?

Mr. McLendon. I am advised that this witness is temporarily absent. He will be back in a minute.

The CHAIRMAN. Mr. Yingling, would you place your hand on the Bible, please, sir?

Do you solemnly swear that the evidence you are about to give before this committee in the matter under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. YINGLING. I do.

The CHAIRMAN. Thank you. Be seated.

Mr. McLENDON. Will you state your full name and your residence address, please?

TESTIMONY OF JOHN H. YINGLING

Mr. YINGLING. My name is John H. Yingling, and I reside at 3011 Dartmouth Road, Alexandria, Va.

Mr. McLENDON. Mr. Chairman, and gentlemen of the committee, this witness has handed me a written statement. He asked me if I would read it, but he consents to be examined. I have the statement here. What is the pleasure of the committee?

Senator SCOTT. Wouldn't it be normal for the witness to read the statement?

Mr. YINGLING. Shortly before August 20, 1959, Mr. Bobby Baker called me and told me he had been offered an opportunity to purchase stock in the Mortgage Guaranty Insurance Co.

He told me who some of the principals of the company were and what it would do. He asked me what I thought of the opportunity, and I replied that I thought it was good.

He then told me that the stock was available in units, at a cost of \$2,300, and asked me if I wanted to buy any. I replied that I would like to do so, but that I did not want the principals to know that I was buying. That was agreeable to him, whereupon I asked him to buy me \$2,300 worth in the name of my brother-in-law, J. E. Lightle, Jr., of Searcy Ark.

On August 20, 1959, I delivered or sent Mr. Baker a check for \$2,300.

In November 1959 and May 1960, I received written reports from the company about its progress, addressed to Mr. Lightle, in care of Mr. Baker's office.

At some time during this period, I received the stock certificates, in the name of Mr. Lightle.

In the spring of 1961, I wrote or called Mr. Lightle, asking that he transfer the stock to my broker, Jones, Kreeger & Co., for my account, in order that I might begin to dispose of it. On June 15, 1961, he sent me the certificate, for 1,472 shares, endorsed to the broker.

In August 1961, I began selling the stock, at various prices, ranging from \$34 to \$22¾ per share, disposing of all of it except 10 shares which I still own.

My cost per share was \$1.56. I estimate that I profited somewhere in the neighborhood of \$25,000 to \$30,000.

My entire file has been examined by your investigators.

At no time did any person connected with the company indicate to me any knowledge that I was a stockholder, or ask me to do anything. At no time was I aware of any problems which the company had with any Government agency. At no time did Mr. Baker ask me to do anything for him or the company.

Mr. McLENDON. Mr. Yingling, on an exhibit that has been introduced before the committee at an earlier hearing, there appears the name of J. E. Lightle, address room F-80, Washington, D.C., which happens to be the address of Mr. Baker's office at that time. When

the committee's investigators interviewed Mr. Lightle, it was learned that you were the real purchaser of the stock.

Mr. YINGLING. Yes, sir; that is true.

Mr. McLendon. And you have stated in the written statement there the circumstances under which you bought it.

Mr. YINGLING. Yes, sir.

Mr. McLendon. Had you known Mr. Baker prior to the time that he spoke to you about purchasing the stock?

Mr. YINGLING. Well, of course, I came to know him soon after I came to work in the Senate, which was in 1948, the first of 1948.

Mr. McLendon. And you were friendly with him?

Mr. YINGLING. Yes, sir.

Mr. McLendon. To the point of being intimate with him?

Mr. YINGLING. Well, I knew him very well, I thought.

Mr. McLendon. I understand from your statement that he first mentioned this subject to you.

Mr. YINGLING. Yes, sir; that is my recollection.

Mr. McLendon. Did he tell you anything about this company?

Mr. YINGLING. Yes, sir. He told me in general terms what it would do, and it is possible, although I don't recollect exactly, that he sent me a folder or some type of written material.

Mr. McLendon. And you bought the stock on his advice without any independent investigation by yourself?

Mr. YINGLING. Yes, sir; that is a correct statement.

Mr. McLendon. Is it true that at the time you purchased this stock that thereafter it was split a number of times?

Mr. YINGLING. Yes, sir.

Mr. McLendon. On one occasion 10 for 1?

Mr. YINGLING. Sir, I do not now recollect the precise splits, but the total finally amounted to 1,472 shares.

Mr. McLendon. And the number you purchased originally was how many?

Mr. YINGLING. It was in terms of units.

Mr. McLendon. Yes.

Mr. YINGLING. And the relationship of the shares to the units I do not recall, and my files don't show.

Mr. McLendon. And after the splits it amounted to 1,400 and—

Mr. YINGLING. 1,472 shares.

Mr. McLendon. 1,472 shares, and you sold all of that except 10?

Mr. YINGLING. Yes, sir.

Mr. McLendon. Did you either at the time you purchased the stock or immediately thereafter make any inquiry about the MGIC company?

Mr. YINGLING. Occasionally when I would run into Bobby, usually on the floor, I would ask him how is the stock doing, and he would reassure me, and that is about all. At some point—I don't recall when—I started checking with my stockbroker about it, but in the beginning I would ask Bobby.

Mr. McLendon. Why did you put the stock in Mr. Lightle's name?

Mr. YINGLING. Because at that time I was employed by the Senate Banking and Currency Committee, and I did not want the principals of the company to know that I was a stockholder.

Mr. McLendon. Did you disclose to anyone that you were the owner of the stock other than Mr. Baker and your brother-in-law, Mr. Lightle?

Mr. Yingling. No, sir.

Mr. McLendon. Did you pay Baker anything as a result of this transaction?

Mr. Yingling. No, sir.

Mr. McLendon. Did he request that you pay him anything?

Mr. Yingling. No, sir.

Mr. McLendon. You have retained all the proceeds from the sale of the stock?

Mr. Yingling. Yes, sir. I may say I gave—I mean just as a technicality, I made a donation to a private boys' school of a few shares of the stock.

Mr. McLendon. Of the stock itself?

Mr. Yingling. Yes, sir.

Mr. McLendon. A few shares of the stock?

Mr. Yingling. Yes.

Mr. McLendon. Other than that, you retained all the benefit from it?

Mr. Yingling. Yes, sir.

Mr. McLendon. When you sold the stock, did you sell it yourself through your own broker or did Baker sell it for you?

Mr. Yingling. I sold it through my own broker.

Mr. McLendon. All right; that is all.

The CHAIRMAN. Senator Scott?

Senator Scott. Who asked you to make the donation to the private boys' school in the form of stock?

Mr. Yingling. Who asked me to do it, sir?

Senator Scott. Yes.

Mr. Yingling. There was a general solicitation of all the parents of the students who were in the school.

Senator Scott. And who were the principals of the company that you didn't want to know that you were an owner of the stock?

Mr. Yingling. I am not certain that I knew all the principals, except I knew that a great many of them were connected with the savings and loan industry. I will give you a couple of names that I do remember if that is what you wish. One was Mr. Walton McAllister, who was a former Chairman of the Home Loan Bank Board, and who had some connection with the company, at least was a member of the board of directors, and the other was Mr. Henry Bubb, who was either president, chairman, or on the board of directors.

Senator Scott. Did Glenn Troop ever talk to you about this MGIC stock?

Mr. Yingling. Not until, oh, at least 2 years after I purchased it. Actually, as a matter of fact, he never initiated any conversation about it. I told him that I had some after I had it transferred from my brother-in-law's name to my name.

Senator Scott. Was Mr. Lightle ever an employee of the Senate?

Mr. Yingling. The correct pronunciation of that name is "Lightlee."

Senator Scott. Lightle?

Mr. YINGLING. Yes, sir. No, he was never an employee of the Senate.

Senator SCOTT. Or the House of Representatives?

Mr. YINGLING. No, sir.

Senator SCOTT. Did he ever live in Washington?

Mr. YINGLING. No, sir.

Senator SCOTT. Mr. Lightle is your brother-in-law?

Mr. YINGLING. Yes, sir.

Senator SCOTT. And what was your profit in the MGIC stock?

Mr. YINGLING. I have estimated it at somewhere between \$25,000 and \$30,000.

Senator SCOTT. And have you had any financial transactions with Bobby Baker as a result of the profits you made?

Mr. YINGLING. No, sir; none whatever.

Senator SCOTT. Have you ever talked to any other Government officials or agencies about your holding of MGIC stock?

Mr. YINGLING. No, sir.

Senator SCOTT. What did you say to Glenn Troop about the stock?

Mr. YINGLING. I don't think that—I think probably I inquired of him about what he knew about the company and how it was doing.

Senator SCOTT. Why was it that you didn't want officials of MGIC to know of your position?

Mr. YINGLING. Of my ownership of the stock?

Senator SCOTT. Yes; your ownership of the stock.

Mr. YINGLING. Because I did not feel—well, I did feel that it was conceivable that if they knew that I was a stockholder, they would feel that they had some call upon me, some entree to asking me to do something for them. I don't think I could have done anything for them, but that is the feeling I had.

Senator SCOTT. I think that is all.

Mr. McLendon. One other question, Mr. Yingling. Did you ever get acquainted with Max H. Karl of this company?

Mr. YINGLING. No, sir; I don't think I have ever met him. It is possible that I have met him, but I don't recall having done so.

Mr. McLendon. All right. That is all.

Senator SCOTT. Do you know any other shareholders of MGIC?

Mr. YINGLING. Only the ones that I have read about in the papers.

Senator SCOTT. Did you recommend MGIC to anyone else to buy?

Mr. YINGLING. At this time?

Senator SCOTT. At any time.

Mr. YINGLING. As I have told you, I sold all but 10 shares of mine.

Senator SCOTT. Did you ever recommend it to anyone?

Mr. YINGLING. No, sir.

Senator SCOTT. That they should buy it?

Mr. YINGLING. No, sir.

Senator SCOTT. Do you know of any of the stockholders personally of MGIC?

Mr. YINGLING. I know Mr. Boggs very casually.

Senator SCOTT. Mr. Who?

Mr. YINGLING. Mr. Boggs, and I also knew Mr. Wilson when he was working in the Senate.

Senator SCOTT. When you sold the stock, did you retain the entire profits or did you share the profits with anyone?

Mr. YINGLING. I retained the entire profits.

Senator SCOTT. That is all.

Mr. McLendon. That is all.

The CHAIRMAN. Thank you sir. That will be all.

Mr. YINGLING. Thank you, sir.

The CHAIRMAN. The committee will now stand in recess until 10 o'clock in the morning.

(Whereupon, at 3:10 p.m., the committee recessed, to reconvene at 10 a.m., Friday, January 24, 1964.)

FINANCIAL OR BUSINESS INTERESTS OF OFFICERS OR EMPLOYEES OF THE SENATE

FRIDAY, JANUARY 24, 1964

U.S. SENATE,
COMMITTEE ON RULES AND ADMINISTRATION,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in the caucus room, Old Senate Office Building, Senator B. Everett Jordan (chairman) presiding.

Present: Senators Jordan, Hayden, Cannon, Pell, Clark, Scott, and Cooper.

Also present: Hugh Alexander, chief counsel; L. P. McLendon, general counsel; Burkett Van Kirk, associate counsel; James Duffy, associate counsel; William B. Whitley, staff assistant to Senator Jordan; Walter Mote, professional staff member; William Ellis Meehan, investigator; Samuel Scott, investigator; and Alice Clark, staff.

The CHAIRMAN. A quorum being present, the committee will please come to order.

This committee is acting by direction and under the authority of Senate Resolution 212, agreed to October 10, 1963, and Senate Resolution 221, agreed to November 1, 1963. Senate Resolution 212 authorizes and directs the Senate Committee on Rules and Administration—to make a study and investigation with respect to any financial or business interests or activities of any officer or employee or former officer or employee of the Senate for the purposes of ascertaining, (1), whether any such interests or activities have involved conflicts of interest or other impropriety; and (2), whether additional laws, rules, or regulations are necessary or desirable for the purposes of prohibiting or restricting any such interests or activities.

Witnesses have been interviewed by the staff and heard both in executive and in public sessions. Considerable evidence has been obtained and testimony received to date.

Witnesses who have appeared previously or who will be called in the future possess information which the committee believes is material and pertinent to the provisions of the resolution of direction and authorization and which will aid the committee in fulfilling its legislative purpose.

The Chair advises each witness that he is entitled under the rules of procedure of this committee to retain and be accompanied by counsel. Counsel may advise a witness of his legal rights during the course of his testimony. Should the witness not fully understand the question, the witness may ask for clarification. Counsel, however, shall not coach the witness or answer for the witness.

The committee will now proceed to hear the testimony of Mr. Boggs. Will you kindly come forward, Mr. Boggs, and be sworn in?

Mr. Boggs, will you remain standing, please, sir? Put your left hand on the Bible, and raise your right hand.

Do you solemnly swear that the evidence you are about to give before this committee, in the matter now under investigation, is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Boggs. I do.

The CHAIRMAN. Thank you, sir.

Have a seat.

Mr. McLendon. Will you please state your full name and your residence address?

TESTIMONY OF MAYWOOD BOGGS

Mr. Boggs. My name is Maywood Boggs, 235 Cedar Lane, Fairfax, Va.

Mr. McLendon. What is your business, Mr. Boggs?

Mr. Boggs. I am an officer of the International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers & Helpers, AFL-CIO.

Mr. McLendon. Do you have an office in Washington?

Mr. Boggs. Yes, sir; I do.

Mr. McLendon. How long have you occupied the office in Washington?

Mr. Boggs. I have had an office in Washington since December 6, 1948.

Mr. McLendon. What are, generally, your duties in your position with the union?

Mr. Boggs. My present position in the union is vice president—international vice president.

Mr. McLendon. Can you give us a little description of your duties as vice president?

Mr. Boggs. Yes, sir. I have an area that I represent comprising the States of Virginia, West Virginia, Tennessee, North Carolina, and more recently have been added Maryland and the District of Columbia.

Mr. McLendon. Do your duties include lobbying in the sense that—

Mr. Boggs. No; not now.

Mr. McLendon. Not now?

Mr. Boggs. I was a registered lobbyist for a number of years when I first came to Washington. I became a vice president in 1956, upon the death of my predecessor. Prior to that, I had the position of Washington representative, with the title of "International Representative." I came here in 1948, and one of the first jobs that we set out to do was attempt to repeal Taft-Hartley. I was a registered lobbyist at that time.

And we have had many continuing interests in the legislative field. My organization is affected by many things—many enactments of Congress, such as appropriations for maritime work, Navy, ships, and so on.

We are also affected as a building trades organization in all of the labor standards provisions, such as Davis-Bacon Act, Copeland Act, and others.

Mr. McLendon. Were you a registered lobbyist in August 1959?

Mr. BOGGS. No, sir.

Mr. McLENDON. How long prior to that date had you ceased to be a registered lobbyist?

Mr. BOGGS. Well, I cannot tell you exactly.

Mr. McLENDON. Was it as much as a year, 2 years?

Mr. BOGGS. More than that. I don't think I have been registered as a lobbyist since I have been a vice president, because my trips to the Hill since that time have been very infrequent and on a very specific type of thing, discussing with someone whether or not the Davis-Bacon provisions were in appropriations bills affecting Government construction by contract.

Mr. McLENDON. When did you first become acquainted with Robert G. Baker?

Mr. BOGGS. Sir, I couldn't tell you exactly. My acquaintanceship with Bobby, if I may call him that, has been quite—for quite a long time. I naturally met him as a result of my activities in legislative work early after I came here.

Mr. McLENDON. So you did know him during the time that you were a registered lobbyist for your union?

Mr. BOGGS. Oh, I would say that I must have met him during the course of that time, sir.

Mr. McLENDON. Did you become well acquainted with him?

Mr. BOGGS. In the sense that I frequently talked to Bobby about how legislation was scheduled and when it was coming up, and things of that sort. I would say yes.

Mr. McLENDON. Did you attempt to get his influence with respect to legislation in which your union was interested?

Mr. BOGGS. No, sir; I wouldn't say that. I discussed legislative matters with Members of Congress, both in the House and in the Senate, with their legislative assistants or administrative assistants, or people of that kind. Although I recognized Bobby was important in his field, I didn't consider that to be his field.

Mr. McLENDON. I am not sure I understood that remark. You recognized that Baker was important as what?

Mr. BOGGS. An important officer of the Senate in the sense of his particular field. But I never recognized him as one with whom you discussed the technical points of legislation.

Mr. McLENDON. I see.

Mr. BOGGS. I always did that, either with Senators or Congressmen or their assistants.

Mr. McLENDON. Do you recall having a conversation with him in August 1959 about the MGIC corporation?

Mr. BOGGS. Yes, sir.

Mr. McLENDON. Do you recall where you were when you talked with him first about MGIC?

Mr. BOGGS. Well, may I relate how this came about?

Mr. McLENDON. Well, my question is, could you recall where it was?

Mr. BOGGS. I believe I can. The details of this thing escape me. But I think I have a general knowledge of how this came up.

Mr. McLENDON. All right. You go ahead in your own way, then, and tell us what occurred and what was said.

Mr. BOGGS. Along that side of the Senate, in the corridor that faces—the door that faces the corridor going over to the House—I

was out there and saying hello to people that I knew around. We were just standing there. And I got an impression by something that was said about this stock. Now, I didn't even know the name of it was Mortgage Guaranty Insurance Co. or what it was. And I inquired——

Mr. McLendon. This subject was brought up by someone else, because prior to that you had never heard of it?

Mr. Boggs. That is true.

Mr. McLendon. Was Baker the man who first mentioned it?

Mr. Boggs. No, sir; he wasn't. Well, he probably was the first man who mentioned the exact name of the company.

Mr. McLendon. What did he say to you with respect to his opinion of the stock?

(At this point, Senators Hayden and Clark withdrew from the hearing room.)

Mr. Boggs. I asked him what the stock was, and he told me. I asked him if it was available. And he told me that he didn't know, that he would find out.

Mr. McLendon. And did he later advise you that it was available?

Mr. Boggs. Yes, sir; he asked me, he said, "About how much would you want?" and I said something around \$2,000.

Mr. McLendon. How much later after that was it that he told you that he ascertained that the stock was available?

Mr. Boggs. I would just say a few days, sir.

Mr. McLendon. Was that by telephone or in personal conversation?

Mr. Boggs. I believe it was by telephone.

Mr. McLendon. What did he say?

Mr. Boggs. He told me that it was available, and that it was being sold in units composed of a certain number of shares of Mortgage Guaranty Insurance Co. and a certain number of shares of the sales organization, or the agency, I believe it was called, and that five units of that would cost \$2,300.

Mr. McLendon. Did he volunteer to buy it for you?

Mr. Boggs. I couldn't say that, sir. I asked him if he would get it for me.

Mr. McLendon. And he agreed, did he not?

Mr. Boggs. Yes, sir.

Mr. McLendon. And did you get the money, the \$2,300, and pay it to Baker?

Mr. Boggs. Yes, sir; I made a check to Robert G. Baker.

Mr. McLendon. Payable to him?

Mr. Boggs. Yes, sir.

Mr. McLendon. Drawn on your bank account?

Mr. Boggs. Yes, sir.

Mr. McLendon. And, thereafter, did he cause to be delivered to you certificates of stock?

Mr. Boggs. Yes, sir. He called me later and told me that the stock—he had the stock. And I asked him if he would put it in the mail to me, at my office.

Mr. McLendon. Now, the stock was delivered to him first, and then, he, in turn, delivered it to you, is that right, by mail?

Mr. Boggs. I presume this is the case, because he told me he had it.

Mr. McLendon. There is an exhibit in evidence, Mr. Boggs, showing your name listed, with your address as the address of Mr. Baker in the Capitol. Does that explain why the certificate was delivered to him, and then he mailed it to you?

Mr. Boggs. It probably would, sir. This is an assumption on my part.

Mr. McLendon. In other words, you had nothing to do with it except to give him the \$2,300, and he handled the rest of it?

Mr. Boggs. Yes, sir.

Mr. McLendon. What did you do with the stock?

Mr. Boggs. I kept it until the 10th of November 1960, and sold it.

Mr. McLendon. To whom did you sell it?

Mr. Boggs. To Mr. Baker.

Mr. McLendon. Tell the committee the circumstances under which you sold—resold this stock to Mr. Baker.

Mr. Boggs. Well, sir, when—in the conversation I had with Bobby regarding—when he told me he had the certificates, he told me, he said, “I think this is pretty good, and if you want to sell it at any time, I will be glad to buy it from you.”

Mr. McLendon. Excuse me a moment. Are you saying that at the time you bought the stock you had an understanding with him that he would take it off your hands at any time?

Mr. Boggs. No, sir; I didn’t say that.

Mr. McLendon. What do you mean?

Mr. Boggs. I said when he called me and told me he had the stock certificate, he said, “I think this is pretty good, and if you want to sell it at any time in the future, I will be glad to buy it from you.”

Mr. McLendon. All right. Now, you were going to explain how you handled the sale.

Mr. Boggs. Well, the circumstances were that, unfortunately, I needed some money to take care of costs of educating my children, one of which is in college, and my oldest boy in military school. And I decided to sell the stock. And I inquired of Bobby if he would be interested in it. And he told me he would be quite interested in it, and he would offer me \$4,600 for it.

Mr. McLendon. That was a personal offer from him?

Mr. Boggs. Yes, sir.

Mr. McLendon. Did you deliver him the certificate?

Mr. Boggs. Yes, sir.

Mr. McLendon. And how did he pay you?

Mr. Boggs. He paid me by check, sir. He paid me by two checks.

Mr. McLendon. Two checks?

Mr. Boggs. Yes; one on one bank and one on another.

Mr. McLendon. His personal checks?

Mr. Boggs. Yes, sir. I say yes, sir. I mean the checks are better proof of themselves than anything I could remember about them. You realize I am speaking completely from memory now. I have no records of these things.

Mr. McLendon. Do you have any knowledge as to how that stock was transferred, if it was transferred, after you delivered it to Baker? You understand my question?

Mr. Boggs. Well, there is a place that you sign a release of the stock to somebody else, I believe. Now, this is memory, too. But the stock certificate itself, of course—

Mr. McLendon. My question is, Do you have any knowledge of whether that stock certificate was transferred on the books of the corporation to anyone after you endorsed it and delivered it to Baker?

Mr. Boggs. No, sir.

Mr. McLendon. You do not?

Mr. Boggs. That is the last knowledge I had of that stock.

Mr. McLendon. Have you received any notices from the company, such as notices of stockholders' meetings or financial reports, since you delivered the certificate to Baker?

Mr. Boggs. No, sir, I have not. But I had received a report from the company prior to this.

Mr. McLendon. Well, the fact that you have not received any notices since you delivered the certificate would be some indication that it is no longer in your name, would it not?

Mr. Boggs. It certainly would.

Mr. McLendon. But you cannot inform the committee with respect to what became of the certificate after you sold it to Baker?

Mr. Boggs. No, sir.

Mr. McLendon. Did you pay Baker anything for these services in connection with this transaction?

Mr. Boggs. Not one cent.

Mr. McLendon. Did he ask you for compensation?

Mr. Boggs. No, sir. Mr. Baker never asked me for anything.

Mr. McLendon. Did you offer to pay him?

Mr. Boggs. No, sir.

Mr. McLendon. That is all, sir.

The CHAIRMAN. Senator Cooper, do you have any questions?

Senator Cooper. Where were you when you and Mr. Baker first discussed the MGIC stock?

Mr. Boggs. Well, I was standing off—in that area around the front door—the door of the Senate that faces the corridor that goes over to the House side, Senator Cooper.

Senator Cooper. He just came up to you and started talking about this stock?

Mr. Boggs. No; we were just standing there talking. I was just more or less saying hello to some people I had known around there for a long time. In 1959 when I was up there—I don't suppose I came to the Hill more than two or three times during that year. And what the circumstances were for my being there specifically, I could not tell. I don't remember.

Senator Cooper. Did he immediately bring up the subject of the MGIC stock when you began to talk?

Mr. Boggs. No, sir.

Senator Cooper. What were you talking about before? Do you remember?

Mr. Boggs. No; I do not, sir.

Senator Cooper. Do you remember how it was brought up—the words?

Mr. Boggs. Well, there was conversation about some stock. I wasn't the only person there. But I don't know who all was there. And there was reference to some stock. And I said to Bobby, "What stock is this you are talking about?" And he told me.

Senator Cooper. Can you remember anything he said which was connected with bringing the subject up, or any reason for his telling

you about the possible purchase of this stock? Did he tell you that you ought to buy the stock?

Mr. BOGGS. No, sir.

Senator COOPER. What, in your mind, then, brought up the subject?

Mr. BOGGS. Well, the conversation went in this fashion—that it looked like it was good stock. I just merely asked if it was available.

Senator COOPER. In other words, he just began to talk to you and told you he knew about a good stock, MGIC stock, and told you that you ought to buy some of it?

Mr. BOGGS. No, sir; he didn't tell me I ought to buy it.

Senator COOPER. What did he tell you then?

Mr. BOGGS. I asked if any of it was available.

Senator COOPER. I think you said he was the one who first mentioned the stock.

Mr. BOGGS. I don't think I said this.

Senator COOPER. Did you know about the stock before?

Mr. BOGGS. No. The discussion about the stock came up in this conversation with possibly several people.

Senator COOPER. Did he bring it up? That is the point I am trying to find out.

Mr. BOGGS. I cannot pinpoint that, Senator, as to who brought up the subject.

Senator COOPER. Well, who else was there?

Mr. BOGGS. I cannot recall who all the other persons were.

Senator COOPER. You said you did not bring it up?

Mr. BOGGS. No, sir; because I didn't know anything about it.

Senator COOPER. Had you ever heard about the stock before?

Mr. BOGGS. No, sir.

Senator COOPER. Had you ever talked to anyone else about it?

Mr. BOGGS. Before or later?

Senator COOPER. You said you had not heard of it before. Did you ever talk to anyone else about it later, other than Baker?

Mr. BOGGS. Oh, yes; I think I talked to other people about it. One person I talked to about it was my wife, because it was her money that was involved.

Senator COOPER. I am sure you did that. Did you talk to anyone else, though, and ask them for advice about the stock, other than Baker?

Mr. BOGGS. No, sir; I just took a flier.

Senator COOPER. At the time you bought this stock, did you have an agreement with Mr. Baker to sell it later to him?

Mr. BOGGS. No, sir.

Senator COOPER. Do you know why it was that your address was given as his office?

Mr. BOGGS. No; I don't know why. I can only engage in speculation.

Senator COOPER. Did Mr. Baker ever perform any services for you?

Mr. BOGGS. Oh, he has told me when legislation was scheduled to come up on the floor, things of that sort, which I considered a part of normal duties.

Senator COOPER. You mean legislation connected with your position as vice president of the brotherhood?

Mr. BOGGS. Well, that my organization had an interest in.

Senator COOPER. What?

Mr. BOGGS. Legislation that my organization had an interest in, or the labor movement generally had an interest in.

Senator COOPER. Did you have some arrangement with him that he would notify you?

Mr. BOGGS. No, sir.

Senator COOPER. You never talked to him about that?

Mr. BOGGS. I never asked him to notify me. I have often gone to him and asked him.

Senator COOPER. Did you call him for the information, or would he notify you without your asking him about the legislation?

Mr. BOGGS. I don't recall that he ever called me about anything that I had asked him about previously and he was getting an answer to.

Senator COOPER. Did you ever perform any services for him?

Mr. BOGGS. No, sir; I never have. And he never asked me to.

Senator COOPER. That is all.

Mr. McLENDON. Mr. Boggs, you are clear about two things, are you not—the first one is you made a hundred percent profit on your deal?

Mr. BOGGS. Yes, sir.

Mr. McLENDON. No doubt about that. And the second is that when you mentioned the possible sale of the stock to Baker, that he replied that it was good stock, that he would be glad to take it off your hands at any time you wanted.

Mr. BOGGS. He would be glad to buy it if I wanted to sell it. And one thing I am clear about—I sold too soon.

Mr. McLENDON. Beg pardon?

Mr. BOGGS. The other thing I am clear on is that I sold too soon.

The CHAIRMAN. Thank you, Mr. Boggs.

Mr. McLENDON. Mr. Tayler?

The CHAIRMAN. Mr. Tayler, will you remain standing, and raise your right hand?

Do you solemnly swear that the evidence you are about to give before the committee in the matter under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. TAYLER. I do.

The CHAIRMAN. Have a seat, please, sir.

Mr. McLENDON. Will you give your full name and business address to the reporter, please?

TESTIMONY OF C. WILLIAM TAYLER

Mr. TAYLER. C. William Tayler, 919 18th Street NW., Washington, D.C.

Mr. McLENDON. Mr. Tayler, what is the River Park Mutual Homes, Inc.?

Mr. TAYLER. It is a cooperative housing organization which is situated in the Southwest renewal area in Washington.

Mr. McLENDON. And how does it function generally? I don't mean to give all the details. But acquaint the committee with the general manner in which it functions.

Mr. TAYLER. The purpose of the cooperative organization is to provide housing for its members. It was organized pursuant to section 213 of the National Housing Act. It is regulated, to some extent, by the

Federal Housing Administration, under a so-called regulatory agreement between the co-op and FHA, and it was financed with a 40-year mortgage, a blanket mortgage on the entire project, which is FHA insured.

Mr. McLendon. So the money comes from the FHA, does it not?

Mr. Tayler. Well, the money comes from the mortgagee, which is the New York State teachers retirement fund, but it is insured by FHA.

Mr. McLendon. And handled through the FHA. What position did you occupy with the River Park Mutual Homes, Inc., at the time Robert Baker acquired the property known as 308 N Street SW., Washington?

Mr. Tayler. I had no official position with the corporation at that time.

Mr. McLendon. How soon after that did you become connected with it?

Mr. Tayler. I was elected director and president of the corporation on October 23, 1963, and subsequently I was made general counsel.

Mr. McLendon. Do you know Mr. Harry E. Johnson of the Cooperative Housing Division of the Federal Housing Administration?

Mr. Tayler. I do.

Mr. McLendon. Now, in your position as president of the River Park Mutual Homes, Inc., did it become your duty to look into and investigate the acquisition of this property by Mr. Baker, and to give an opinion as to whether he was the rightful owner of it under the conditions prescribed by the cooperative?

Mr. Tayler. Pursuant to a request from the rest of the board of directors, I did investigate the status of the occupancy of the unit in October of 1963, and gave the board a legal opinion as to whether or not Mr. Baker was in violation of his occupancy agreement by reason of his failure to occupy the unit and use the unit as a private dwelling place for himself and his immediate family.

(At this point, Senator Scott entered the hearing room.)

Mr. McLendon. And what was your opinion?

Mr. Tayler. It was my opinion that Mr. Baker was in violation of this provision, which is a material provision of the occupancy agreement. The occupancy agreement is the document under which the occupancy rights were given to Mr. Baker by the cooperative.

Since the cooperative owns the dwelling unit, it is the legal owner of it. Neither Mr. Baker nor any other member actually have legal title to any of these units. They simply have a membership in the cooperative organization, and a vested right to occupy a particular dwelling unit.

Mr. McLendon. And who is responsible for the financing of the property?

Mr. Tayler. I am not sure I understand the question, Major.

Mr. McLendon. Well, is the obligation for the purchase price assumed by the cooperative or by the occupant?

Mr. Tayler. That is right. The overall mortgage on the project, the blanket mortgage of approximately \$9,200,000, the obligation is that of River Park Mutual Homes, Inc., and there is no personal liability on the part of any member.

Mr. McLendon. What about the obligation of the tenant, or the person that uses it? What is that?

Mr. TAYLER. The member who occupies the unit, as I said, does so under an occupancy agreement by which he agrees to pay a certain amount of monthly carrying charges which are subject to change by the board of directors, depending on the operating expense experience of the cooperative. Membership is for 3 years and is automatically renewed at the end of each 3-year period, unless the member affirmatively takes action to withdraw.

There are other provisions in the occupancy agreement under which a member can withdraw at any time, and also there are provisions under which the corporation—I use the word cooperative and corporation interchangeably—can terminate a member's membership for any one of a number of defaults which are specifically set forth in the agreement.

Mr. McLENDON. Now, in reviewing the history of this particular transaction, did you examine the files that had been accumulated by the River Park Mutual Homes, Inc., as well as those in the Federal Housing Administration?

Mr. TAYLER. I examined only the membership file of Robert G. Baker, which was held by the cooperative. I did not examine the FHA file.

Mr. McLENDON. Well, then, confining your comment to the file that was held by the cooperative, did you find a credit report in that file dated November 15, 1962?

Mr. TAYLER. I did.

Mr. McLENDON. Will you tell us how that credit report was obtained?

Mr. TAYLER. I have no personal knowledge of this, Major, because at the time, as I said, I was not an officer of the corporation. But the standard procedure at that time—this was prior to acquisition of title to the project by the corporation—was to have an applicant for membership execute an application which included a financial statement on an FHA form, and various items on such financial statement would then be verified.

Now, one means of verifying the items, and also of checking the applicant's credit standing, was to obtain a credit report from Stones Mercantile Agency, which is a local commercial credit bureau. And such a report was obtained on Mr. Baker. And that is the one to which you have referred.

Mr. McLENDON. Does that credit report contain the statement—I read from the statement—"Cousin, N. C. Tyler, age 23, administrative assistant, U.S. Senate"?

Mr. TAYLER. It does.

Mr. McLENDON. But you do not know who is responsible for making that statement?

Mr. TAYLER. I don't know the source of the information that is reflected in the credit report, no.

Mr. McLENDON. And then did you find an occupancy agreement executed by Baker?

Mr. TAYLER. I did.

Mr. McLENDON. Is there anything in that document with respect to the persons who were permitted to occupy the premises?

Mr. TAYLER. There is a provision in the occupancy agreement, page 2, article 5, which says:

The member shall occupy the dwelling unit covered by this agreement as a private dwelling for himself or for himself and his immediate family and for no other purpose.

It goes on to describe his entitlement to use the common facilities of the development, also.

Mr. McLENDON. Do you know W. A. Jernigan, or know who he is?

Mr. TAYLER. I do not personally know Mr. Jernigan, but his name is reflected on certain papers in the River Park membership file for Robert G. Baker.

Mr. McLENDON. Will you refer to the particular document in which you find his name? I call your attention to the telegram or copy of the telegram. Do you have that?

Mr. TAYLER. Yes, sir. I was going to the subscription agreement first.

Mr. McLENDON. That is all right. Do it your own way.

Mr. TAYLER. The first document that bears Mr. Jernigan's name, W. A. Jernigan, is a subscription agreement for a dwelling unit, 308 N Street SW., dated October 8, 1962. The agreement is what the name implies. He is subscribing or applying for a membership in the unit, and the right to occupy 308 N Street SW. Mr. Jernigan gives his address to this agreement as 1730 K Street NW., suite 308, Washington, D.C. That is accompanied by a request for assignment of parking space in the River Park Cooperative, which is also executed by Mr. Jernigan on the same date.

Mr. McLENDON. Do you have any knowledge as to the relation between Jernigan and Baker at that time?

Mr. TAYLER. I have no such knowledge, nor is it indicated in this file.

Mr. McLENDON. All right; go ahead. In consequence of that, was the subscription transferred to Baker?

Mr. TAYLER. Yes; it was, major. I see here a handwritten memo which I believe is in the handwriting of one of the sales agents for the cooperative, dated October 29, 1962, which indicates that—I believe it reflects—it appears to reflect a telephone conversation with Mr. Jernigan, in which he says he is going to transfer his unit to his partner, Mr. Baker. And then the person who made this memo says, "Mr. Baker originally paid the \$105," which is the subscription price that would have been accepted from Mr. Jernigan on October 8, 1962.

Mr. McLENDON. That would indicate, would it not, that the original subscription was made by Jernigan, but Baker had paid the deposit required?

Mr. TAYLER. If this memo is correct, and I have no personal knowledge of it. But the memo goes on to say that the receipt at that time for the \$105 was issued to Jernigan. Then on the following day, the sales agent for the cooperative received a telegram bearing Mr. Jernigan's name, from Mr. Jernigan, dated October 30, in which he says:

Please release town house at 308 N Street to my partner Robert G. Baker. Please apply my check to his account.

Mr. McLENDON. Do you have an extra copy of the telegram?

Mr. TAYLER. No, sir; but I supplied one to Mr. Scott.

Mr. McLENDON. We have it here.

Mr. Reporter, will you mark a copy of the telegram as an exhibit?

(The document referred to was marked "Tayler Exhibit 1," and is as follows:)

TAYLER EXHIBIT 1

CLASS OF SERVICE This is a fast message unless its deferred character is indicated by the proper symbol.	DD	WESTERN UNION TELEGRAM W. P. MARSHALL, President	SF-1201 (4-60)	SYMBOLS
				DL = Day Letter
				NL = Night Letter
				LT = International Letter Telegram

The filing time shown in the date line on domestic telegrams is LOCAL TIME at point of origin. Time of receipt is LOCAL TIME at point of destination

LLH394 AA396

B

A JNA863 PD TDJN JACKSONVILLE BEACH FLO 30 836P EST

EDWARD A BARGOON

1001 15TH ST NORTHWEST WASHDC

PLEASE RELEASE TOWN HOUSE AT 308 N STREET TO MY PARTNER ROBERT

G BAKER PLEASE APPLY MY CHECK TO HIS ACCOUNT

W A JERNIGAN.

1962 OCT 30 PM 8 58

Mr. cLONDON. And the next sheet, in pen-and-ink handwriting. Mark that, also.

(The document referred to was marked "Tayler Exhibit 2," and is as follows:)

TAYLER EXHIBIT 2

SA*

574 = TH 308

Mr. a Jennings will
send in wire trans-
ferring his int. to Baker
(partner) Mr. Baker
originally paid \$10.5
but receipt issued to
Jennings - Wants to occupy
as soon as possible.

10/29/62 =
Subject to receipt of
form + Credit report.

Mr. McLendon. After that, did you find in the files a financial statement furnished by Baker?

Mr. Tayler. Well, I found in the file a financial statement which appears to be Mr. Baker's. However, it bears no signature, the copy that I have here.

Mr. McLendon. Was it attached to a form that was used for the purpose of obtaining financial data?

Mr. Tayler. Yes, a copy of that form; yes, sir.

Mr. McLendon. Can you find the date? My copy is so bad it is blurred. I cannot find the date. Can you find a date on your copy?

Mr. Tayler. Are you referring now to the page which bears the financial information?

Mr. McLendon. Yes, sir; the one that precedes the balance sheet.

The Chairman. The one with the big "6" put on there by hand in the right-hand corner. Or does yours show that?

Mr. Tayler. No, sir; it doesn't. The major is referring to the FHA financial form, which at the top lists the employer's name, address, et cetera.

Mr. McLendon. That is right.

Mr. Tayler. Well, my copy here bears neither the signature of Mr. Baker nor the date. But I think the date can be established because it would have to have been submitted either simultaneously with or shortly after he executed the subscription agreement for the unit, and the subscription agreement is dated November 13, 1962. The usual procedure was and still is to have the applicant for membership submit the financial statement along with the subscription agreement.

Mr. McLendon. And attached to the printed form, is there a statement of liabilities and assets, showing a net worth?

Mr. Tayler. That is correct.

Mr. McLendon. Will you look at the summary of liabilities and net worth, and state whether or not it shows a total net worth of \$1,003,587?

Mr. Tayler. That is correct.

Mr. McLendon. Mr. Chairman, and gentlemen of the committee, for the record this document to which the witness has just referred is an exact duplicate of the financial statement introduced yesterday bearing date February 5, 1962, filed by Mr. Baker with the banks in connection with transactions testified to on yesterday. However, this copy does not bear a date. But it is an exact duplicate of the one introduced in evidence yesterday. This one is not signed, but is attached to the form of the FHA which describes the person as an officer of the U.S. Senate—does it not, Mr. Tayler?

Mr. Tayler. That is right.

Mr. McLendon. And lists annual salary as \$19,263.

All right. Now, go on from there, Mr. Tayler, and tell us what you found in the file.

Mr. Tayler. Well, of course, the usual verifications of employment and bank deposits. The financial clerk of the Senate verified the fact that Mr. Baker was secretary for the majority, and was receiving salary, an annual salary of \$19,611. The American Security & Trust Co. reflected—reported, rather—that Baker's balance in his checking account as of November 9, 1962, was \$8,500; that is the figure that Mr. Baker had given us in the application.

Mr. McLendon. Yes.

Mr. TAYLER. I believe I have already referred to the subscription agreement that he executed.

Mr. McLENDON. Have you identified the occupancy agreement, dated—I believe it is dated August 20, 1963; is it not?

Mr. TAYLER. Yes, sir. I think I had better explain that.

Mr. McLENDON. Yes, sir; I wish you would.

Mr. TAYLER. At the time that Mr. Baker subscribed for and was accepted for membership in the cooperative, River Park Mutual Homes did not own the project. It was still under construction. And the legal owner was River Park Investors, Inc., a subsidiary of the Reynolds Metals Co.—Reynolds Aluminum.

Therefore occupancy, when it was allowed in these units prior to August 20, 1963, the time when the cooperative took title to the project—occupancy prior to that time was pursuant to a lease agreement between the member and River Park Investors, Inc., or Reynolds Aluminum, to be more specific.

And so when Mr. Baker took his unit, took occupancy, he executed a lease dated November 19, 1962, for 308 N Street SW. And occupancy until August 20, 1963, was under the lease.

Mr. McLENDON. Is there anything in that lease dated November 19, I believe, 1962, with respect to who the occupant would be?

Mr. TAYLER. If you will bear with me a minute—

Mr. McLENDON. I call your attention to clause (c)—small c in parentheses—under paragraph 1, reciting the obligations. One of them reads:

To use the premises for no unlawful purposes, but to occupy the same only as a dwelling.

Mr. TAYLER. Yes, sir. And the next clause, (d), says:

Not to assign or sublet the premises without the landlord's written consent.

Mr. McLENDON. Now, did you ascertain, as a result of your investigation, who did actually occupy these premises?

Mr. TAYLER. At what time, though, Major?

Mr. McLENDON. Well, last fall. You talked to Baker himself, did you not?

Mr. TAYLER. Yes; I did.

Mr. McLENDON. As a result of your conversation with him, your examination of the files, did you ascertain who actually occupied the premises?

Mr. TAYLER. Yes. According to Mr. Baker, the only occupants of the premises were Miss Carole Tyler and Miss Mary Alice Martin, although at that time, in November, Miss Martin was no longer living there.

(At this point, Senator Clark entered the hearing room.)

Mr. McLENDON. November 1963?

Mr. TAYLER. Yes. But these two young ladies, according to Mr. Baker, had been the only ones that had ever occupied the unit.

Mr. McLENDON. Did you ask him what relation, if any, either of them was to him?

Mr. TAYLER. Well, no; I did not.

Mr. McLENDON. Did you claim—

Mr. TAYLER. Well, let me put it this way. It was implicit in our conversation that neither of these young ladies was a member of his

immediate family. I did not ask him to confirm the fact that Miss Tyler was his cousin, as he had indicated in his application for membership. As a matter of fact, the application for membership does not even indicate the sex of the two persons who are listed as the occupants of the house. It simply states—there is a place on the application form which calls for family composition:

All persons to reside in the unit.

And under that, Mr. Baker put:

N. C. Tyler, cousin, age 23, administrative assistant, U.S. Senate. M. A. Martin, no relationship, age 22, secretary, U.S. Senate.

It is not apparent from the face of the application what the sexes of the two persons are. But it was understood between me and Baker very clearly that they were not members of his immediate family.

Mr. McLendon. What was the result of the conference between you and Baker with respect to this controversy, about the use of the house?

Mr. Tayler. Well, I have had more than one discussion.

Mr. McLendon. Well, I mean the overall result. What agreement, if any, was arrived at?

Mr. Tayler. Oh, yes. Mr. Baker took the position that we were—we had no authority to terminate his membership and repossess the unit.

Mr. McLendon. You are telling the conversation you personally had with him?

Mr. Tayler. That is right.

Mr. McLendon. Go ahead.

Senator Scott. When was that?

Mr. Tayler. The first conversation, sir, was in November of 1963. The exact date I could get from referring to the file. But he called me.

Senator Scott. Would you give us the exact date?

Mr. Tayler. I will have to look in my legal file for that. That was November 21, 1963.

Senator Scott. Did you have other conversations with him?

Mr. Tayler. Yes, I have. And I had one meeting in my office with him subsequent to that date.

Senator Scott. What was the date of that?

Mr. Tayler. The file indicates December 10, 1963. There was correspondence between us, too, during this period of time. And there have been several phone conversations since then.

Mr. McLendon. You were about to tell what conclusion and agreement was finally reached as a result of your conversations with Baker.

Mr. Tayler. Mr. Baker told me he did not want to give up the unit. And that he wanted to allow Miss Tyler to continue to live there. That he felt that he was within his rights to do so. I told him that the legal position of the River Park Cooperative was that he had violated a material provision of the occupancy agreement, and that if he did not choose to bring himself into compliance with the agreement that we were going to terminate his membership and take whatever action was available to us under the bylaws.

This gets a little complicated, because under the bylaws we would have the right—we would have the right to exercise one of two options when we terminate a member for a default. The first option would be to take back the unit and pay him only the amount of his downpay-

ment, and we would not be permitted under the bylaws to pay him for the value of the improvements that he had made to the unit. The other option would be to sell the unit for his account, in effect, at a price that would be determined by us, and to a buyer who would be approved by us.

We never got to that point, though, because after we notified him formally that we were terminating him, that is when he came to my office, on December 10, and he said he didn't—he didn't feel that we were in a legally sound position, that his attorneys had advised him we could not do this. I reaffirmed the cooperative's position, that we would go ahead and do it unless we could work something out.

The upshot of the meeting and the conference was that I agreed with him and he agreed with me that the unit would be put up for sale, that we would find a buyer for the unit, and when a buyer was found we would take the unit from Mr. Baker, repurchase it from him for the amount of his equity only, less certain charges, administrative charges for handling the resale and attorney's fees—

Mr. McLendon. Do you recall what the amount of his equity was?

Mr. Tayler. \$1,600.

Mr. McLendon. Go ahead.

Mr. Tayler. And since he had filed a statement with us to the effect that he had spent \$6,615 on certain improvements to the unit and furnishings—I am not talking about furniture, but furnishings such as carpets and drapes and light fixtures and so forth—I told him that the cooperative was not disposed to pay him for any of those improvements in furnishings because the amount was so substantial that it might be difficult to find a buyer who would have that much in the way of cash. There is no secondary financing arrangement in this cooperative.

And so I said, "We will find a buyer, we will refer the prospective buyer to you, you work out your own financial arrangements on the \$6,600 worth of improvements and furnishings—that is between you and the buyer. If you tell me that you have arrived at a satisfactory arrangement with the buyer, then we will go ahead and process his application. But as far as the cooperative is concerned, we are going to pay you \$1,600 less certain charges. We are going to resell to the buyer simultaneously for \$1,600."

Mr. McLendon. What was the total claim that he filed for improvements to the premises—\$6,000 what?

Mr. Tayler. \$6,615.35, and he submitted an itemized statement.

Mr. McLendon. Do you have a copy of that, or do we have a copy of it?

Mr. Tayler. Yes, sir; I furnished that to Mr. Scott, pursuant to the subpoena. Incidentally, Major, I wish the record would show that I am here pursuant to a subpoena.

Mr. McLendon. Yes, sir.

Mr. Tayler. To appear and produce the River Park membership file on Mr. Baker and my legal file.

Senator Clark. May I ask a question?

Mr. McLendon. Yes, sir.

Senator Clark. You spoke of a Mr. Scott. Did he represent himself to you as an investigator for this committee?

Mr. Tayler. That is right; yes.

892 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

Senator CLARK. And was he your principal contact with this committee before you came here to testify?

Mr. TAYLER. He was my only contact with the committee before I came here.

Senator CLARK. Thank you.

Mr. McLendon. You have a letter signed by Baker dated December 19, Mr. Tayler, addressed to you, in which he sets out his contention that the improvements are worth approximately \$6,500?

Mr. TAYLER. That is right; I have such a letter.

(The letter referred to was marked "Tayler Exhibit 3," and is as follows:)

TAYLER EXHIBIT 3

TELEPHONE
308 N STREET S.W.

LAW OFFICES
TUCKER AND BAKER
308 N STREET S.W. AT DUPONT CIRCLE
WASHINGTON D. C.

SOUTH CAROLINA OFFICE
201 N. FLORENCE ST.
EASLEY, SOUTH CAROLINA
TELEPHONE 5666

EWENST - TUCKER
ROBERT - BAKER

December 19, 1963

Honorable C. William Tayler
919 18th Street, N.W.
Washington, D. C.

Dear Mr. Tayler:

This letter is to authorize the negotiation for the sale of 308 N Street, S.W., Washington, D. C. with its improvements. The house will be available to an approved purchaser by the Cooperative subject to the making of an appointment with Miss Tyler or myself to see the house. Both of us can be reached during the day at CO 5-7003.

It is my understanding that the Cooperative would like for me to enter into a separate contract with a new purchaser for the improvements that have been made at 308 N Street, S.W. The improvements are worth approximately \$6500.

Based upon our telephone conversation yesterday, it is my understanding that the Board will consider a continuation of the present arrangement for the next sixty days. If the Board approves my understanding, please notify me immediately.

My best wishes for a happy holiday season.

Sincerely,

Robert G. Baker

Robert G. Baker

RGB:t

Mr. McLendon. Did he tell you whether these improvements were all paid for by himself, or by Miss Tyler; do you recall?

Mr. TAYLER. We had some conversation about who was making these payments, the monthly charges, the downpayment, and so forth. To my best recollection, he told me that Miss Tyler had furnished the money for the downpayment, and I believe he told me that she borrowed the money from her brother—that would be the \$1,600. I also believe that he told me that Miss Tyler was making the monthly payments. And I know that at least the checks recently have been Miss Tyler's checks.

Mr. McLendon. Whose checks were they prior?

Mr. TAYLER. We have no record of that, because the office simply credited Baker's account, and didn't keep a record of whose check it was.

Mr. McLendon. I see.

Mr. TAYLER. I don't recall any conversation about whose money it was that went to pay for the improvements.

Senator CLARK. May I ask a question?

When did you become aware that the checks were coming from Miss Tyler?

Mr. TAYLER. I believe around the end of November. I have something in my file here; I could give you a very accurate and specific answer.

Yes. It was December 2—I received a memorandum from the then manager of River Park.

Senator CLARK. December 2, 1963?

Mr. TAYLER. December 2, 1963; yes.

Senator CLARK. Less than 2 months ago?

Mr. TAYLER. Yes. In which the manager advised me that they were holding a check in the amount of \$238—that is the monthly charge—from Miss Carole Tyler to apply as rent payment for the month of November, on 308 N Street, and asking what to do about it. Because, by that time, this matter had become well publicized.

Senator CLARK. What is the name of the manager?

Mr. TAYLER. The then manager was Mrs. Mary Dickson. She is no longer with River Park.

Senator CLARK. Do you know where she is now?

Mr. TAYLER. I think she is working for the Greenbelt Housing Co-operative in Greenbelt, Md.

Senator CLARK. How long prior to December had she been the manager?

Mr. TAYLER. Not very long, sir. Probably not more than a few weeks.

Senator CLARK. Who had been the manager prior to that?

Mr. TAYLER. Another employee of the FCH Co., Inc., which had the management agreement with River Park. His name is Larry Chkoreff, and he had been the manager for several months. Prior to that, it was Mr. Edward Burgoon, who is vice president of the FCH Co.

Senator CLARK. Do you know where Mr. Chkoreff is now?

Mr. TAYLER. Mr. Chkoreff is in Stamford, Conn., which is headquarters of the FCH Co.

Senator CLARK. Do you know where the predecessor manager is now?

Mr. TAYLER. Mr. Burgoon—he runs the Washington office of FCH at 1001 15th Street NW., and he is still here.

Senator CLARK. Now, would Mr. Burgoon, Mr. Chkoreff, and Mrs. Dickson, would they, in the course of their ordinary duties, receive these checks for the monthly payments on the Baker apartment?

Mr. TAYLER. Yes. But I am not so sure they would handle them personally. The actual handling of the checks would probably have been accomplished by one of the office girls.

Senator CLARK. But at least that lady and those gentlemen would be able to tell us who had handled those checks and might perhaps recollect whose checks they were?

Mr. TAYLER. Possibly. There are 518 units, Senator.

Senator CLARK. Yes. But this is a rather notorious one.

Mr. TAYLER. Not before October of 1963, though, sir.

Mr. McLENDON. Mr. Tayler, now will you summarize the status of the property at this time, as a result of your agreement with Mr. Baker?

Mr. TAYLER. The house is still up for sale.

Mr. McLENDON. Does he have under the agreement a period within which he may make the sale?

Mr. TAYLER. Well, of course, originally when I arrived at this settlement agreement with him I told him that we had a long waiting list for these houses, and that I did not think we would have any trouble finding prospective buyers. So we undertook to find a buyer. We agreed that there was a deadline of March 1 on this. If by March 1 the unit is not transferred, then we will go ahead and take the usual termination action, and the board will exercise either one of the two options I mentioned to you, which might result in Mr. Baker losing a very substantial part of his investment in the improvements.

Last week, or quite recently, it became apparent that we were having trouble selling the house because the buyers were not interested in taking the rather elaborate and extravagant furnishings.

Mr. McLENDON. Have you seen the house yourself?

Mr. TAYLER. I have not been inside the house, I am glad to say.

Mr. McLENDON. Go ahead.

Mr. TAYLER. We had a buyer. He made his deposit. He then told me that he was not interested in purchasing all of the improvements and furnishings because they were too elaborate. He made reference to lavender wall-to-wall carpeting and French wallpaper, which is hardly suitable for a man who has a family. This is a four-bedroom, two-bath house, and usually it is a man with a family who moves into it. Whereupon, I asked the manager if there were other prospects, and he said they all balk at the same thing, all of these furnishings.

And that very same day I had received a telegram from Mr. Baker complaining that the prospective buyer, whose name had been furnished to him, had never contacted him, and threatening to sue me and the cooperative if the prospective buyer did not commence negotiations by the following Friday. I think that was the Friday before last. No; it was last Friday.

Then I called Mr. Baker and told him that we were having difficulty—we had to give the man his money back because he didn't want to pay Mr. Baker for the improvements. And Mr. Baker advised me that he had many friends who he thought would be interested in buy-

ing the house, and it was left that way—that he will now furnish us with the prospective buyer.

Mr. McLENDON. A final question, Mr. Tayler. Approximately what was the value of this property to the River Park Mutual Homes, Inc., when they acquired it?

Mr. TAYLER. That is a difficult question to answer.

Mr. McLENDON. I understand it was part of a large piece of property, many houses. But can you give the committee some benefit of your opinion about it?

Mr. TAYLER. I think I can explain that. I hope I do it correctly. As I explained, there is a blanket mortgage on the entire project of \$9,200,000. Each unit in the project—apartment or townhouse—has an assigned arbitrary valuation placed on it. It is really an artificial figure.

Mr. McLENDON. Why do you say arbitrary? What do you mean by that?

Mr. TAYLER. I don't really think it reflects the true market value of the unit. It simply is a value assigned to the unit to indicate what portion of the mortgage this particular unit is going to bear. Now, the assigned valuation of this unit is \$28,880. That covers that particular unit. But I believe if it were sold on the open market, it would bring much more than that.

Mr. McLENDON. More than that?

Mr. TAYLER. I believe so.

Mr. McLENDON. Could you give the committee the benefit of your opinion as to how much more it would bring?

Mr. TAYLER. I don't have any figure in mind, sir.

Senator CLARK. Have there been any sales of like properties under and subject to the mortgage?

Mr. TAYLER. We have not yet allowed any free resale on the open market, so that there hasn't been any fair market value established for any of these units.

Senator CLARK. But in terms of your own internal operations within the cooperative, have any of these units been transferred for value?

Mr. TAYLER. That is right; and they have been transferred for the original downpayment, and no profit or no appreciation of the value of the unit has been—

Senator CLARK. Does the original downpayment reflect in any way the arbitrary cost allotted to these units?

Mr. TAYLER. Yes; it does.

Senator CLARK. So that those transfers would be of no assistance to the committee in trying to determine the fair value of the Baker unit?

Mr. TAYLER. I don't believe it would be of any assistance in determining fair market value; no.

Senator CLARK. You are not able to give us any help about the fair market value, except that you think it is more than \$28,000?

Mr. TAYLER. That is all I can do for you; yes.

Senator CLARK. You cannot even give us an educated guess as to how much more?

Mr. TAYLER. No; I am sorry; I cannot.

Mr. McLENDON. One further question, Mr. Tayler. You may have answered this. Of the \$6,500 improvements claimed by Baker, did he tell you how much of that was paid for by Miss Tyler and how much was paid for by himself?

Mr. TAYLER. No; he did not.

Mr. McLENDON. Didn't make any representation about that?

Mr. TAYLER. No, sir; but he has told me, "I would like to get my money out," or most of it out. He has used that expression.

Mr. McLENDON. You construed that to mean it was his money, I assume.

Mr. TAYLER. Well, I don't know what that means.

Mr. McLENDON. I see. All right.

Mr. TAYLER. Because he told me he only acquired the unit to help out Miss Tyler, to get a place to live, a nice place to live.

Mr. McLENDON. He told you he had acquired it for the purpose of acquiring a nice place for Miss Tyler to live?

Mr. TAYLER. As a favor to her. And I think it was in the context of that conversation that he told me that she had furnished the downpayment and had borrowed the money from her brother.

Mr. McLENDON. I see.

Senator CLARK. If it were not for these luxurious furnishings, would you anticipate any difficulty in disposing of this townhouse?

Mr. TAYLER. We would have sold it long before now. As soon as we put it on the block.

Senator CLARK. For how much?

Mr. TAYLER. For the \$1,600 downpayment.

Senator CLARK. Well, what does the \$1,600 downpayment reflect in terms of the value to you of the townhouse? That is an equity represented in an overall value of what?

Mr. TAYLER. The overall value of the project.

Senator CLARK. Well, now, does this mean \$28,000-plus?

Mr. TAYLER. I believe it bears a relation to that. But I think it has something else to do with the fact that there is a 97-percent mortgage on it, and there was very little required by the cooperative in the way of a downpayment in order to purchase this property. But I think the FHA people could probably explain that better than I can.

Senator CLARK. This project was FHA?

Mr. TAYLER. It is—the mortgage is FHA insured.

(At this point, Senator Cannon entered the hearing room.)

Mr. TAYLER. And we have a regulatory agreement with FHA. It is a device whereby they sort of ride herd on the operations of the cooperative and make certain it is on a sound basis.

Senator CLARK. After the downpayment, what are the monthly payments?

Mr. TAYLER. On this particular unit?

Senator CLARK. Yes.

Mr. TAYLER. The payments are \$219, plus \$16 a month for heating and air conditioning, plus \$3 a month for parking—that is \$238.

Senator CLARK. For how long?

Mr. TAYLER. A month.

Senator CLARK. Yes—but for how long; a hundred years, 50 years, 25 years?

Mr. TAYLER. As I explained, the occupancy agreement is for a period of 3 years, automatically renewable at the end of each 3-year period, unless the member withdraws.

Senator CLARK. But the member never gets the townhouse free and clear of the mortgage?

Mr. TAYLER. No; then some of the utilities—

Senator CLARK. Never? There must be a maturity date on the FHA mortgage.

Mr. TAYLER. Well, there would be a time when the member would no longer be paying—well, I guess perhaps you have stated it accurately and I am wrong. There would come a time at the end of 40 years when the member would no longer be paying any share of the mortgage.

Senator CLARK. Let me put it this way—

Mr. TAYLER. To service the debt.

Senator CLARK. What is the maturity date of the big mortgage insured by the FHA?

Mr. TAYLER. It would be 40 years from 1963.

Senator CLARK. So that in 1973, if everybody made their payments—

Mr. TAYLER. Forty years, sir, from 1963.

Senator CLARK. In the year 2003, if everybody made their payments, the mortgage would be satisfied and paid off; is that right?

Mr. TAYLER. As I understand it; yes.

Senator CLARK. Well, you consider the useful life of the houses to be at least 40 years, don't you?

Mr. TAYLER. I hope so.

Senator CLARK. Well, the FHA has made a pretty bad mistake if they are not.

Mr. TAYLER. I would like to also add that in the townhouses you have to pay for your own electricity, which is metered individually, and that runs \$15 to \$20 a month.

Senator CLARK. Thank you.

Mr. McLENDON. Just one further question. The \$1,600 to which you refer is explained by the provisions of the occupancy agreement which recites that the member has paid the corporation a downpayment of \$1,100. He has also paid \$500 as subscription price for his membership—making a total of \$1,600.

Mr. TAYLER. That is correct; yes.

The CHAIRMAN. Senator Cooper?

Senator COOPER. Do I understand that the nature of the property right of the occupant of the unit is that after the mortgage is paid off on the entire building, then he becomes an owner of his unit, subject to the rules of the cooperative?

Mr. TAYLER. No; it only means that he would no longer—

Senator COOPER. What is the nature of his rights in the unit?

Mr. TAYLER. His relationship with the cooperative would not be altered, as I understand it. He would still be simply a member of the cooperative, with a vested occupancy right in this unit. But his monthly payments would be reduced, because he would no longer be paying his share of the amortization of the mortgage, the interest on the mortgage.

Senator COOPER. I believe you have stated that the regulation that an applicant may not sublease the unit, or permit anyone else to occupy it other than himself and his immediate family, is a regulation of the FHA.

Mr. TAYLER. I don't know whether that is an FHA regulation. But it is a provision of the occupancy agreement that each member must sign.

Senator COOPER. Does this provision require that at the time an application is made the applicant must agree that he will not sublease it, or permit anyone else to occupy it except himself and members of his own family? Is that a condition to the agreement?

Mr. TAYLER. That is specifically set forth in the agreement, the occupancy agreement—that a member cannot sublet without the permission of the corporation.

Senator COOPER. And the applicant must sign that agreement?

Mr. TAYLER. That is right. Mr. Baker signed it.

Mr. COOPER. Are those conditions contained in the agreement?

Mr. TAYLER. Yes; they are, sir.

Senator COOPER. And does the application of Mr. Baker show that those conditions were contained in the agreement which he signed?

Mr. TAYLER. Well, the agreement he signed contains such a provision; yes.

Senator COOPER. What?

Mr. TAYLER. The agreement which he signed contains that provision; yes.

Senator COOPER. It is actually in the agreement?

Mr. TAYLER. Yes, sir. If you have the occupancy agreement, it is on page 3, at the top, article 7, Senator.

Senator COOPER. The application which refers to Miss Tyler—does it refer to her in any way which indicates she would be an occupant of the property?

Mr. TAYLER. Yes. The Baker application does indicate that Miss Tyler—that N. C. Tyler and M. A. Martin would occupy the unit. And there was no request for permission to sublet; there never has been any such request.

Senator COOPER. But it did state they would occupy the unit?

Mr. TAYLER. Yes.

Senator COOPER. And who approved the application?

Mr. TAYLER. The application was handled on behalf of River Park Mutual Homes by the firm that was acting at that time as the sales agent and managing agent of the cooperative—the cooperative was still in the process of organizing and selling its memberships—FCH Co., Inc.

Senator COOPER. May I ask, then, why the occupancy agreement would be accepted by the River Park Mutual Homes, Inc., if it appeared in the application that persons other than Mr. Baker or his immediate family would be the occupants?

Mr. TAYLER. Well, I think I can explain that—although at the time the occupancy agreement was executed on behalf of the corporation it was done by my predecessor. I was not the president of the corporation at the time. But I understand that at the time the cooperative took title in August, there were over 500 of these occupancy agreements to be signed by the then president, and I think I can state with accuracy that he did not look in the membership file of every one of these persons. He was relying on the managing agent, the FCH Co., to furnish him only occupancy agreements which should be executed by him. And I also understand that a complete list of the membership had previously been approved by FHA. So that Mr. Folken, who was then president of River Park Mutual Homes, was relying on the fact that FHA had approved the membership of Mr. Baker. And

there was nothing in what was presented to Mr. Folken to indicate there was any irregularity.

Senator COOPER. Well, was Mr. Baker's application presented to him?

Mr. TAYLER. The application would have been 9 or 10 months previous to that.

Senator COOPER. This is a two-sided agreement?

Mr. TAYLER. Yes, sir.

Senator COOPER. On the one hand, an applicant agrees, according to these conditions, that he will not sublease the unit or permit anyone else to occupy it. On the other hand, it is the corporation itself which makes these conditions; and therefore, the corporation would not enter into an agreement if it appears that anyone else is going to occupy the unit. Isn't that correct?

Mr. TAYLER. Well, I believe that the corporation should not allow a member to sublet his unit unless the board of directors has given permission; yes.

Senator COOPER. That is an entirely different thing. I think we must have this situation correctly stated. Is it a condition to an agreement that the person who is to take the unit must agree, according to the conditions which are attached, that he will not sublet the unit or permit anyone else to occupy it?

Mr. TAYLER. That is specifically set forth in the occupancy agreement. But the occupancy agreement was not signed at the time of the application back in November of 1962.

Senator COOPER. What?

Mr. TAYLER. I think the trouble arises here because the occupancy agreement was not executed at the time Mr. Baker made his application. What he would have executed then is the lease—because the cooperative did not hold title to the project. The occupancy agreements were all executed much later.

Senator COOPER. You are looking at this transaction after it occurred; I understand that you didn't have anything to do with it. You just reviewed the application. Is that correct?

Mr. TAYLER. That is right.

Senator COOPER. But you have testified that Mr. Baker did make an application in which he said that Miss Tyler and Miss Martin would occupy this unit; is that correct?

Mr. TAYLER. That is right.

Senator COOPER. And then after that application was made, the corporation entered into an agreement with him for the occupancy of the unit?

Mr. TAYLER. That is right—in August of 1963.

Senator COOPER. Did they know at that time that these two persons had been named as the occupants of the unit?

Mr. TAYLER. Well, when you say "they" if you are referring to the then—

Senator COOPER. Whoever was responsible.

Mr. TAYLER. Did the managing agent know at the time? Is that what you are asking, sir?

Senator COOPER. Yes.

Mr. TAYLER. I don't know what the managing agent knew at the time.

Senator COOPER. Well, the paper was there, wasn't it? The application was there.

Mr. TAYLER. Perhaps I can clear this up by referring to a conversation I had the other day with Mr. Burgoon, who was the vice president of FCH Co., which was the managing and sales agent. I asked him how come this application was accepted in the first place, because it clearly indicates that Mr. Baker is not going to live in the unit. And that two persons, as I say, whose sexes are not indicated in the application, are going to occupy it, and they are not members of his immediate family.

He said that at the time the application was taken from Mr. Baker, which would have been back in November of 1962, the face of the application did raise a question in his mind. It had actually been taken by one of his subordinates, but it came to his attention, and he consulted with his headquarters in Stamford, Conn., and was advised to leave that up to FHA, send it on to the FHA local insuring office, which had to approve these applications, and if they don't think it is right, let them bounce it back to you. Apparently FHA had returned some—according to Mr. Burgoon—had returned some applications, because it wasn't clear who was going to live in the unit, or some unauthorized persons would be living in the unit. This is what Mr. Burgoon told me the other day. Does that clear it up?

Senator COOPER. I think what you have just said is an extension of what you testified to before. Then it is correct that at the time this townhouse entered into an occupancy agreement with Mr. Baker, they knew he had filed an application stating that persons other than himself and his immediate family would occupy the unit. Is that correct?

Mr. TAYLER. I would say that this was apparent from the face of the application.

Senator COOPER. Would you repeat your answer?

Mr. TAYLER. I say this was apparent from the face of the application.

Senator COOPER. The townhouse did not make a decision as to whether or not he had met the terms of the regulation?

Mr. TAYLER. I am sorry, I didn't catch all of that.

Senator COOPER. You just said that according to your conversation with the man who had made the agreement, he knew about this application. He knew that Mr. Baker had stated that these two young ladies were going to occupy the apartment. It was called to his notice, and it was then referred to the president of the corporation.

Mr. TAYLER. No. He referred, or he consulted his superior in the FCH Co. Their headquarters is in Stamford, Conn. He didn't tell me he consulted any member of the cooperative, or any member of the cooperative's board of directors.

Senator COOPER. Who is this man with whom he consulted? He had some notice that there might be a breach of the regulations. Now, with whom did he consult?

Mr. TAYLER. He didn't tell me. He just said he called Stamford.

Senator COOPER. Who did he call?

Mr. TAYLER. He didn't tell me who he contacted. He just said, "I called Stamford, FCH headquarters, and they told me to send it to FHA."

Senator COOPER. What has Stamford got to do with this corporation?

Mr. TAYLER. In Stamford is the headquarters of the FCH Co., which was the managing agent and sales agent for the cooperative. He didn't consult any official of River Park Mutual Homes.

Senator COOPER. But he consulted some superior to ask him what he should do about an application which, on its face, caused him to question whether or not it was according to the regulations.

Mr. TAYLER. That is right.

Senator COOPER. And what did this man tell him to do?

Mr. TAYLER. Well, whoever he talked to up in Stamford, according to Mr. Burgoon, said go ahead and send it on to FHA, and if they think there is anything wrong they will reject it—"Don't take the burden of the decision on yourself," in effect.

Senator COOPER. Did he say whether or not he did send it on to FHA?

Mr. TAYLER. Yes. And there is a copy of the letter in the file here written by FCH, the managing agent, to Mr. Baker, advising him that FHA has approved his application. I think that letter is dated sometime—it is dated December 16, 1962.

(At this point, Senator Pell entered the hearing room.)

Mr. TAYLER. And it is over Mr. Burgoon's signature. Mr. Burgoon was not an employee of the River Park Mutual Homes. I think that is where you may have some misunderstanding. He is the vice president of the FCH Co. which managed River Park, and which was selling the units on behalf of River Park.

Senator CLARK. May I ask a question?

Senator COOPER. Just a minute. Suppose an application is made—and that has to be done prior to an occupancy agreement. Who makes the decision as to whether or not the application meets the conditions and regulations which are imposed by the corporation?

Mr. TAYLER. Since the cooperative took title in August of 1963, it would be the board of directors of River Park Mutual Homes, Inc.

Senator COOPER. At the time this agreement was made, had the cooperative taken title?

Mr. TAYLER. At the time that the occupancy agreements were signed for those members who were already in residence, the cooperative had not yet taken title.

Senator COOPER. Well at that point, then, whose duty was it to pass upon the application as to whether or not it met the conditions imposed?

Mr. TAYLER. It would be the duty of Mr. Burgoon as the chief official of the firm with whom we had the managing and sales agreement. And then it would have—it had to be forwarded to FHA local insuring office for approval.

Senator COOPER. Then Mr. Burgoon had the personal responsibility to determine whether or not the application of Mr. Baker was conforming with the regulations?

Mr. TAYLER. That is right. And there was no procedure whereby any of these applications, these pretitling applications, were submitted to the board of directors of the cooperative.

Senator COOPER. I understand that. You said the board of directors did not have title at the time this agreement was entered into.

But I think you have said now that Mr. Burgoon at that time had the responsibility of deciding whether or not all conditions had been met.

Mr. TAYLER. That is correct.

Senator COOPER. And you stated that he knew, according to his own statement, that the application of Mr. Baker indicated that one of the conditions would not be met, or might not be met.

Mr. TAYLER. That is correct.

Senator COOPER. And he was unwilling to take the responsibility of making a determination, and he passed it on to the FHA.

Mr. TAYLER. No; to FCH.

Senator COOPER. To who?

Mr. TAYLER. FCH Co., in Stamford, Conn.

Senator COOPER. And then FCH would not make the determination and advised him to let the decision be made by FHA; is that correct?

Mr. TAYLER. That is correct.

Senator COOPER. It was the FHA, then, which finally determined that the application of Mr. Baker was all right?

Mr. TAYLER. Well, yes. But I think that simply by virtue of forwarding the application to FHA, Mr. Burgoon, and his firm, the FCH, were in effect, or impliedly approving it, because they were not supposed to forward any application for FHA approval if they didn't feel that it was in order and should be accepted.

Senator COOPER. Well then, would you say that Mr. Burgoon had approved the application, which on its face showed that one condition was not being met.

Mr. TAYLER. I would say that the FCH Co. impliedly approved it; yes.

Senator COOPER. What?

Mr. TAYLER. The FCH Co. impliedly approved it before forwarding it to FHA.

Senator COOPER. Was your action later, asking Baker that the property be sold, based upon the fact that a regulation had not been observed by him?

Mr. TAYLER. It was based on our contention that Mr. Baker had violated the provision of the occupancy agreement requiring him to use it as his personal residence. And it was my position as counsel to the cooperative that, regardless of what was in the application for membership which preceded the execution of the occupancy agreement, it was the occupancy agreement which was binding and controlling in this matter.

Senator CLARK. May I ask a question?

Mr. Tayler, do you know who conducted the negotiations first with Mr. Jernigan and later with Mr. Baker for the sale of this house in the fall of 1962?

Mr. TAYLER. I believe that I can give you two of the names. As I indicated earlier, there is a handwritten memo in the file signed by Mrs. Mary Dickson, indicating that she had a conversation with Mr. Jernigan in which he said he wanted to transfer the unit to Mr. Baker. That would be October 29, 1962. According to the FCH Co., which made a report to me when I was investigating this matter last fall, it was another of their employees who actually accepted the application initially from Mr. Baker. That was Mr. Bruce Bowman.

Senator CLARK. I have before me a handwritten memorandum, photostated, in the file, which is unsigned, but is dated October 29, 1962, which says—I can't read it very well:

W. A. Jernigan will send in wire transferring his unit to Baker, partner. Mr. Baker originally paid \$105, but receipt issued to Jernigan. Wants to occupy as soon as possible.

Is that the memorandum from Mrs. Dickson to which you referred? (The memorandum referred to will be found on p. 887.)

Mr. TAYLER. That is the one I referred to, which I believe is in her handwriting. I have not verified this with Mrs. Dickson.

Senator CLARK. Are you familiar with Mrs. Dickson's handwriting?

Mr. TAYLER. Yes.

Senator CLARK. Thank you.

Senator SCOTT. On that point—

Senator CLARK. Let me correct the record. I read "unit" and I should have read "int," or interest.

Senator SCOTT. Could you tell us something more about who Mr. Jernigan is—where is he from, what did you know about Mr. Jernigan?

Mr. TAYLER. I have no knowledge of the identity of Mr. Jernigan, other than what is reflected in this file. And the only thing in the file that he signed was a subscription agreement to which I have already referred, and an application for a parking space.

Senator SCOTT. Do you know where he comes from? Does he give an address?

Mr. TAYLER. Yes. I think I mentioned this earlier.

Senator SCOTT. I didn't catch it.

Mr. TAYLER. 1730 K Street NW., suite 308, Washington, D.C. Now, the file, Senator, does not contain any application for membership or financial statement from Mr. Jernigan.

Senator SCOTT. May I proceed, Mr. Chairman?

Are you through, Senator Clark?

Senator CLARK. Yes; I am through.

The CHAIRMAN. Yes; you may proceed.

Senator SCOTT. Mr. Tayler, do you have an itemized schedule of the furnishings and improvements on this unit?

Mr. TAYLER. Yes; I do.

Senator SCOTT. Would you read that into the record?

Mr. TAYLER. Senator, I have here before me a form on which members of River Park Cooperative are asked to report the improvements that they have made to their individual units and to give the cost of such improvements. This form was submitted to the cooperative as a result of my conversation on the telephone with Mr. Baker on November 21. He was unaware that there was such a form. I indicated to him that he had better file it, because the deadline was fast approaching.

Now, on his attachments to the form, he heads it:

Improvements on 308 N Street SW. Carpet, finest grade wool carpeting, wall-to-wall throughout entire house, cost \$2,130.10. Basement made into family room, Philippine mahogany paneling, enclose staircase. Carpet entry, \$650; vinyl floors, \$112.25. Installation of vinyl floors, \$29. Supplies, \$410. Carpeting down stairway, \$89.

Bringing a total cost of the basement improvement to \$1,290.25.

Papering, painting in living room, dining room, bathroom, bedrooms, stairways, cost \$520. Draperies made to order for third floor, cost \$320. Draperies

made to order for other rooms in house, cost \$800. Dishwasher, Hotpoint, newest model, cost \$250. Washer and drier in basement and installation, cost, \$455. Patio, shrubbery, and landscaping, cost \$450. Light fixtures with installation, cost, \$400.

He gives no total. But I had it run off on the tape in my office. It is \$6,615.35.

Senator SCOTT. Now, that memo doesn't show from what dealers these various items were purchased, I take it?

Mr. TAYLER. No; it does not.

Senator SCOTT. But you have earlier referred to the fact that Baker claimed that the \$6,500 improvements were made by him, Baker, saying that he had all this money invested in it. Is that right?

Mr. TAYLER. I am not so sure that is altogether accurate. I—he did not tell me who had furnished the money for these improvements. But in my conversations with him, he has made reference to "I would like to get my money back, or at least a substantial part of it," on the improvements.

Senator SCOTT. On the improvements?

Mr. TAYLER. Yes. Because no matter what happens, we are going to give him back his \$1,600 downpayment when we take the unit from him.

Senator SCOTT. He would also like to have the money back on the draperies and the other things that are in the home?

Mr. TAYLER. That is right.

Senator SCOTT. It is not his home, but in the house?

Mr. TAYLER. That is right.

Senator SCOTT. Those improvements are still there?

Mr. TAYLER. As far as I know. The last prospective buyer who looked at the house reported that these things were there. That was quite recently.

Senator SCOTT. What is there about the furnishings which seems to prevent resale of the unit?

Mr. TAYLER. Well, I can only report what the prospective buyer I dealt with last week told me, and what the manager tells me other prospective buyers have told him. I have not been inside the unit, as I said. But—I would like to preface this by again saying this type of unit, with four bedrooms and two baths, is essentially a family unit. And the prospective buyer I talked to, the man who had made the deposit on the house, and to whom I returned it last week, said he didn't want all that fancy French wallpaper. And I understand the wall-to-wall carpeting is lavender.

Senator SCOTT. When was the last conversation you had with Mr. Baker?

Mr. TAYLER. That would have been last week, Senator. I have a memo in my file, in the legal file, which indicates it was the 16th of January.

Senator SCOTT. What occurred in the course of that conversation?

Mr. TAYLER. I called Mr. Baker because he had sent me a telegram on the preceding day complaining that Mr. ——— that the buyer, the one who had made the deposit, had never contacted him to work out the arrangements for purchase of the improvements. And he went on to say if negotiations are not commenced by Friday—that would have been 2 or 3 days later—"appropriate legal action against you and the cooperative will be instituted immediately."

When I found out this man had never called Mr. Baker, I inquired, and I talked to the man, and he told me he didn't want to buy all the furnishings in the house. I told him that it was our arrangement with Baker that we would at least try to find a buyer who would purchase at least some of the furnishings. And that if he could not arrive at an understanding with Baker on that, we would have to disqualify him. Of course, this arrangement is only in effect until March 1.

So I called Mr. Baker to advise him that this prospective buyer had withdrawn, and we had refunded his deposit. And in the course of the conversation, I told him that it did not appear likely we were going to find a buyer, because of the problem with the improvements. And he said, "Well, I have friends who are interested in purchasing the house, and I will find if any of them want it, and I will refer them to you."

I also asked him what he meant by threatening to sue the cooperative in the telegram—since it had been our intention if anybody was going to sue anybody, we were going to sue him eventually. And he reported to me that he had had some legal advice to the effect that we were not in a sound legal position and that he would seek an injunction against us from dispossessing Miss Tyler if we were unable to sell the house under this settlement agreement that we are currently under.

Senator SCOTT. Did he mention that he was going to refer you to his counsel, or was acting under advice of counsel, or anything of that sort?

Mr. TAYLER. Well, he has made reference to counsel in previous conversations. In this particular conversation, he said that he had had dinner with a judge who advised him that we were wrong about this. And I told him I hoped it wasn't the judge in the landlord and tenant court. He said it wasn't.

Senator SCOTT. That is the least expensive kind of advice to get, isn't it—to go to a judge instead of an attorney?

Mr. TAYLER. He didn't identify the judge.

Senator SCOTT. Kind of shortcutting the bar?

Mr. TAYLER. Being a lawyer in private practice, I can appreciate that; yes.

Senator SCOTT. Do you know who the directors are of the FCH Co.?

Mr. TAYLER. Well, I don't know who the directors are; no, sir.

Senator SCOTT. Do you know any of the officers of the FCH Co.?

Mr. TAYLER. Yes.

Senator SCOTT. Who is the president?

Mr. TAYLER. Roger Wilcox.

Senator SCOTT. Where is he from?

Mr. TAYLER. He is in the headquarters of FCH, 322 Main Street, Stamford, Conn.

Senator SCOTT. Do you know who is chairman of the board—do you happen to know the names of any of the directors at all?

Mr. TAYLER. No; I don't.

Senator SCOTT. Did Mr. Baker make any other threats to you at any time?

Mr. TAYLER. Well, I don't know that I would characterize that as a threat, Senator. Until we arrived at this settlement agreement in

my office, he had stoutly and steadfastly maintained there was nothing wrong with having Miss Tyler and Miss Martin in the house, either morally or legally. That legally he had made it very clear in his application that he was not going to reside in it, nor were any members of his immediate family.

Senator SCOTT. I was restricting the question to whether or not any threats had been made to you, or something said that you could imply as a threat.

Mr. TAYLER. Well, no, sir. I am not sure what you mean by a threat.

Senator SCOTT. Well, I mean any threat to take any action other than what you have told us.

Mr. TAYLER. Oh, no.

Senator SCOTT. No other?

Mr. TAYLER. No.

Senator SCOTT. And you don't have any trouble getting in touch with Mr. Baker, do you?

Mr. TAYLER. No, sir.

Senator SCOTT. Now, may I just ask you a matter of your opinion here? Is it your judgment that if the FHA had known Mr. Baker was not to occupy the townhouse himself, nor was any relative of his to occupy it—is it your judgment that they would still have approved the loan?

Mr. TAYLER. Well, Senator, I don't wish to be evasive, but I cannot speak for FHA.

Senator SCOTT. Obviously. Within your regulations, would they be out of line in approving the loan under those circumstances? If Baker were not to occupy it, nor any relative of his were to occupy it?

Mr. TAYLER. Well, let me answer your question in this way: In my opinion, the application should not have been accepted in the form in which it was accepted, and should never have been forwarded to FHA, and once it got there it should never have been approved.

Senator SCOTT. That is what I am getting at. I notice that the rent, of approximately \$230 a month—it may have been \$235 or \$238—but approximately \$230 a month, over a 40-year period, would be \$110,400. And if you do your own multiplying—this is the figure I get—multiply \$230 by 12, and multiply the total by 40. And at the end of the payment of \$110,400—

Mr. TAYLER. Most of that, though, Senator—I think I can straighten you out here.

Senator SCOTT. I was going to say at the end of that would the applicant own the unit? That is what I was asking.

Mr. TAYLER. He would not have legal title to the unit. As I understand it—and this is somewhat complicated—at that time, he would no longer be paying any share of amortization and interest on the mortgage. But a substantial portion of that \$238 is for maintenance and administrative costs. It is not all going toward the mortgage.

Senator SCOTT. It doesn't all go to the mortgage?

Mr. TAYLER. No. For taxes and maintenance.

Senator SCOTT. I think that is all.

The CHAIRMAN. Senator Cooper, did you have any further questions?

Senator COOPER. No.

The CHAIRMAN. Senator Cannon?

Senator CANNON. Is there a provision for reassignment during any period of the life of the agreement?

Mr. TAYLER. You mean reassignment of the occupancy agreement?

Senator CANNON. Yes.

Mr. TAYLER. No. The occupancy rights to the unit cannot be reassigned. But if a member wishes to leave, to withdraw, move someplace else, the cooperative has a 30-day option to purchase the unit. And if it doesn't exercise that option, the member is free to sell on the open market to a buyer approved by the cooperative. Present policy of the cooperative, at least at this time, is to exercise the option in every case.

Senator CANNON. Then the co-op resells after they have exercised the option?

Mr. TAYLER. That is correct.

Senator CANNON. I am not clear on this 40-year period. At the end of the 40-year term, does the co-op then have the full title, the clear title, or does the individual have the title?

Mr. TAYLER. The legal title always remains with the cooperative. It never vests in the member. The member is like a stockholder in a corporation. He gets a membership certificate, for which he pays \$500.

Senator CANNON. But he never gets actual title to the property as such?

Mr. TAYLER. That is right.

Senator CANNON. Even when the title is free and clear from the FHA obligation?

Mr. TAYLER. It is sort of a cross between being a fee owner and a tenant, and a very complicated one, too.

Senator CANNON. Thank you, sir.

The CHAIRMAN. Senator Pell?

Senator PELL. No questions.

Mr. McLENDON. Mr. Tayler, will you refer to the occupancy agreement here? Do you have a copy of it there?

Mr. TAYLER. Yes; I do.

Mr. McLENDON. To avoid the necessity of putting this long document in the record, would you mind reading article 5, the first paragraph under article 5, which is headed, "Premises To Be Used for Residential Purposes Only"?

Mr. TAYLER. You wish me to read the entire article?

Mr. McLENDON. Just the first paragraph.

The CHAIRMAN. Mr. Tayler, may I inject this into the question that counsel has asked? If you read that one paragraph there, it will be sufficient. But I will order this entire transcript be inserted in the record after your testimony, so that it will be available. It will be furnished to the reporter.

Mr. TAYLER (reading):

Article 5. Premises to be used for residential purposes only.

The member shall occupy the dwelling unit covered by this agreement as a private dwelling for himself or for himself and his immediate family, and for no other purpose, and may enjoy the use in common with the other members of the corporation of all community property and facilities of the project so long as he continues to own a membership of the corporation, occupies his dwelling unit, and abides by the terms of this agreement.

(The document referred to was marked "Tayler Exhibit 4," and is as follows:)

TAYLER EXHIBIT 4

OCCUPANCY AGREEMENT

TOWN HOUSES

CLASS F

THIS AGREEMENT, made and entered into this Aug. 20, 1963, by and between RIVER PARK MUTUAL HOMES, INC. (hereinafter referred to as the Corporation), a corporation having its principal office and place of business in the District of Columbia at N, O & 4th Sts. & Delaware Ave., S.W., and Robert G. Baker (hereinafter referred to as Member) ; and

WHEREAS, the Corporation has been formed for the purpose of acquiring, owning and operating a cooperative housing project to be located in the area between N, O & 4th Sts. & Delaware Ave., S.W., Washington, D.C., with the intent that its members shall have the right to occupy the dwelling units thereof under the terms and conditions hereinafter set forth ; and

WHEREAS, the Member is the owner and holder of a membership of the Corporation and has a bona fide intention to reside in the project ;

NOW THEREFORE, in consideration of One Dollar (\$1.00) to each of the parties paid by the other party, the receipt of which is hereby acknowledged, and in further consideration of the mutual promises contained herein, the Corporation hereby lets to the Member, and the Member hereby hires and takes from the Corporation, dwelling unit number TH-308, located at N Street S.W., Washington, D.C.

TO HAVE AND TO HOLD said dwelling unit unto the Member, his executors, administrators and authorized assigns, on the terms and conditions set forth herein and in the corporate Charter and By-Laws of the Corporation and any rules and regulations of the Corporation now or hereafter adopted pursuant thereto, from the date of this agreement, for a term terminating on August 19, 1966, renewable thereafter for successive three year periods under the conditions provided for herein.

ARTICLE 1. MONTHLY CARRYING CHARGES AND DOWNPAYMENT.

On or before the date of execution of this Occupancy Agreement: (1) the Member has paid to the Corporation a downpayment in the amount of \$1,100.00 which is the amount applicable to this Occupancy Agreement of Class F (which downpayment is referred to in the By-Laws as the "Value of Occupancy Agreement") ; and (2) the Member has also paid to the Corporation the subscription price for his membership in the amount of \$500.00.

Commencing at the time indicated in ARTICLE 2 hereof, the Member agrees to pay to the Corporation a monthly sum referred to herein as "Carrying Charges", equal to one-twelfth of the Member's proportionate share of the sum required by the Corporation, as estimated by its Board of Directors to meet its annual expenses, including but not limited to the following items:

- (a) The cost of all operating expenses of the project and services furnished.
- (b) The cost of necessary management and administration.
- (c) The amount of all taxes and assessments levied against the project of the Corporation or which it is required to pay, and ground rent, if any.
- (d) The cost of fire and extended coverage insurance on the project and such other insurance as the Corporation may effect or as may be required by any mortgage on the project.
- (e) The cost of furnishing water and garbage and trash collection.
- (f) All reserves set up by the Board of Directors, including the general operating reserve and the reserve for replacements.
- (g) The estimated cost of repairs, maintenance and replacements of the project property to be made by the Corporation.
- (h) The amount of principal, interest, mortgage insurance premiums, and other required payments on the hereinafter-mentioned insured mortgage.
- (i) Any other expenses of the Corporation approved by the Board of Directors, including operating deficiencies, if any, for prior periods.

The Board of Directors shall determine the Carrying Charges from time to time. Said sums shall be estimated on an annual basis and divided by the number of months remaining in the then current fiscal year; but in no event shall the Member be charged with more than his proportionate share thereof as determined by the Board of Directors.

Until further notice from the Corporation, the monthly Carrying Charges for the above-mentioned dwelling unit shall be \$219.00+\$16 for heat & air cond.

ARTICLE 2. WHEN PAYMENT OF CARRYING CHARGES TO COMMENCE.

After thirty days' notice by the Corporation to the effect that the dwelling unit is available for occupancy, or upon acceptance of occupancy, whichever is earlier, the Member shall make a payment for Carrying Charges covering the unexpired balance of the month. Thereafter, the Member shall pay Carrying Charges in advance on the first day of each month.

ARTICLE 3. PATRONAGE REFUNDS.

The Corporation agrees on its part that it will refund or credit to the Member within ninety (90) days after the end of each fiscal year, his proportionate share of such sums as have been collected in anticipation of expenses which are in excess of the amount needed for expenses of all kinds, including reserves, in the discretion of the Board of Directors.

ARTICLE 4. MEMBER'S OPTION TO RENEW.

It is covenanted and agreed that the term herein granted shall be extended and renewed from time to time by and against the parties hereto for further periods of three years each from the expiration of the term herein granted, upon the same covenants and agreements as herein contained unless: (1) notice of the Member's election not to renew shall have been given to the Corporation in writing at least four months prior to the expiration of the then current term, and (2) the Member shall have on or before the expiration of said term (a) endorsed his membership for transfer in blank and deposited same with the Corporation, and (b) met all his obligations and paid all amounts due under this agreement up to the time of said expiration, and (c) vacated the premises, leaving same in good state of repair. Upon compliance with provisions (1) and (2) of this Article, the Member shall have no further liability under this agreement and shall be entitled to no payment from the Corporation.

ARTICLE 5. PREMISES TO BE USED FOR RESIDENTIAL PURPOSES ONLY.

The Member shall occupy the dwelling unit covered by this agreement as a private dwelling for himself or for himself and his immediate family, and for no other purpose, and may enjoy the use, in common with the other members of the Corporation, of all community property and facilities of the project, so long as he continues to own a membership of the Corporation, occupies his dwelling unit, and abides by the terms of this agreement.

The Member shall not permit or suffer anything to be done or kept upon said premises which will increase the rate of insurance on the building, or on the contents thereof, or which will obstruct or interfere with the rights of other occupants, or annoy them by unreasonable noises or otherwise, nor will he commit or permit any nuisance on the premises or commit or suffer any immoral or illegal act to be committed thereon. The Member shall comply with all of the requirements of the Board of Health and of all other governmental authorities with respect to the said premises. If by reason of the occupancy or use of said premises by the Member the rate of insurance on the building shall be increased, the Member shall become personally liable for the additional insurance premiums.

ARTICLE 6. MEMBER'S RIGHT TO PEACEABLE POSSESSION.

In return for the Member's continued fulfillment of the terms and conditions of this agreement, the Corporation covenants that the Member may at all times while this agreement remains in effect, have and enjoy for his sole use and benefit the property hereinabove described, after obtaining occupancy, and may enjoy in common with all other members of the Corporation the use of all community property and facilities of the project.

ARTICLE 7. NO SUBLETTING WITHOUT CONSENT OF CORPORATION.

The Member hereby agrees not to assign this agreement or sublet his dwelling unit without the written consent of the Corporation. Violation of this provision shall, at the option of the Corporation, result in termination and forfeiture of the Member's rights under this agreement. Rents under any sublease shall be assigned to the Corporation and the sublease shall be delivered to the Corporation, and the Corporation irrevocably empowered to collect rents and apply the rents in reduction of sums due from time to time under this agreement. The sublease shall be in form acceptable to the Corporation, shall require the subtenant to abide by the terms of the Occupancy Agreement during his subtenancy, and

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shall give to the Corporation an irrevocable power to dispossess or otherwise act for the sublessor in case of default under the sublease.

The liability of the Member under this agreement shall continue notwithstanding the fact that he may have sublet the dwelling unit with the approval of the Corporation. The Member shall continue liable for all obligations hereunder and shall be responsible to the Corporation for the conduct of his sublessee.

ARTICLE 8. TRANSFERS.

Neither this agreement nor the Member's right of occupancy shall be transferable or assignable except in the same manner as may now or hereafter be provided for the transfer of memberships in the By-Laws of the Corporation.

ARTICLE 9. MANAGEMENT, TAXES, AND INSURANCE.

The Corporation shall provide necessary management, operation, and administration of the project; pay or provide for the payment of all taxes or assessments levied against the project; procure and pay or provide for the payment of fire insurance and extended coverage, and other insurance as required by any mortgage on property in the project, and such other insurance as the Corporation may deem advisable on the property in the project. The Corporation will not, however, provide insurance on the Member's interest in the dwelling unit or on his personal property.

ARTICLE 10. UTILITIES FURNISHED AND CHARGES FOR ELECTRICITY.

The Corporation shall provide in amounts which it deems reasonable: (1) water, with the cost thereof included in the Carrying Charges set forth in Article 1 hereof; and (2) heat and air conditioning for which the Member agrees to pay the Corporation a monthly sum, referred to herein as "Cooperative Utility Charges", equal to the Member's proportionate share of the sum required by the Corporation (as estimated by its Board of Directors) to meet the cost of furnishing such heat and air conditioning. Until further notice from the Corporation, Cooperative Utility Charges for the above-mentioned dwelling unit shall be \$16.00 monthly, which shall be payable at the same time and for the same periods as the Carrying Charges hereinabove provided. The Member shall pay directly to the supplier for electricity for lighting, cooking, refrigerators and other appliances.

ARTICLE 11. REPAIRS.

(a) *By Member.* The Member agrees to repair and maintain his dwelling unit at his own expense as follows: (1) Any repairs or maintenance necessitated by his own negligence or misuse; (2) Any redecoration of his own dwelling unit; and (3) Any repairs, maintenance or replacements required on the following items: ranges, refrigerators, disposals, vinyl tile and ventilating fans (kitchen and bath.)

(b) *By Corporation.* The Corporation shall provide and pay for all necessary repairs, maintenance and replacements, except as specified in clause (a) of this Article.

(c) *Right of Corporation to Make Repairs at Member's Expense.* In case the Member shall fail to effect the repairs, maintenance or replacements, specified in clause (a) of this Article in a manner satisfactory to the Corporation and pay for same, the latter may do so and add the cost thereof to the Member's next month's Carrying Charge payment.

ARTICLE 12. ALTERATIONS AND ADDITIONS.

The Member shall not, without the written consent of the Corporation, make any structural alterations in the premises or in the water, gas or steampipes, electrical conduits, plumbing or other fixtures connected therewith, or remove any additions, improvements, or fixtures from the premises.

If the Member for any reason shall cease to be an occupant of the premises he shall surrender to the Corporation possession thereof, including any alterations, additions, fixtures and improvements.

The Member shall not, without the prior written consent of the Corporation, install or use in his dwelling unit any air conditioning equipment, washing machine, clothes dryer, electric heater, or power tools. The Member agrees that the Corporation may require the prompt removal of any such equipment at any time, and that his failure to remove such equipment upon request shall constitute a default within the meaning of Article 13 of this agreement.

ARTICLE 13. DEFINITION OF DEFAULT BY MEMBER AND EFFECT THEREOF.

It is hereby mutually agreed as follows: If at any time after the happening of any of the events specified in clauses (a) to (j) of this Article, the Corporation shall give to the Member a notice that this agreement will expire at a date not less than thirty (30) days thereafter (except that in the case of the default specified in clause (h) of this ARTICLE, such date of the notice shall be 10 days instead of 30 days), this agreement and all of the Member's rights under this agreement will expire on the date so fixed in such notice, unless in the meantime the default has been cured in a manner deemed satisfactory by the Corporation, it being the intention of the parties hereto to create hereby conditional limitations, and it shall thereupon be lawful for the Corporation to re-enter the dwelling unit and to remove all persons and personal property therefrom, either by summary dispossession proceedings or by suitable action or proceeding at law or in equity or by any other proceedings which may apply to the eviction of tenants or by force or otherwise, and to repossess the dwelling unit in its former state as if this agreement had not been made:

(a) In case at any time during the term of this agreement the Member shall cease to be the owner and legal holder of a membership of the Corporation.

(b) In case the Member attempts to transfer or assign this agreement in a manner inconsistent with the provisions of the By-Laws.

(c) In case at any time during the continuance of this agreement the Member shall be declared a bankrupt under the laws of the United States.

(d) In case at any time during the continuance of this agreement a receiver of the Member's property shall be appointed under any of the laws of the United States or of any State.

(e) In case at any time during the continuance of this agreement the Member shall make a general assignment for the benefit of creditors.

(f) In case at any time during the continuance of this agreement the membership in the Corporation owned by the Member shall be duly levied upon and sold under the process of any Court.

(g) In case the Member fails to effect and/or pay for repairs and maintenance as provided for in Article 11 thereof.

(h) In case the Member shall fail to pay any sum due pursuant to the provisions of Article 1 or Article 10 hereof.

(i) In case the Member fails to pay any charge which, if not paid, could become a lien against the housing project.

(j) In case the Member shall default in the performance of any of his obligations under this agreement.

Notwithstanding any other provisions of this Agreement, the Member, in case he is in default hereunder, hereby expressly waives any and all notices and demands for possessions as provided by the laws of the District of Columbia. The Member hereby expressly waives any and all right of redemption in case he shall be dispossessed by judgment or warrant of any Court or judge; the words "enter", "re-enter", and "re-entry", as used in this agreement are not restricted to their technical legal meaning, and in the event of a breach or threatened breach by the Member of any of the covenants or provisions hereof, the Corporation shall have the right of injunction and the right to invoke any remedy allowed at law or in equity, as if re-entry, summary proceedings, and other remedies were not herein provided for.

The failure on the part of the Corporation to avail itself of any of the remedies given under this agreement shall not waive nor destroy the right of the Corporation to avail itself of such remedies for similar or other breaches on the part of the Member.

ARTICLE 14. MEMBER TO COMPLY WITH ALL CORPORATE REGULATIONS.

The Member covenants that he will preserve and promote the cooperative ownership principles on which the Corporation has been founded, abide by the Charter, By-Laws, rules and regulations of the Corporation and any amendments thereto, and by his acts of cooperation with its other members bring about for himself and his co-members a high standard in home and community conditions.

ARTICLE 15. EFFECT OF FIRE LOSS ON INTERESTS OF MEMBER.

In the event of loss or damage by fire or other casualty to the above-mentioned dwelling unit without the fault or negligence of the Member, the Corporation

shall determine whether to restore the damaged premises and shall further determine, in the event such premises shall not be restored the amount which shall be paid to the Member to redeem the membership of the Member and to reimburse him for such loss as he may have sustained.

If, under such circumstances, the Corporation determines to restore the premises. Carrying Charges shall abate wholly or partially as determined by the Corporation until the premises have been restored. If on the other hand the Corporation determines not to restore the premises, the Carrying Charges shall cease from the date of such loss or damage.

ARTICLE 16. INSPECTION OF DWELLING UNIT.

The Member agrees that the representatives of any mortgagee holding a mortgage on the property of the Corporation, and the officers and employees of the Corporation, shall have a right to enter the dwelling unit of the Member and make inspections thereof at any reasonable hour of the day.

ARTICLE 17. SUBORDINATION CLAUSE.

The cooperative housing project, of which the above-mentioned dwelling unit is a part, was or is to be constructed by the Corporation with the assistance of a mortgage loan advanced to the Corporation by a private lending institution with the understanding between the Corporation and the lender that the latter would apply for mortgage insurance under Section 213 of the National Housing Act. Therefore, it is specifically understood and agreed by the parties hereto that this agreement and all rights, privileges and benefits hereunder are and shall be at all times subject to and subordinate to the lien of a first mortgage and the accompanying documents executed by River Park Investors, Inc. under date of July 6, 1961, payable to State Bank of Albany in the principal sum of \$8,547,300 (including the contemplated increase of said mortgage to the sum of \$9,284,500, and the assumption thereof by this Corporation, at the time this Corporation acquires title to the housing project securing said mortgage) with interest at 5¼ per centum, and insured or to be insured under Section 213 of the National Housing Act, and to any and all modifications, extensions and renewals thereof and to any mortgage or deed of trust made in replacement thereof and to any mortgage or deed of trust which may at any time hereafter be placed on the property of the Corporation or any part thereof. The Member hereby agrees to execute, at the Corporation's request and expense, any instrument which the Corporation or any lender may deem necessary or desirable to effect the subordination of this agreement to any such mortgage, or deed of trust, and the Member hereby appoints the Corporation and each and every officer thereof, and any future officer, his irrevocable attorney-in-fact during the term hereof to execute any such instrument on behalf of the Member. The Member does hereby expressly waive any and all notices of default and notices of foreclosure of said mortgage which may be required by law. In the event a waiver of such notice is not legally valid, the Member does hereby constitute the Corporation his agent to receive and accept such notices on the Member's behalf.

ARTICLE 18. NOTICES.

Whenever the provisions of law or the By-Laws of the Corporation or this agreement require notice to be given to either party hereto, such notice may be given in writing by depositing the same in a post office or letterbox, in a post-paid, sealed wrapper addressed to the person to whom the notice is to be given, at his or her address as the same appears in the books of the Corporation, and the time when the same shall be mailed shall be deemed to be the time of the giving of such notice.

ARTICLE 19. FISCAL REPORTS.

At the end of each fiscal year, the Corporation shall furnish to the Member a statement of the income and disbursements of the Corporation.

ARTICLE 20. ORAL REPRESENTATION NOT BINDING.

No representations other than those contained in this agreement, the Charter and the By-Laws of the Corporation shall be binding upon the Corporation.

ARTICLE 21. REMEDIES.

The exercise of any of the rights or remedies as herein provided with respect to any default shall not preclude or affect the subsequent exercise of such rights or remedies at different times and for different defaults.

The respective rights or remedies, whether provided by this Agreement or by law, or available in equity, shall be cumulative and the exercise of any one or

more of such rights or remedies shall not preclude or affect the exercise, at the same or at different times, of any other such rights or remedies for the same or different defaults, or for the same or different failures of the Member to perform or observe any provision of this Agreement.

ARTICLE 22. LATE CHARGES AND OTHER COSTS IN CASE OF DEFAULT.

The Member covenants and agrees that, in addition to the other sums that have become or will become due, pursuant to the terms of this Agreement, the Member shall pay to the Corporation a late charge of \$4.00 for each payment of Carrying Charges, or part thereof, more than 10 days in arrears.

If a Member defaults in making a payment of Carrying Charges or in the performance or observance of any provision of this Agreement, and the Corporation has obtained the services of any attorney with respect to the defaults involved, the Member covenants and agrees to pay to the Corporation any costs or fees involved, including reasonable attorney's fees, notwithstanding the fact that a suit has not yet been instituted. In case a suit is instituted, the Member shall also pay the costs of the suit, in addition to other aforesaid costs and fees.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be signed and sealed the day and year first above written.

RIVER PARK MUTUAL HOMES, INC.,
By HERBERT G. FOLKEN. [SEAL]
ROBERT G. BAKER.

Member.

Mr. McLendon. Now, do you have your letter of December 3, which is entitled "Termination Notice" addressed to Robert G. Baker?

Mr. Tayler. Yes; I have that here.

Mr. McLendon. That is your letter as counsel and president of the River Park Mutual Homes, notifying him his membership agreement is terminated.

Mr. Tayler. That is correct.

Mr. McLendon. And it states the reason for the termination.

Mr. Tayler. Yes.

Mr. McLendon. That he violated the occupancy agreement with respect to the use of the house.

Mr. Tayler. Yes. But we never did actually terminate him on the date that we state in the letter, because we had this settlement arrangement.

Mr. McLendon. Subsequent agreement with him.

Give this to the reporter.

(The document referred to was marked "Tayler Exhibit 5," and is as follows:)

TAYLER EXHIBIT 5

Re Termination Notice, 308 N Street SW.

ROBERT G. BAKER,
308 N Street Street SW.,
Washington 24, D.C.

DEAR MR. BAKER: I have reported to the Board of Directors of River Park Mutual Homes, Inc., our telephone conversation of November 21 in which you advised that you would not personally occupy your unit and that Miss Tyler would resume living there. At the Board's request, I hereby notify you, in accordance with Article 13 of the Occupancy Agreement, that your membership and Occupancy Agreement will expire on January 2, 1964. You are requested to vacate the unit on or before said date and to surrender the keys and your membership certificate for cancellation. At that time, the corporation will exercise its option under Section 6 of the By-Laws (Termination of Regular Membership) to either repurchase your membership and Occupancy Agreement at its adjusted value or sell your rights under such membership and Occupancy Agreement in accordance with the provisions of the aforementioned section of the By-Laws.

If you fail to vacate your unit on or before January 2, 1964, the corporation will avail itself of its rights under Article 13 of the Occupancy Agreement to re-enter the unit and remove all persons and property therefrom on such date.

This action is taken because of your default under section (j) of Article 13 of the Occupancy Agreement for your failure to occupy the dwelling unit as a private dwelling for yourself or for yourself and your immediate family, and for no other purpose, as required by Article 5 of such agreement. You have advised the corporation that you have never occupied the unit nor do you intend to do so and that Miss Tyler and Miss Martin have been the only occupants thereof.

Very truly yours,

C. WILLIAM TAYLER.

The CHAIRMAN. Is this an individual house, or an apartment in a group?

Mr. TAYLER. It is a row house. Townhouse is a fancy euphemistic name for a row house. It is in a building with about eight or nine other houses in the row.

The CHAIRMAN. But this house is not occupied at the present time?

Mr. TAYLER. I understand Miss Tyler is occupying the house, at the present time.

The CHAIRMAN. She is still in this house?

Mr. TAYLER. When Mr. Baker and I arrived at this settlement in early December, he asked me if I had any objection to having Miss Tyler come back in the house until the house was sold. And I told him I had no objection.

Senator COOPER. Mr. Chairman, I would like to ask a question.

There is a memo referring to conversations which you had with Mr. Baker. You have called attention to a letter of November 14. Was the basis of your letter of November 14, asking a change in the occupancy, based solely on your position that Mr. Baker had violated one of the provisions of the contract?

Mr. TAYLER. That is right.

Senator COOPER. By permitting someone else to occupy the property?

Mr. TAYLER. That was the sole basis for the board's action in this matter.

Senator COOPER. Now reading your memo, did you charge, or does the corporation charge, that one of the reasons you are calling for a change in the occupancy was based upon any immoral or disorderly activity in this unit?

Mr. TAYLER. None—the corporation's action, or the board's action in calling Mr. Baker to account for a violation of his agreement was not predicated in any way on any finding or any assumption or any suspicion that there was any disorderly or immoral activity going on at 308 N Street. But when Mr. Baker called me on November—

Senator COOPER. What is the basis for notation in your memo?

Mr. TAYLER. The reason for the language of the first paragraph is that when Mr. Baker phoned me on November 21, which was the first occasion on which I spoke with him, he identified himself as Robert G. Baker, the legal owner of 308 N Street SW., and before I could say anything he launched into this great outpouring of a defense of himself and the young ladies who were living in his house, and his heated denials that there was anything improper going on in the house. And I tried to interrupt him several times to tell him that was really immaterial to the issue at hand; that we had not taken any action, as he apparently assumed, based on anything improper going on in the house; that it was a purely legal issue, a legal question of whether

or not he was using this unit as a private dwelling for himself and his family. And since he had admitted in writing prior to November 21 that he had never lived in the house, we were taking action on that basis.

Senator COOPER. Do you have the memo before you?

Mr. TAYLER. I do; yes. I might add I wrote this memo so that I could make a full report to the board.

Senator COOPER. That is your memo?

Mr. TAYLER. The memo dated November 22 to the file, sir? Yes.

Senator COOPER. Does it represent correctly what was said in this telephone talk?

Mr. TAYLER. I think the memo accurately paraphrases what was said; yes, sir, because I dictated it into my dictating machine immediately after hanging up.

Senator COOPER. Thank you. That is all.

The CHAIRMAN. Senator Cooper, have you completed your questions?

Senator COOPER. Since he has called attention to this, Mr. Chairman, I believe that the memo should become a part of the testimony.

Mr. TAYLER. Well, sir; I suppose that is up to the chairman, whether the memo is made a part of the record.

Mr. McLendon. Do you want to make it part of the record?

Senator COOPER. I think it would have to be.

The CHAIRMAN. Certainly, if you want to make it a part of the record, it is perfectly all right.

Mr. TAYLER. I would prefer that it not be made a part of the record, for a reason which Major McLendon and I discussed this morning. But that is up to you, Mr. Chairman. I am only a witness.

Mr. McLendon. He explained to me this is just a sort of summary. It is not intended to be a word-for-word repetition of the whole conversation.

Senator COOPER. My point is, Mr. Chairman, that since he has testified to a telephone conversation, and has testified to the nature of the conversation, I think he would have to testify to all that was said between him and Mr. Baker, so that it now becomes a part of the record.

Mr. TAYLER. Well, of course, Senator, I will testify to anything that is asked me. I will make a full and complete answer to any question that is asked me.

The CHAIRMAN. Well, I will rule that that be made a part of the record. I would further like to indicate that if you have further questions, Senator Cooper, to ask, it will be perfectly all right to ask them. We don't want to cut off any questioning that might appear proper here.

(The document referred to was marked "Taylor Exhibit 6," and is as follows:)

TAYLER EXHIBIT 6

NOVEMBER 22, 1963.

From C. W. Tayler.

MEMO TO THE FILE

On Thursday, November 21, at approximately 12 noon, I returned a call from Robert G. Baker. He advised me that he was calling in reference to my letter of November 14. He stated that the Cooperative was on notice from his appli-

cation that the unit would be occupied by Carol Tyler and Mary Alice Martin, and that he would not live there. He further stated that he understood there had been no complaints from the neighbors regarding any immoral or disorderly activity in the unit, and went on to advise me that one of the three girls (whom he did not identify) had been examined by a gynecologist and been pronounced a virgin. This information was not solicited by me.

He then asked what our position was and I replied that our position was set forth in my November 14 letter and that he must bring himself into compliance with the occupancy agreement. He stated that he had consulted his attorneys, Arnold, Fortas & Porter, who advised him that we were estopped to claim any violation of the agreement because we were on notice that he was not going to occupy the unit.

He also claimed that the Cooperative, by accepting the application, agreed to a sub-lease to Miss Tyler. According to Mr. Baker, Miss Tyler has made the improvements in the unit and has been making the monthly payments. I told him we had no record of who made the payments, that we simply credited his account each month.

He asked for a copy of the application bearing his signature and I promised to furnish him same. I also advised him that December 1 was the deadline for filing the application for credits for improvements in the unit and he asked that I forward the necessary forms.

Mr. Baker categorically stated that he was within his rights in allowing Miss Tyler to occupy the unit, and that he had no intention of moving into the unit himself. He further stated that if we tried to take any action to terminate his membership and evict Miss Tyler, he would defend the matter in court. I told him that if he definitely was not going to occupy the unit, the matter would be resubmitted to the board of directors for further action and that I felt we had the right to terminate him.

Mr. TAYLER. Senator Jordan, I don't want to be obstructionist or evasive, but there is an item in that telephone conversation memo which might do harm to an innocent young lady by implication. The memo, is as I said, an accurate paraphrase of what Mr. Baker told me. But there is a matter in there that I would deplore getting into the record. That is only my personal feeling.

The CHAIRMAN. Well, the committee will take that into consideration at the proper time—because we certainly don't want to damage anybody's character that should not be injected into anything here.

Do you have any further questions?

Senator COOPER. Mr. Chairman, I will make my point very clear.

This witness made a statement, discussing his conversation with Mr. Baker. Since he has made that statement, then I think that it is proper that the conversation be included. I did not make the statement. I am not in any way implying any improper conduct on the part of these persons named. But the report of the conversation is a part of this witness' statement.

The CHAIRMAN. All right, Senator.

Senator Scott, do you have anything to add?

Senator SCOTT. I have nothing to add.

The CHAIRMAN. Senator Pell?

Senator PELL. No questions.

The CHAIRMAN. Counsel?

Mr. McLendon. No, sir.

The CHAIRMAN. The witness may be excused.

Mr. McLendon. Mr. Harry Johnson.

The CHAIRMAN. Place your left hand on the Bible; raise your right hand. Do you solemnly swear that the evidence you are about to give before this committee in the matter now under investigation is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JOHNSON. I do.

The CHAIRMAN. Have a seat, please.

Before you examine this witness, Major, Senator Scott has a matter he wishes to put in the record pertaining to yesterday's testimony.

Senator SCOTT. Mr. Chairman, yesterday—let me preface this by saying I have no criticism of the witnesses whom I am going to mention. And let me further add that I have the highest regard for the Small Business Administration. It is doing a good job, by and large, and it is a most helpful arm of the Government. I, as a member of the Small Business Committee, continually support it.

This statement results from the fact that in the newspapers this morning it points out that the legal counsel for SBA, Mr. Fred Suss, and Mr. Hoffmaster, the Maryland office manager, told the committee it was news to them that the hundred-thousand-dollar deposit slip used to secure a \$54,000 loan for the Carousel Motel at Ocean City was not worth the paper on which it was written. The Justice Department source, says this article:

A Justice Department source, however, said that FBI agents probing Mr. Baker's farflung outside business interests had told SBA officials of the gimmicked deposit nearly 2 months ago.

And the article later says that counsel, Mr. Suss, was asked for his comments on the deposit slip, and answered:

The first information we had on it was this morning.

But he said:

We will discuss this matter with the Department of Justice.

The Justice Department source said the matter already had been discussed.

And while I am fully prepared to accept the statements of Mr. Suss and Mr. Hoffmaster that they were not aware of this, I have caused some inquiry to be made. And I am presently of the opinion, and personally satisfied, that the FBI, either directly or indirectly, did inform the Small Business Administration of this transaction approximately 2 months ago.

I, therefore, respectfully suggest that the committee follow this information in order to establish whether or not the SBA was at an earlier time on notice of this particular phase of the transaction.

That is my statement.

The CHAIRMAN. Thank you. Thank you very much.

Major, you may proceed with the witness.

Mr. McLendon. Will you state your name and your present residence address?

TESTIMONY OF HARRY JOHNSON

Mr. JOHNSON. My name is Harry Johnson. I live at 985 North Potomac Street, Arlington, Va.

Mr. McLendon. Are you the Director of the Cooperative Housing Division of the Federal Housing Administration?

Mr. JOHNSON. That is correct.

Mr. McLendon. How long have you occupied that position?

Mr. JOHNSON. Since 1958.

Mr. McLendon. Mr. Johnson, can you give the committee any explanation of why the Housing Administration approved the loan on this property, in view of the fact that the application of Mr. Baker showed that he was not going to occupy it?

Mr. JOHNSON. Well, let me say this, sir. We have certain forms and documents which much be executed in connection with the closing of a loan, and also in connection with the approval of the credit of any individual member. We do require that an occupancy agreement be executed. We prescribe the form of that occupancy agreement. We are the authors of this prohibition against occupancy by nonfamily members in the unit.

Mr. McLendon. Is that applicable in all similar cooperative organizations?

Mr. JOHNSON. This is applicable to all of our cooperatives in the country.

Mr. McLendon. Go ahead.

Mr. JOHNSON. At the time we close the loan, we get certain additional certifications. We get a mortgagor's certificate, and we get a certificate by the sponsors that to the best of their knowledge, information, and belief all listed subscribers do intend to occupy the unit.

Now, in this particular case, an application form apparently was required by the FCH Co. for its own purposes. It was not an FHA form. There has been some testimony about that form here this morning. I would like to read the letter which transmitted to the Federal Housing Administration the credit papers in this case.

I might say that proposed subscribers would be submitted for approval to the FHA in groups. This was known as group 41. I believe there were about 11 proposed subscribers on this particular listing, including the applicant for the unit at 308 N Street.

The letter addressed to the Federal Housing Administration reads as follows—

Mr. McLendon. Who is the letter from?

Mr. JOHNSON. Signed by Edward A. Burgoon, vice president and Washington director of the FCH Co.

Mr. McLendon. All right.

Mr. JOHNSON (reading):

Enclosed please find in triplicate cooperative membership exhibit section 213 covering applications for housing in River Park Cooperative. After reviewing these applications, it will be greatly appreciated if you will kindly mark the third copy of this transmittal with your approval or rejection and return for our file.

Sincerely,

EDWARD A. BURGOON.

As I say, the membership exhibit attached listed some, if I am not mistaken, 11 names, with supporting data. That supporting data, so far as FHA was concerned, consisted of form 2004(c), which is executed by each individual.

Mr. McLendon. Was the Robert Baker application included in those names?

Mr. JOHNSON. Yes; it is.

Mr. McLendon. All right.

Mr. JOHNSON. And this form is signed by Robert G. Baker, under date of October 29, 1962.

Mr. McLendon. All right.

Mr. JOHNSON. It was accompanied by a financial statement. It was also accompanied by a verification of employment, as has been previously testified to. And it was also accompanied by a verification of

deposit, relating to the deposit which had been described in the financial statement.

Now, the financial statement is not dated—at least the copy I have here—but it is attached to our form. And in this form it says, “See attachment.”

Mr. McLendon. What is the date of the form?

Mr. Johnson. October 29, 1962.

(At this point, Senator Pell withdrew from the hearing room.)

Mr. McLendon. Your reference to the financial statement is the one that shows that his net worth at that time was \$1,300,000, approximately?

Mr. Johnson. That is correct. I might say that several pages of this financial statement do bear the signature of Robert G. Baker under date of October 29, 1962, in addition to the covering form.

Mr. McLendon. All right.

Mr. Johnson. Now, none of these papers which I have described list the names of the people who are going to occupy this unit. As I say, the forms which we have devised are procedures that have been designed to safeguard anything of this nature from happening, from nonmembers occupying the units. And, further, our regulatory agreement is written in such a way that if by mistake or misrepresentation or in any other way a unit is occupied by a nonmember, we have the means of requiring the cooperative to cause such parties to be evicted.

Mr. McLendon. May I interrupt? Are you saying that none of the documents filed with you, or with your office, indicated that someone else other than Baker was to occupy these premises?

Mr. Johnson. No, sir; I am not saying that. I am saying that our required FHA form to which I have made reference up to this point is to that effect. Now, there was accompanied—as I say, the FCH Co., for its own purposes, apparently, had its own application form. And this did come to the FHA. And I did inquire of the mortgage credit personnel to check this, what was the story on it. And they said it was an extraneous form; it was not necessary for their purposes in determining the acceptability or nonacceptability of the credit. And they, in effect, paid no attention to it. They relied upon the certifications which we have. And I might say—

Mr. McLendon. The document you are just referring to is that one that shows he was not occupying the premises?

Mr. Johnson. The FCH application for membership did list N. C. Tyler, cousin, and M. A. Martin.

Mr. McLendon. And who was it told you that that was of no importance?

Mr. Johnson. They didn't say it was of no importance. This particular information, if they had known of it, I am sure they would have regarded as important. What they did not regard of importance was this extraneous form.

Mr. McLendon. All right.

Mr. Johnson. Now, I might say that a couple of the applicants on this particular grouping were rejected, were found unsatisfactory as far as credit is concerned. And the credit examiner told me that—

it was a woman in this case—that they do consider motivation, and they have disapproved applicants, for example, who listed their occupation in another city, and they were unable to satisfactorily explain how they were going to live in another city and reside in this project, and they were rejected on that basis. But she tells me that she was not conscious of this information.

Mr. McLendon. Your office, then, did approve it with some knowledge that the premises were not to be used by Mr. Baker?

Mr. JOHNSON. No, sir. Not knowingly, sir—according to the information I received.

Mr. McLendon. That you didn't knowingly approve it?

Mr. JOHNSON. We did approve his credit.

Mr. McLendon. But if you had known that he was not to use the premises, to be occupied by someone else not a member of his family, would you have approved it?

Mr. JOHNSON. We certainly would not.

Mr. McLendon. You would not.

And how did you learn that the premises were being occupied by someone other than his family, other than himself or a member of his family?

Mr. JOHNSON. I learned about it through the auspices of the press.

Mr. McLendon. I see. I think the gentleman has made his explanation. That is all I want to ask him.

The CHAIRMAN. Senator Cooper?

Senator COOPER. I have no questions.

The CHAIRMAN. Senator Scott?

Senator SCOTT. I have no questions.

The CHAIRMAN. Senator Cannon?

Senator CANNON. I have no questions.

Mr. McLendon. That is all, sir.

Mr. Drennan, come around, please.

(At this point, Senator Pell entered the hearing room.)

Mr. McLendon. Mr. Drennan was sworn yesterday, Mr. Chairman. I don't think it is necessary to swear him again, unless someone wants to make a point.

Mr. Drennan, as a result of a subpoena to the McLachlen Bank, did you come into possession of certain checks of Robert G. Baker, payable to the River Park Mutual Homes or the FHA for rent on this property at 308 N Street?

TESTIMONY OF LORIN H. DRENNAN—Resumed

Mr. DRENNAN. Yes, sir; payable to the FCH Co., Inc.

Mr. McLendon. FCH Co.?

Mr. DRENNAN. That is right.

Mr. McLendon. Well, begin with the first one—since we do not have copies available we will supply copies for the record later, Mr. Chairman. Begin with the first one and read it.

Mr. DRENNAN. The first check we have is dated November 19, 1962, payable to the FCH Co., Inc., for \$1,500. This check is signed by

Robert G. Baker, and the endorsement on the back is "For Deposit Only, FCH Company, Inc., River Park Subscription Account."

The second check that we have is dated the same day, November 19, 1962, also payable to the FCH Co., Inc., for the amount of \$238, also signed by Mr. Baker, and the endorsement on the back, in the form of a stamp, is "For Deposit Only, FCH Company, Inc., River Park Investors Incorporated, Net Proceeds Account."

Mr. McLendon. Does the front of the check carry any notations as to what it is for?

Mr. Drennan. On these two checks, they do not.

Mr. McLendon. All right. Go ahead with the next one.

Mr. Drennan. The next check is dated January 2, 1963, to the FCH Co., for \$238, and on the front there is a notation "Rent on 308 N Street, Southwest". This check is also stamped with the endorsement "For Deposit Only, to the FCH Company, Inc., River Park Investors, Inc., Net Proceeds Account." And the remaining checks are also so endorsed.

Mr. McLendon. That is Baker's check, signed by him?

Mr. Drennan. This is Robert G. Baker; yes, sir.

Mr. McLendon. All right.

Mr. Drennan. The next check is dated February 1, 1963, to the FCH Corp., for \$238, signed by Robert G. Baker, with a notation "308 N Street, Southwest." And it is endorsed by stamp in the same manner as the check I previously described.

The next check is dated March 6, 1963, payable to the FCH Co. for \$238, signed by Robert G. Baker, and typed on this check is "Rent on 308 N Street, Southwest."

Mr. McLendon. Does that appear on the face of the check?

Mr. Drennan. On the face of the check.

Mr. McLendon. All right.

Mr. Drennan. And it is stamped endorsement in the same manner as the other checks I have described.

The last check that I have is dated April 5, 1963, for \$238, and, unfortunately, this check on microfilm is partially covered by another check. We can see the name Baker at the end. We cannot see any other writing on it. The endorsement on the back is the same as the other checks I have described.

Mr. McLendon. You can't identify the name of the payee?

Mr. Drennan. You cannot, no, sir—except that the endorsement is by the FCH Co.

Mr. McLendon. The same as the other ones?

Mr. Drennan. The same as the others.

Mr. McLendon. Are they the only ones you found at this particular bank?

Mr. Drennan. These are all we have found.

Mr. McLendon. Mr. Chairman, I would like permission to have these checks, copies added to the record of today—unless there is objection.

922 FINANCIAL INTERESTS OF SENATE OFFICERS OR EMPLOYEES

(The documents referred to were marked "Drennan Exhibits 1 to 6," and are as follows:)

DRENNAN EXHIBIT 1

NOV. 19 1942

McLaughlin Bank

XXXX WASH. D.C.

PAY TO THE ORDER OF F.C.H. Co INC. \$1500.00

Fifty Hundred and 00/100 DOLLARS

XXXX Robert G. Baker

XXXX

DRENNAN EXHIBIT 2

Nov. 19 116 L No.

Mc Laughlin Bank

XXXX

WASHINGTON, D.C.

PAY TO THE ORDER OF F. C. H. Co. INC. — 238⁰⁰/₁₀₀

Two Hundred Thirty Eight and ⁰⁰/₁₀₀ DOLLARS

XXXX

Robert G. Becker

XXXX

DRENNAN EXHIBIT 3

TUCKER & BAKER

STANDARD SYSTEM

2000 P. M. N. W.

WASHINGTON, D. C.

No. XXXX

Jan. 2 1163 XXXX

F. C. H. Co. — 238⁰⁰/₁₀₀

Two Hundred Thirty Eight and ⁰⁰/₁₀₀ DOLLARS

ST. LAURENCE BANKING CORP.

WASHINGTON, D. C.

XXXX

Robert G. Becker

XXXX

DRENNAN EXHIBIT 4

TUCKER & BAKER
ATTORNEYS AT LAW
2000 P ST. N.W.
WASHINGTON, D. C.

No. **XXXX**

Feb. 1, 1963

XXXX

TO THE ORDER OF FCI Corp 238.75

Two Hundred Thirty Eight

308 N St S.W.

MCLACHLEN BANKING CORP.
WASHINGTON, D. C.

TUCKER & BAKER
Robert G. Baker

XXXX

DRENNAN EXHIBIT 5

UNITED STATES SENATE

March 6, 1963

To THE MCLACHLEN BANKING CORPORATION

10th and G Streets, N.W., Washington, D. C.

PAY TO THE ORDER OF FCI COMPANY \$ 238.00

Two hundred, Thirty-eight, and no/100 Dollars

Rent on 308 N Street, S.W.

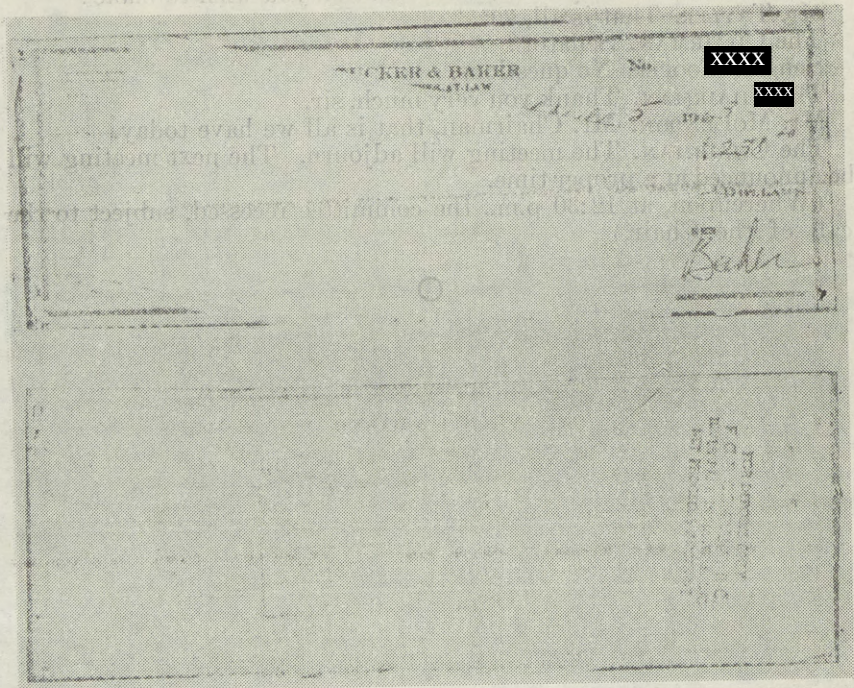
Robert G. Baker

XXXX

XXXX

265

DRENNAN EXHIBIT 6



Mr. McLendon. That is all.

The CHAIRMAN. Thank you very much.

I want to call Mr. Tayler back to the witness stand. He says he wants to clear up a mistake in his testimony.

TESTIMONY OF C. WILLIAM TAYLER—Resumed

The CHAIRMAN. Mr. Tayler, you may proceed. We appreciate your cooperation.

Mr. TAYLER. Thank you, Mr. Chairman. In response to questioning by Senator Cooper, with regard to my memo to the file of my November 21 telephone conversation with Mr. Baker, I discussed or testified about the first paragraph of that memo.

That memo indicates that Mr. Baker had told me there were three girls living in the house. That is what the memo says. And that is accurate in that that is what he told me at the time. But in order to clarify it, I would like to add that in a subsequent conversation with him he said that was a slip of the tongue, and he meant two girls, and that there had never been any more than two girls living in the house.

The CHAIRMAN. Any further explanation you wish to make?

Mr. TAYLER. That is all, sir.

The CHAIRMAN. Senator?

Senator COOPER. No questions.

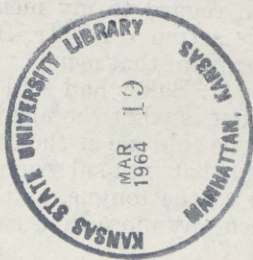
The CHAIRMAN. Thank you very much, sir.

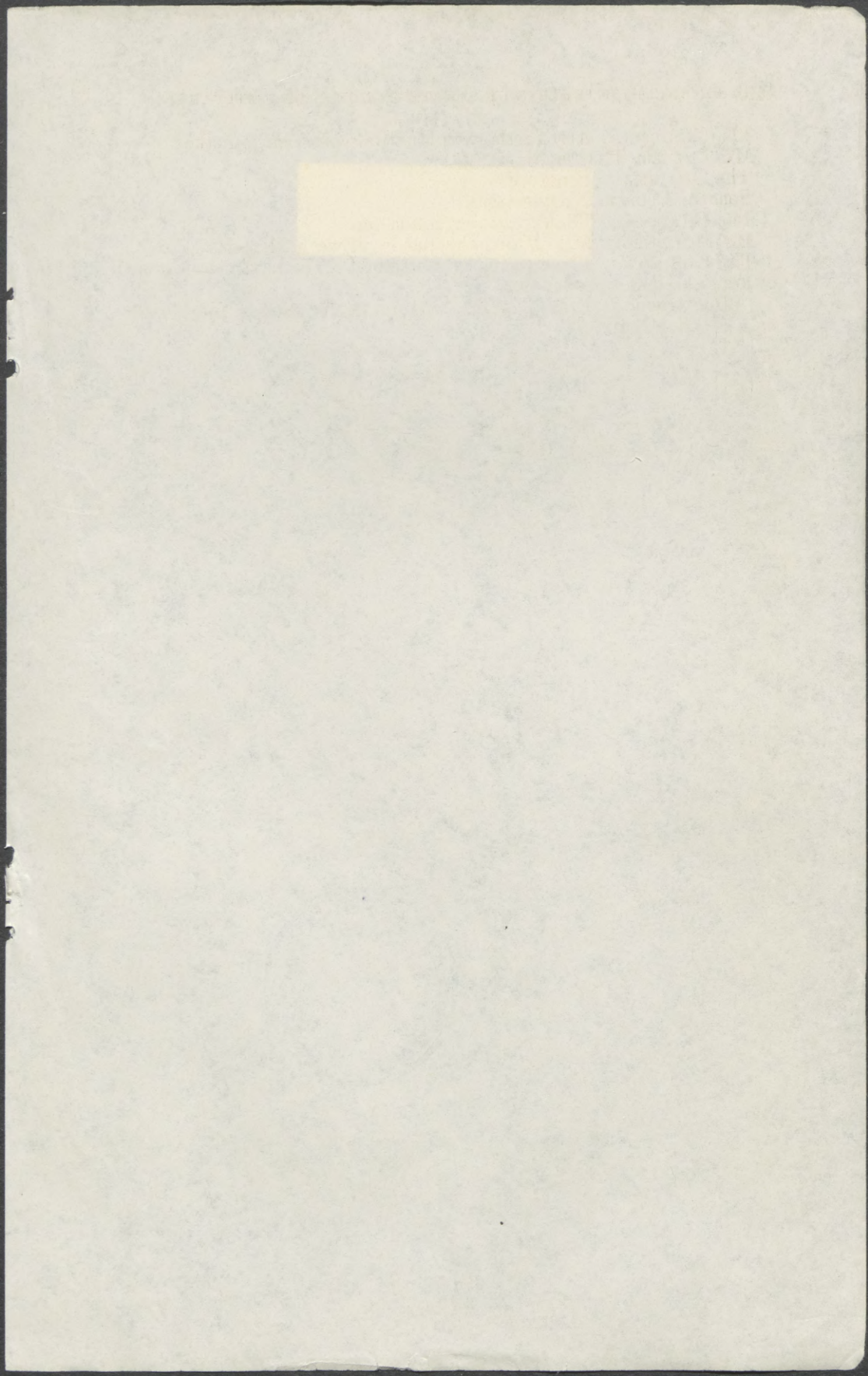
Mr. McLENDON. Mr. Chairman, that is all we have today.

The CHAIRMAN. The meeting will adjourn. The next meeting will be announced at a proper time.

(Whereupon, at 12:30 p.m., the committee recessed, subject to the call of the Chair.)

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