

ORGANIZED CRIME--  
SECURITIES: THEFTS AND FRAUDS

(Second Series)

NCJRS

JUL 29 1977

HEARINGS ACQUISITIONS  
BEFORE THE  
PERMANENT  
SUBCOMMITTEE ON INVESTIGATIONS  
OF THE  
COMMITTEE ON  
GOVERNMENT OPERATIONS  
UNITED STATES SENATE  
NINETY-THIRD CONGRESS  
FIRST SESSION

REPORT TO SECTION 4, SENATE RESOLUTION 46,  
93D CONGRESS

SEPTEMBER 18 AND 19, 1973

PART 2

Printed for the use of the Committee on Government Operations



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PURSUANT TO SECTION 4, SENATE RESOLUTION 46,  
93D CONGRESS

SEPTEMBER 18 AND 19, 1973

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(II)

CONTENTS

SECURITIES: THEFTS AND FRAUDS

Testimony of—	Page
Manuel, Philip R.-----	123
Mastriana, Louis-----	136, 176
Slater, David W.-----	195
Wilson, Philip M.-----	225

EXHIBITS

	Intro- duced on page	Appears on page
26. Chart entitled "Types of Spurious Assets Placed in Fraudulent Financial Statements"-----	125	126
27. Chart entitled "Types of Verification and Validation of Listed Assets in Fraudulent Financial Statements"-----	127	127
28. Chart entitled "Types of Entities Created by use of Fraudulent Financial Statement"-----	128	128
29. Chart entitled "Types of Entities and Individuals Victimized"-----	129	129
30. Bank records, correspondence, and other documents relating to the placement of stolen or counterfeit securities as described in the testimony of Philip R. Manuel (Sept. 18, 1973)-----	133	(*)
31. Court order conferring immunity and compelling testimony of witness Louis P. Mastriana-----	136	137
32. Copy of the constitution of the International Amalgamated Services Employees Union of North America-----	150	(*)
33. Photo of Louis Mastriana with others-----	150	(*)
34. Copy of indictment—Criminal No. 483-62, filed October 24, 1962, in Newark, N.J.-----	150	(*)
35. Letter dated August 8, 1968 from Social Security Administration, Baltimore, Md., to Louis P. Mastriana-----	150	(*)
36. Letter dated March 10, 1971, to Neil Sonnett from Dr. C. R. Marlowe-----	150	(*)
37. Louis Mastriana account with F. I. duPont-----	150	(*)
38. The Frank R. Petrucci papers-----	150	(*)
39. Copy of indictment—No. 70-290-CR-CF dated October 23, 1968, in the Southern District of Florida-----	150	(*)
40. Princeton Properties papers-----	150	(*)
41. Business card of Richard J. Hazen-----	150	(*)
42. Six Bank of Sark, Ltd., checks made out to Louis P. Mastriana-----	150	(*)
43. Three documents: One check for \$15,000 on Bank of Sark, Ltd.; one original international check on Bank of Sark in the amount of \$2,000 made out to Louis P. Mastriana; one international check on Bank of Sark in blank-----	150	(*)
44. Papers re Dallas Bank & Trust swindle with Bank of Sark checks and First Liberty Fund shares-----	150	(*)
45. Documents received from the First National Bank, Duncan, Okla. re Louis P. Mastriana-----	150	(*)
46. Maynard-Page, Inc. jewelry purchase by Louis P. Mastriana-----	150	(*)
47. Documents received from the Citizens Bank & Trust Co., Chicago, Ill. re: Bank of Sark swindle-----	150	(*)

\*May be found in the files of the subcommittee:

(III)

## EXHIBITS--Continued

	Intro- duced on page	Appears on page
48. Documents received from the Four Queens Hotel & Casino, Las Vegas, Nev. re Bank of Sark swindle-----	150	(*)
49. Documents received from the University State Bank, Denton, Tex. re Bank of Sark swindle-----	150	(*)
50. Documents received from First National Bank, Dallas, Tex., re unpaid drafts on Bank of Sark checks made out to Braniff Airways and others-----	150	(*)
51. Zurich International letter of credit in favor of Intercopa SA, Panama, with backup documentation and other letters of credit-----	150	
52. Copies of bills of exchange from Panama Timber and Intercopa SA, with backup documentation-----	150	(*)
53. Blank Bank of Sark check made out in the amount of \$50,000; Bank of Sark check for \$15,000 and one blank International Bank of Sark check-----	150	(*)
54. Zurich International letter of credit in favor of Intercopa SA, Panama, with backup documentation-----	150	(*)
55. Documents re L. & M. Associates and Diversified Minerals Corp. loan transactions-----	150	(*)
56. Receipt of REA Air Express showing shipment going from L.P. Mastriana, Dallas, Tex., to Harold Rothman, New York City-----	150	(*)
57. Loan commitment from Harold Audsley, Ft. Lauderdale Financial Inc., to James Decker, International Holding Corp.-----	150	(*)
58. Zurich International letters of credit in favor of International Holding Corp./Louis P. Mastriana-----	150	(*)
59. Autographed photo from Elliott Roosevelt to Louis Mastriana-----	193	(*)
60. Copy of a check drawn on the Bank of Nova Scotia to Elliott Roosevelt, signed by M. McLaney and endorsed, "Pay to the order of Louis Mastriana."-----	194	(*)
61. Letter dated May 21, 1968, from Elliott Roosevelt to Louis Mastriana-----	194	(*)
62. David Slater's handwritten notes of contractual relationship between himself and the Shinwell group (unsigned and dated Sept. 7, 1970)-----	216	(*)
63. Xerox copy of pertinent information sheet on Agricultural and Industrial Marketing, Ltd. (AIM), contains phone numbers, bank reference, accountants, and attorneys. Names of principals and home phone numbers-----	216	(*)
64. Xerox copy of agreement between Hammac (Panama Plywood Industries Corp.) and signed by both Hammac and Shinwell. Witnesses by Homer Jackson and Protzman wherein Shinwell agrees to purchase from Hammac the assets of Panama Plywood Industries Corp.-----	216	(*)
65. Telex dated October 9, 1970, addressed to Mr. D. Slater for the attention of Mr. John Westcott from Shinwell, there is attached to the Telex, Slater's comments on the telex-----	216	(*)
66. Telex dated September 24, 1970 from J. Rogers to J. Westcott in which Westcott is advised that Doctor Frei (Hans Frei) is in Portugal. The Telex also mentions Hammac and his activities relative to the Shinwell acquisition-----	216	(*)
67. Copy of incorporation of partnership between Heinrich Paul Protzman and Argimino Velarde Alvarez of International Commerce and Investment, S.A., dated August 30, 1967, with translation of same (Spanish to English)-----	216	(*)

\*May be found in the files of the subcommittee.

## EXHIBITS--Continued

	Intro- duced on page	Appears on page
68. Copy of minutes of meeting between the board of directors and shareholders of Juglar S.A. held on August 5, 1970, in Panama, the purpose of which was the election of new members of the board of directors and officials of the corporation, namely, Ernest Shinwell, president; John Westcott, vice president; James Rogers, secretary. Also clipped to the minutes is signature card showing Shinwell, Rogers, Westcott, and Slater's names and signatures-----	216	(*)
69. Copy of Telex dated September 22, 1970, sent by Slater's direction by Perez Salamero of Banco Exterior, Panama to Banco Exterior, Madrid, authorizing the transfer of titles of assets of Panama Plywood Corp. et al., through Hans Frei in exchange for the letters of credit PAA 7 and PAA 8. Attached to the Telex is a copy of a letter dated September 3, 1970, from Dr. Hans Frei to Perez Salamero of Banco Exterior-----	216	(*)
70. Copy of minutes of meeting of board of directors of Intercopa, S.A. held on September 23, 1970-----	216	(*)
71. Copy of minutes of the second meeting of the board of directors of Intercopa (Protzman, Rogers, and Slater), dated September 29, 1970, resolving to transfer to the Juglar S.A. account at the Foreign Trade Bank, Panama \$800,000 or any balance from the letters of credit PAA 7 and 8, which resulted after making payments of \$5.5 million to Hammac-----	216	(*)
72. Copy of a proposal by David W. Slater to Ernest and Jim (Shinwell and Rogers) dated September 25, 1970 outlining Slater's plans and ideas relative to the Shinwell acquisitions-----	216	(*)
73. Copy of Telex from Westcott and Slater refers to two ranch properties and acquisitions by Shinwell group and also to the payment to Banco Exterior. Attached also are handwritten notes by Slater relative to the ranch properties-----	216	(*)
74. Copy of minutes of meeting (written in Spanish with translation) of board of directors of Intercopa S.A. on October 2, 1970-----	216	(*)
75. Copy of Telex from Rogers to Slater dated September 30, 1970, relative to Banco Espanol and the transfer of funds with attachment of copy of Telex relative to J. Rogers and multinational fund. In addition there is attached to both Telex messages Slater's notes relative to a deposit verification at Banco Espanol, and a second notation relative to signature authorization required by Swiss Credit Bank. Also a copy of a letter on Intercopa stationery dated October 2, 1970 relative to the signature authorization (also covered in exhibit No. 13). In addition, there is a third Telex dated October 8, 1970, to Slater and J. Westcott from Hammac outlining three requests of Banco Espanol, Paris, relative to opening of Intercopa account. Also contained in this Telex is a notation that a further deposit of securities allegedly valued at \$7,500,000 was made. In addition there are two pages of handwritten notes by Slater-----	216	(*)
76. Copy of Telex from Banco Exterior to Credit Suisse, dated October 7, 1970, reference transfer of \$5.5 million—for Hammac properties and refers to the letters of credit PAA 7 and PAA 8-----	216	(*)
77. Two Telex messages—one dated October 10, 1970, and second dated October 12, 1970—reverse of Telex of October 10, 1970, carried pencil note on transfer data and account number PDOC 823980—mistakenly written by Slater as PEOC. Other Telex refers to Shinwell dealings with Credit Suisse-----	216	(*)

\*May be found in the files of the subcommittee.

## EXHIBITS—Continued

	Intro- duced on page	Appears on page
78. Two Telex messages—one sent by Slater to Perez Salamero on October 30, 1970. This Telex shows that Credit Suisse, as late as October 30, 1970, was still having problems clearing up their basic requirements with Intercopa opening its account at Credit Suisse.....	216	(*)
79. Copy of bill from attorneys who handled affairs for Agricultural and Industrial Marketing Ltd. (AIM), dated November 30, 1970, with a copy of a letter of instructions to Banco Exterior dated December 3, 1970, to pay said amount.....	216	(*)
80. Four documents pertaining to attempted purchase of the Hammac properties by two individuals identified by Slater as Frank Negrelle and Don Wylie—of note is reference by Negrelle on phone message that Negrelle is connected with Assurance & Surety Co. of Lugano.....	216	(*)
81. A series of memos, correspondence, business cards between Slater and Shinwell, Gremli, De Castro and Samos relative to the activities of the Shinwell group surrendered by Slater at first debriefing.....	216	(*)
82. Telephone credit card for use by David Slater.....	216	(*)
83. Copy of letter from Protzman to David Slater dated March 19, 1973, and Slater's reply to him with enclosures from Protzman which consisted of:		
A. Certificate of deposit of guarantee by Banco Exterior to Intercopa for securities of First Liberty Fund dated December 3, 1970.....	216	(*)
B. Telex copy from J. M. Axelrod certifying that First Liberty shares are property of Intercopa.....	216	(*)
C. Copy of letter by Banco Exterior to Security Pacific National Bank re inquiry by them of securities to be transferred.....	216	(*)
D. Telex from Security Pacific Bank to Banco Exterior re letter of inquiry on securities.....	216	(*)
E. Four page list of foreign securities allegedly on deposit in Banco Exterior for account Intercopa.....	216	(*)
F. Also, correspondence from Union Bank of Switzerland.....	216	(*)
84. Copies of correspondence between Slater and Samos, De-Castro, Westcott, Gremli, Protzman, and Government agents relative to activities of Shinwell group in Panama and Europe.....	216	(*)
85. Copy of report from National Westminster Bank re: Cornucopia.....	216	(*)
86. Report-financial statements—Cornucopia investments and multinational funds.....	216	(*)
87. Original letter from Slater to Senator John L. McClellan dated June 14, 1971, in which he offers to cooperate with the subcommittee.....	216	(*)
88. Court order dated June 12, 1973, conferring immunity and compelling testimony of witness Philip Morell Wilson.....	226	226
89. Financial statement of First Southern Financial Investment Co. of Charlotte, N.C.....	239	(*)
90. Financial statement of Allied Fund for Capital Appreciation, Inc.....	273	(*)
91. Copies of fraudulent Telex messages confirming letters of credit, etc.....	273	(*)
92. Copies of four Bank of Sark checks payable to Banco Exterior, SA.....	273	(*)
Proceedings of—		
September 18, 1973.....	123	
September 19, 1973.....	225	

\*May be found in the files of the subcommittee.

## ORGANIZED CRIME

## SECURITIES: THEFTS AND FRAUDS

TUESDAY, SEPTEMBER 18, 1973

U.S. SENATE,  
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS  
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,  
Washington, D.C.

The subcommittee met at 10:03 a.m., in room 3302, Dirksen Senate Office Building, pursuant to section 4, Senate Resolution 46, approved February 26, 1973, Senator Henry M. Jackson (chairman of the subcommittee) presiding.

Members of the subcommittee present: Senator Henry M. Jackson, Democrat, Washington; Senator Walter D. Huddleston, Democrat, Kentucky; Senator Charles H. Percy, Republican, Illinois; and Senator Edward J. Gurney, Republican, Florida.

Members of the professional staff present: Howard J. Feldman, chief counsel; Philip R. Manuel, investigator; Fred Asselin, investigator; William B. Gallinaro, investigator; Stuart Statler, chief counsel to the minority; William F. Gibney, detailed from the Internal Revenue Service; Eugene G. Anguilla, detailed from SEC; and Ruth Young Watt, chief clerk.

Chairman JACKSON. The subcommittee will come to order.

[Members of the subcommittee present at time of reconvening: Senators Jackson and Huddleston.]

Chairman JACKSON. We resume this morning the hearings in connection with the stolen securities investigation by this committee which have been underway now for quite some time. In order to lay the foundation for the testimony that is to follow, we are going to call upon Mr. Philip Manuel, a subcommittee investigator, to outline the situation as of now and the testimony that will be presented in connection with this ongoing investigation.

Mr. Manuel, would you be sworn, please?

Do you solemnly swear that the testimony you are about to give before this committee shall be the truth, the whole truth and nothing but the truth, so help you God?

Mr. MANUEL. I do.

TESTIMONY OF PHILIP R. MANUEL, INVESTIGATOR, PERMANENT  
SUBCOMMITTEE ON INVESTIGATIONS

Chairman JACKSON. Mr. Manuel, would you first identify your position with the committee for the record and then proceed in your own way?

Mr. MANUEL. Mr. Chairman, my name is Philip R. Manuel. I have been an investigator on the subcommittee staff since March 1, 1968, and in all I have had 13 years of experience in the field of investigations.

Since 1970, I have directed the staff field investigations on matters pertaining to organized criminal activity and most particularly, the activities of organized criminals in the field of securities thefts and frauds—a subject on which the subcommittee held hearings in the summer of 1971.

Chairman JACKSON. Thank you, Mr. Manuel. You may proceed to outline the case.

Mr. MANUEL. Since the close of the 1971 hearings, the subcommittee staff has continued the investigation of organized criminals in the theft, counterfeiting, conversion, and manipulation of many millions of dollars in securities with particular attention to the massive proliferation of commercial and securities frauds which are being generated by their use.

This investigation has established that there is and has been developing for some time, a burgeoning group of professional confidence men and international swindlers who are, to a great degree, closely knit and interlocking, most of whom are recidivist securities violators. They cooperate rather openly, each promoting the fraudulent schemes of the other for mutual benefit and profit.

At least until recently, they have moved with a minimum fear of legal or governmental restraint despite the fact that most of the individuals so engaged have been cited by various government agencies for fraudulent activities. This group has conceived and has applied sophisticated corporate principles to the age old art of swindling. Their forte is that they know "how to use bad paper" and in so doing, are limited only by their own ingenuity.

This group of swindlers comprise in themselves an organized criminal group who form a natural alliance with those organized criminals who control the theft and distribution of securities and on whom their supply of this paper depends.

In our investigation, the staff has identified several hundred of these professional paper users and to some extent, documented their participation in various frauds. While these frauds touch almost every area of the country, this group has operated for the most part, from the New York City area, the Los Angeles area, the Las Vegas area, the Chicago area, and most especially from the Miami-Fort Lauderdale area.

To these individuals, stolen, counterfeit, or basically worthless securities can be safely represented as legitimate assets in corporate financial statements provided the spurious nature of the paper can be effectively hidden. In this regard, there are a number of important factors that work to the criminals' advantage.

These factors include:

(1) The obvious expansion in the internationalization of banking, commerce, and finance which has brought with it an increasing dependence on the so-called paper credit philosophy. The foundation of this philosophy is a reliable certified financial statement of assets and liabilities.

If just a small percentage of the billions of dollars that move in international trade can be siphoned off, the result will be millions in

profit for criminals who use spurious assets in false financial statements to exploit weaknesses in the paper credit technology.

(2) The apparent inability of the business community to accurately verify the authenticity of assets of a particular business entity, especially true where such assets are located in a foreign or "offshore" jurisdiction.

(3) The very existence of certain foreign or remote offshore jurisdictions where bank secrecy laws or complete lack of adequate governmental control in the banking, insurance and brokerage fields make it difficult, if not impossible, to analyze corporate ownership, structure, and financing.

(4) The fact that the swindler is not limited to any boundary. Therefore, the regional, national, and international scope of the operations has precluded any single jurisdiction from effectively detecting and curtailing these crimes.

With the modern speed and effectiveness of both transportation and communications, the swindlers can, for example, live in Fort Lauderdale, headquarter their companies in the Bahamas, place their assets in Switzerland or Panama and victimize persons anywhere else in the world.

(5) The absence of appropriate legislation and control in the fields of banking, insurance, reinsurance, and securities transactions, both in the United States and abroad.

A prime objective of our investigation is to show how organized criminals, acting in concert, engage in worldwide schemes to infiltrate and defraud legitimate businessmen and financial institutions by the use of spurious paper concealed in fraudulent financial statements and balance sheets. These schemes includes but are not limited to:

(1) The advance mortgage fee racket;

(2) The issuance of high risk, surplus and reinsurance contracts, and payment guarantee surety bonds;

(3) The issuance and manipulation of worthless securities, including stocks and bonds of all types; and

(4) The issuance and manipulation of letters of credit, certificates of deposit, bills of exchange, and international cashier's drafts.

I wish to add parenthetically that all of the above schemes are designed to produce a victim who will suffer monetary loss.

If the criminal uses the stolen or counterfeit paper to create or bolster corporate financial statements which will thereafter be used in strictly legitimate business pursuits, the crime will be even harder to detect and punish.

Each scheme that produces victims has an overall pattern which is generally as follows:

One. A false and fraudulent financial statement is prepared incorporating various types of assets. These assets include, but are not limited to, stolen, counterfeit, or otherwise fraudulent securities, overvalued mineral rights or real estate, certificates of deposit and so forth.

The staff has prepared a series of four charts which I would like to introduce in the record, the first of which identifies the types of fraudulent assets which can be placed in financial statements.

Chairman JACKSON. The first chart will be received and marked for identification as exhibit 26.

[The document referred to was marked "Exhibit No. 26" for reference and follows:]

## TYPES OF SPURIOUS ASSETS PLACED IN FRAUDULENT FINANCIAL STATEMENTS

1. SPURIOUS SECURITIES
  - A. FRAUDULENT SECURITIES
  - B. MANIPULATED SECURITIES, INCLUDING INVESTMENT, LEGENDED OR LETTERED STOCK
  - C. COUNTERFEIT SECURITIES
  - D. STOLEN SECURITIES
2. LETTERS OF CREDIT
3. CERTIFICATES OF DEPOSIT
4. INTERNATIONAL CASHIERS DRAFTS
5. TRUST DEEDS
6. DEPOSIT SLIPS FROM BANKS
7. COMMODITIES CONTRACTS
8. TRUST OR SAFEKEEPING RECEIPTS FOR SECURITIES
9. UNDERWRITERS ACCOUNTS RECEIVABLE
10. INSURANCE PREMIUMS RECEIVABLE
11. PAID ANNUITIES AND INSURANCE POLICIES
12. SURPLUS BONDS AND NOTES
13. WORTHLESS, OVERVALUED REAL ESTATE OR MINERAL RIGHTS
14. OTHER ASSETS, GROSSLY OVERVALUED OR NON-EXISTENT

ITEMS LISTED IN 2 THROUGH 14 ARE THEMSELVES WORTHLESS OR FRAUDULENT AND CAN BE BASED ON STOLEN, COUNTERFEIT OR WORTHLESS ASSETS AS UNDERLYING COLLATERAL

Mr. MANUEL. As you can see in chart No. 1, Mr. Chairman, we have identified the various types of spurious assets that we have found in our investigation which have been included in one fraudulent balance sheet or another that we have studied.

Two. The financial statement is verified by a certified public accountant and is thereafter submitted for further verification either through banks, credit reporting agencies, private trusts, escrow holders, and so forth.

Chart No. 2, which I would like to introduce, shows the various types of verifications which can be used after the statement is finalized. The various verifiers can also be utilized as custodians or safekeepers of the purported assets including either stolen or counterfeit securities. These types or assets are, however, usually taken outside the country for deposit or safekeeping.

[The document referred to was marked "Exhibit No. 27" for reference and follows:]

## TYPES OF VERIFICATION & VALIDATION OF LISTED ASSETS IN FRAUDULENT FINANCIAL STATEMENTS

1. CERTIFIED PUBLIC ACCOUNTANTS
2. BANKS
3. COURTS
4. CREDIT REPORTING AGENCIES
5. ESCROW HOLDERS
6. PRIVATE TRUSTS
7. INSURANCE COMPANIES
8. HOLDING COMPANIES
9. TRI-PARTY AGREEMENTS
10. TRUSTS IN BANKS
11. TRUST COMPANIES
12. INVESTMENT BANKERS
13. STOCK BROKERAGE HOUSES
14. TRADE REFERENCES
15. STOCK EXCHANGES

Mr. MANUEL. At the time of verification by a CPA and before the second type of verification, a corporate entity such as a bank, insurance company, mutual fund, trust company, escrow company, and so forth is created and matched to the financial statement.

These companies are usually inactive "shell" corporations which have previously either been registered or chartered to do business under the laws of some jurisdiction. These can be easily acquired and discarded.

Chart No. 3 shows the type of entities which most commonly are created.

Chairman JACKSON. That will be marked as an exhibit and received as exhibit 28.

[The document referred to was marked "Exhibit No. 28" for reference and follows:]

EXHIBIT No. 28

## TYPES OF ENTITIES CREATED BY USE OF FRAUDULENT FINANCIAL STATEMENT

1. BANKS  
(mostly foreign or "offshore")
2. MORTGAGE LOAN AND FINANCE  
COMPANIES  
(long-term loan commitments)
3. INSURANCE COMPANIES
  - A. SURPLUS AND EXCESS LINES
  - B. REINSURANCE AND HIGH RISK  
INSURANCE
  - C. LOAN INSURANCE
  - D. FINANCIAL GUARANTEE BONDS
4. ESCROW COMPANIES
5. MUTUAL FUNDS AND MUTUAL FUND  
MANAGEMENT COMPANIES
6. UNDERWRITERS AND BROKERS
7. COMMERCIAL OR INDUSTRIAL COMPANIES  
FROM "SHELL" CORPORATIONS AND  
"SPINOFFS"

Mr. MANUEL. Four. Then legitimate members of the business community—banks, bonding and insurance companies, as well as the public-at-large, are victimized through a variety of individually tailored schemes. Chart No. 4 depicts the types of entities and individuals that may be victimized.

Chairman JACKSON. That will be marked for identification as exhibit No. 29.

[The document referred to was marked "Exhibit No. 29" for reference and follows:]

EXHIBIT No. 29

## TYPES OF ENTITIES AND INDIVIDUALS VICTIMIZED

1. LEGITIMATE COMMERCIAL AND  
INDUSTRIAL BANKS
2. LEGITIMATE BONDING COMPANIES
3. LEGITIMATE INSURANCE COMPANIES
4. PRIVATE INVESTORS (corporate and individual)
5. F.H.A. INSURED COMMERCIAL CONSTRUCTION
6. REAL ESTATE INVESTMENT TRUSTS
7. FEDERAL LAND BANK
8. FEDERAL SAVINGS AND LOANS
9. CONSUMER FINANCE COMPANIES

Mr. MANUEL. During the course of this investigation, we have collected evidence and made case studies on the frauds associated with such companies as the Bank of Sark, First Liberty Fund, Normandy Trust Company, Picture Island Computer Corp., Allied Fund for Capital Appreciation, and at least 100 others.

In order to show the subcommittee a complete case study, one such case, the Zurich International Investment Co., has been selected.

This case demonstrates stolen and counterfeit securities manipulations in foreign banks, the role of organized criminals, the issuance of worthless letters of credit and the establishment of corporations whose activities later produced victims in the United States.



The testimony that follows in these hearings will relate to the formation and activities of the Zurich International Investment Corp. and to the criminal activities of several persons affiliated with it.

The staff first obtained information on this corporation from Louis P. Mastriana who will testify later in these hearings. Mr. Mastriana, at the time we first interviewed him, was known to us as a dealer in stolen securities in the Miami, Fla., area who was awaiting sentence for crimes relating to those activities.

Mastriana agreed to cooperate with the subcommittee and among other things, provided us with copies of what purported to be letters of credit in the amount of \$6 million, showing undefined transactions between Credit Suisse, Zurich, Switzerland, and Chase Manhattan Bank.

He also provided copies of what purported to be separate letters of credit which were to be used as the basis for loan commitments all over the United States. Mr. Mastriana identified Dominic Mantell, an individual who had been previously identified in hearings before this subcommittee in 1968, as an organized crime figure from the Buffalo, N. Y., area, as a prime mover in the Zurich International Investment Corp., along with one Ernest Shinwell, a citizen of England.

Mastriana further identified other south Florida residents as swindlers involved in the distribution of Zurich International Investment Corp. paper. Among those were Philip M. Wilson, Neil Maloney and Harold Audsley.

Mastriana also provided documentation to show that Audsley was involved in the distribution of fraudulent loan schemes on behalf of a firm known as the First Southern Investment Corp. of Charlotte, N.C.

Mastriana further identified several victims of these schemes and the identity of several banks which had been victimized by himself and others.

About the same time as our first interview of Louis Mastriana, we were contacted by one David Slater. Slater related that while in Panama, he became acquainted with the Shinwell-Mantell group and provided us certain information regarding the movement of stolen securities in Panama and Switzerland, and provided us certain documentation which led us to certain bank and brokerage accounts in the United States which showed the flow of stolen and counterfeit securities and their use in Panama.

At about the same time, a major insurance company advised us that they had been in contact with an individual in south Florida who had provided them information concerning the flow of stolen securities in the south Florida area. This individual was identified as Herbert E. Creekmore.

Creekmore was interviewed, and he also provided information and documentation relating to the Shinwell-Mantell group and their use of stolen securities in Panama, Los Angeles, the Miami-Fort Lauderdale area, and elsewhere.

Both Slater and Creekmore will testify in these hearings.

The staff immediately began intensive investigation of the activities of Dominic Mantell, Ernest Shinwell, Philip Wilson, Neil Maloney, Harold D. Audsley, and others associated with them.

We learned that Harold Audsley had been arrested in March of 1971 on two separate occasions for attempting to place stolen securities in

two separate banks; one in the New Orleans, La., area, and another in Tampa, Fla.

We further determined that in the New Orleans bank, Audsley had intended to fund a letter of credit issued by the Zurich International Investment Corp. in the amount of \$300,000 payable to one Wayne Cantrell who was then the manager of a bank in Berwick, La.

With Harold Audsley when he was arrested in New Orleans was one William DeGironemo who was employed as a stockbroker in Bache & Co., Fort Lauderdale, Fla. DeGironemo was interviewed by the staff and after several interviews, admitted that the securities which Audsley obtained prior to his arrest in New Orleans, were provided by an individual named Pat Lepera.

At that time, Lepera was serving a prison term at Eglin Air Force Base, having been convicted in a stolen securities case in Newark, N.J.

Lepera was interviewed and admitted that he had had extensive dealings with Harold Audsley and admitted that he provided Audsley with stolen securities which he had received from organized crime figures in New York and Florida. Lepera stated that the profits from these transactions were distributed between himself and major organized crime figures in Florida and New York, whom he identified to us.

In addition, Lepera provided us with details which enabled us to issue subpoenas for certain bank records which tended to corroborate to a great extent, certain of his transactions with Harold Audsley.

In addition to admitting numerous transactions with Harold Audsley, Lepera detailed other transactions involving stolen securities in which he was a participant. Lepera has testified before this subcommittee in executive session under a grant of immunity from the U.S. district court.

His testimony in the public session which will follow, will give the subcommittee and the Congress a clear insight into the operation of organized criminals in the field of stolen securities and will show the magnitude of the operations of persons who allegedly operated many fraudulent schemes by using such paper.

By studying the Zurich International Investment Corp. case, certain principles common to all such frauds will become apparent, but most of all, it will show how a group of swindlers aligned with organized crime suppliers of stolen and counterfeit securities, are able to reap huge illegal profits by using legitimate banks, both in the United States and abroad, to act as props for their schemes.

Since the close of our 1971 hearings, the Department of Justice has successfully prosecuted several major cases involving the type of frauds that we have under investigation.

In the case of the Transcontinental Casualty Insurance Co., Ltd., the Government convicted more than 12 defendants in what was described as the biggest mail fraud case in history.

At one point, Transcontinental Casualty had issued a financial statement reflecting assets of over \$290 million, most of which, it claimed, was held in trust in an offshore bank called the Bank of Sark.

The operators of this scheme divided their activities into "domestic" and "foreign" and successfully functioned from September 1968 to roughly September 1971.

The domestic facet of Transcon consisted of issuing worthless loan commitments for advance fees while reinsurance from Lloyds of London member firms, was the best source of foreign revenue.

During its lifespan, it is estimated that the operations of the Transcontinental Casualty Insurance Co. filched over \$40 million from the public.

One of the main operators of this scheme, Philip M. Wilson, has since his conviction been cooperating with the Government and is scheduled to testify in several major fraud cases which have been indicted by the Department of Justice.

Wilson has also cooperated with this subcommittee and will testify in these hearings. His statement will add additional evidence to the nature and scope of this type of white-collar crime.

In another major prosecution since the close of our 1971 hearings, the Department of Justice convicted eight individuals for their activities in issuing and manipulating the stock of the Picture Island Computer Corp., using false and fraudulent balance sheets and by sophisticated manipulation in the over-the-counter market, the operators of Picture Island Computer Corp., who included several major organized crime figures, were able to reap profits in the millions of dollars.

The Department of Justice has also recently returned an indictment against Ernest Shinwell, Dominic Mantell, and 12 others in a case involving the movement and placement of some \$18 million in stolen and counterfeit securities. This case, in some respects, parallels the subcommittee's investigation of the activities of Shinwell and Mantell.

The Department of Justice has also indicted Ernest Shinwell and others for transportation of stolen securities to Europe for placement in various banks. These securities were a part of a multimillion-dollar theft from the Jefferies Bank Note Co. of Los Angeles, Calif.

It should be noted that Shinwell was arrested in Luxembourg on or about June 15, 1971, for attempting to place stolen securities in the Investors Bank of Luxembourg. His arrest in Luxembourg evidently aborted a plan of the Shinwell-Mantell group to transfer some £20 million worth of assets to the Banco Exterior, just around that time.

The staff obtained by subpoena from Bank of America, San Francisco, copies of certain Telex messages between Investors Bank of Luxembourg and Banco Exterior, Panama, showing that Shinwell's company, Intercopa, S.A., was planning to transfer assets in that amount.

We also, by subpoena, obtained records from the Chase Manhattan Bank, New York, regarding the alleged transfer of some \$6 million in the form of a letter of credit from Credit Suisse in Zurich.

Chase Manhattan stated they had no record of ever receiving such a letter of credit nor did they have any accounts of either Zurich International Investment Corp., of Intercopa, S.A.

They did provide documents which showed that Chase Manhattan had received inquiries from various individuals and corporations who had purchased letters of credit of Zurich International Investment Corp.

The information obtained from Chase Manhattan seems to indicate a massive fraud was attempted with the swindlers trying to use the name of that bank as a prop for their fraud. The same type of fraud may have been attempted against Credit Suisse in Zurich, however, the bank secrecy laws of Switzerland have to date, prevented us from obtaining any records which would definitely show whether the Shin-

well-Mantell group had accounts at that bank and whether they deposited stolen securities in that bank.

However, through information and documentation developed by David Slater while he was in Panama, it shows that stolen securities were placed in Credit Suisse by the Shinwell group and later transferred to Banco Exterior in Panama.

It should be understood that both the Bank of America and the Chase Manhattan Bank were fully cooperative with our investigation and there is no evidence to suggest that they were in any way a part of any fraudulent scheme involving the Zurich International Corp., or Intercopa, S.A., the corporate vehicles which were used by the Shinwell-Mantell group.

That concludes my statement, Mr. Chairman. At this time I would like, with the chairman's permission, to include in the record certain bank records and other documentation we have received in this investigation relating to the placement of stolen or counterfeit securities in the places I have mentioned.

Chairman JACKSON. Will that be all one exhibit?

Mr. MANUEL. Yes, sir.

Chairman JACKSON. Without objection, that will be marked for identification as exhibit No. 30.

[The documents referred to were marked "Exhibit No. 30" for reference and may be found in the files of the subcommittee.]

Chairman JACKSON. Mr. Manuel, I would like to commend you for an excellent statement. It is well reasoned. It is obvious that you have been on top of this one.

We are most appreciative for the foundation that you have laid here in connection with the testimony that we will receive from the other witnesses during the next 3 or 4 days.

I would just like to ask one question: Much of the role of the swindler, to use a general term, relates to that part which gives him a base overseas, does it not, in this kind of an operation?

Mr. MANUEL. That is correct, Mr. Chairman.

Chairman JACKSON. Without overseas connections and without the overseas laundering process, much of this could not be accomplished.

Mr. MANUEL. That is correct.

Chairman JACKSON. This is something that the committee, as we take the testimony, will want to go through very carefully.

The other thing that impressed me in your statement is that after putting together these phony financial statements, then they always seem to find a CPA who will verify a fraudulent financial statement.

Do you find that the laws in most States are inadequate in this regard, or will a CPA get around it by some fine print down below saying that they have not verified the detailed representations that appear in the financial statement?

Mr. MANUEL. Usually there is very fine print in the auditing procedure and in what purports to be a certification. We have studied many of these balance sheets and found that the auditor involved very often qualifies what he says by language which would indicate that he hadn't actually examined the assets, or in the alternative that they were presented to him in such a fashion that he is not going to comment.

Chairman JACKSON. Sort of an equity funding type of audit.

Mr. MANUEL. But the purpose, as far as the swindler is concerned, is to have a verification which he can present.

Chairman JACKSON. Once the CPA's label is on there, then there is immediately attached some credibility to the audit.

Mr. MANUEL. Correct.

Chairman JACKSON. What have you found thus far with the local officials, because most of it relates to local law? What have they done about these fraudulent audits?

Mr. MANUEL. In general, Mr. Chairman, I would have to answer that question by stating that in the past I believe local law enforcement has been very ineffective against this type of crime for the simple reason that, as I pointed out in my statement, these types of crimes are not limited to any one jurisdiction.

It is very confusing to local law enforcement officials to have one part of a fraud in their jurisdiction but the part where they can really investigate and prosecute is in somebody else's jurisdiction.

I think I would have to conclude that local law enforcement has been ineffective in this type of crime because of the well planned nature by the swindler in laying the groundwork for his companies.

Chairman JACKSON. Which means that once again this committee will probably be called upon to make recommendations about Federal legislation dealing with this situation in which the Federal Government does have jurisdiction through interstate commerce power and so on.

Mr. MANUEL. Most of this type of crime, Mr. Chairman, is interstate in nature.

Chairman JACKSON. So there is no question about Federal jurisdiction.

Mr. MANUEL. I would think not.

Chairman JACKSON. Senator Huddleston?

Senator HUDDLESTON. Mr. Manuel, your investigation indicates that there is a developing and growing group of professional confidence men involved in these schemes.

Do you have an idea just when this type of operation began to reach such large scale?

Mr. MANUEL. An educated guess, Senator, would be it started to snowball since the late 1960's. Activities of this kind certainly were in existence prior to that date, but I think the development of an organized concept of swindling, where swindlers cooperate with each other, take advantage of each other's swindles. I think this has been developing since the late 1960's, and coincides, in my view, with the development of massive traffic in stolen and counterfeit securities.

Senator HUDDLESTON. And the rate of development has been, would you say, very rapid since that time?

Mr. MANUEL. I would say so.

Senator HUDDLESTON. Does the investigation indicate that there are integrated operations, that is, does one group participate all the way through the scheme from the stealing of the securities or the developing of the fraudulent securities on up through placing them in the banks and developing the credit references and so forth?

Mr. MANUEL. It varies. We found that it varies with the particular scheme that you are talking about. The one that we are going to present in testimony with the witnesses who follow shows that there is a con-

tinuous action between the people supplying the stolen securities and the subsequent fraud.

In other cases you find that the swindler or confidence man type has to go to an organized crime figure or to an organized crime channel to obtain the stolen or counterfeit assets which he will then use.

That individual, the organized crime figure, will either then participate in the profits, become a partner, so to speak, or he will just be paid for providing the paper and step out of the deal.

Senator HUDDLESTON. So there is a degree of specialization. There are some who specialize in stealing the securities and others in dealing with them on down the line.

Mr. MANUEL. Very much so. What we have attempted to show in my statement is that there is a natural marriage between the organized criminals who control the theft and distribution of stolen or counterfeit securities on the one hand and the group of swindlers and confidence men on the other hand who are able to use this paper.

Senator HUDDLESTON. Would you say that among those institutions that are used—without their knowledge, I am sure, in most cases—that there is a determination on their part to find some way to stop this kind of dealing?

Or, are they willing to accept these financial statements and rather not know everything that they ought to know?

Mr. MANUEL. The latter may be true in some cases, Senator, but, as I pointed out in my statement one of the real factors, one of the basic causes that enable criminals of this type to have so much success is the almost complete inability of legitimate businessmen to have a way to authenticate and verify the assets that are presented to them in the normal course of business.

If a banker gets, for example, a certified statement, or one that purports to be certified, and then he is barraged with reports of other accounts from other banks which these swindlers allegedly have established, then that banker, sometimes acting in good faith, probably most of the time, will do business, because the swindler has gone to a great deal of trouble to establish credibility.

The inability of the businessman to verify these assets is one of the factors that contributes greatly to the swindler's success.

Senator HUDDLESTON. But is it your impression—given the difficulty of tracing every presentation back to its origination and verifying it—is it your impression that the institutions, the financial institutions, the banks, the brokerage houses, the lending agencies, are making as big an effort as they should to utilize what information is available to them to check these out?

Mr. MANUEL. No, I think the opposite is true. I don't think they make sufficient check, even given the fact that it is very difficult, as I pointed out, to verify and authenticate.

I think in most of the cases we have studied it has shown us a lack of followthrough in that respect by financial institutions.

Senator HUDDLESTON. That is all, Mr. Chairman.

Chairman JACKSON. Thank you.

Thank you, Mr. Manuel, again, for an excellent statement.

Mr. MANUEL. Thank you, Mr. Chairman.

Chairman JACKSON. The Chair will call as the next witness Mr. Louis Mastriana.

Mr. Mastriana, will you raise your right hand and be sworn?  
Do you solemnly swear that the testimony you are about to give before this committee shall be the truth, the whole truth and nothing but the truth, so help you God?  
Mr. MASTRIANA. Yes, sir.

TESTIMONY OF LOUIS PASQUALE MASTRIANA

Chairman JACKSON. State your name, please.

Mr. MASTRIANA. Louis Pasquale Mastriana.

Chairman JACKSON. And your place of residence?

Mr. MASTRIANA. Texarkana, Tex.

Chairman JACKSON. I mean you are currently confined.

Before we proceed any further, Mr. Mastriana, I would like to advise you of your rights and obligations as a witness before the committee.

First, you have the right to remain silent and not to provide any testimony or information which may tend to incriminate you.

If you do testify, anything you say here may be used against you in any other legal proceeding.

Second, you have the right to consult with an attorney prior to answering any questions or question.

Third, under the rules of procedure for the Permanent Subcommittee on Investigations, your attorney may be present during your testimony. In that regard, may the record reflect the absence of your attorney.

Mr. Mastriana, are you willing to waive your right to proceed without the presence and advice of counsel?

Mr. MASTRIANA. Yes, I am.

Chairman JACKSON. As I have indicated, Mr. Mastriana, in addition to your rights as a witness, you also have an obligation while testifying before this subcommittee. You have sworn to testify truthfully. If you do testify, you are obligated to provide truthful responses so as not to subject yourself to the laws and penalty regarding perjury.

Mr. Mastriana, do you understand the nature of your rights and obligations as a witness before this subcommittee?

Mr. MASTRIANA. Yes, I do.

Chairman JACKSON. You do.

Mr. Mastriana, you have been called before this subcommittee because we have been informed that you possess certain knowledge regarding the subject of the theft, transportation and ultimate use of certain stolen securities.

Is that a correct statement of your knowledge?

Mr. MASTRIANA. At this time, Senator, I would have to invoke the fifth amendment.

Chairman JACKSON. Mr. Mastriana, the subcommittee has applied to the Chief Judge, John Sirica, of the Federal District Court for the District of Columbia, for an order conferring immunity and compelling you to provide testimony before this subcommittee. This application was granted.

I would request a copy of the order be made a part of the record at this time. That will be marked for identification as exhibit No. 31.

[The document referred to was marked "Exhibit No. 31" for reference and follows:]

EXHIBIT No. 31

United States District Court for the District of Columbia

Misc. No. 88-73

In the Matter of the Application of

U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

For an Order Conferring Immunity and Compelling Testimony of Witness

[Filed, May 21, 1973, JAMES F. DAVEY, Clerk]

ORDER CONFERRING IMMUNITY AND COMPELLING TESTIMONY OF WITNESS

The United States Senate Permanent Subcommittee on Investigations, having made written application for an order conferring immunity and compelling LOUIS P. MASTRIANA to testify and provide other information before it, pursuant to Title 18, United States Code, Sections 6002 (3) and 6005, and good cause appearing therefore, the Court hereby finds as follows:

1. The Permanent Subcommittee on Investigations, a Subcommittee of the Committee on Government Operations of the United States Senate, is presently inquiring into syndicated or organized crime which may operate or otherwise utilize the facilities of interstate or international commerce; and into all other aspects of crime and lawlessness within the United States which have an impact upon or affect the national health, welfare, and safety;

2. It is anticipated that said LOUIS P. MASTRIANA may be called as a witness before said Subcommittee and may decline to answer questions or provide other information on the ground that to do so may incriminate him;

3. The application for an order conferring immunity and compelling LOUIS P. MASTRIANA to testify was made upon the approval of an affirmative vote of at least two-thirds of the members of the Committee on Government Operations; and

4. Timely notice of these proceedings has been given to the Attorney General of the United States.

*It is hereby ordered*, That LOUIS P. MASTRIANA, in accordance with the provisions of Title 18, United States Code, Sections 6002 and 6005, shall not be excused from testifying or providing other information before the Permanent Subcommittee on Investigations on the ground that the testimony or other information sought may tend to incriminate him.

*It is further ordered*, That said LOUIS P. MASTRIANA appear before said Subcommittee and testify and provide such other information which is sought with respect to the matters under inquiry by the said Subcommittee.

*It is further ordered*, That no testimony or other information compelled under this order (or any information directly or indirectly derived from such testimony or other information) may be used against said LOUIS P. MASTRIANA in any criminal case, except a prosecution for perjury, giving a false statement, or otherwise failing to comply with this order.

Dated this 21st day of May, 1973.

JOHN J. SIRICA,  
U.S. District Judge.

Chairman JACKSON. May the record reflect that you are now being given a certified copy of the order.

[Document handed to the witness.]

Chairman JACKSON. Mr. Mastriana, I would advise you that you may not further refuse to testify before this subcommittee on the basis of your right against self-incrimination in light of the order of the court. Do you understand that, sir?

Mr. MASTRIANA. Yes, I do.

Chairman JACKSON. Mr. Mastriana, I believe you have a prepared statement. It will be included as if read. I understand that you intend to read portions of the statement. We will follow that with ques-

tions. The entire statement will be included as if read, but you may now refer to the highlights, if you will.

Mr. MASTRIANA. My full name is Louis Pasquale Mastriana. I was born July 17, 1922, in Amsterdam, N.Y. My father's name was Peter William Mastriana and my mother's name was Annette Vorse.

From the outset, let me say that I have been directly involved in crimes involving stolen securities, fraudulent or worthless securities, and the cashing of completely worthless offshore and foreign bank instruments which were designed to defraud banks and other investors.

I will give details of these activities as my testimony progresses, and I will answer any questions concerning any of these crimes that you may have.

During most of my childhood, I was raised in Amsterdam, spending some of the summer months with my mother in New York City. I graduated from the Technical High School in Amsterdam in 1939 and subsequently went to work with my father at the Schenectady Gazette in 1939 and 1940.

During the war years, I went to work at the Watervliet Arsenal. One of the reasons for leaving the Watervliet Arsenal was I suffered a gunshot wound. I was shot in the chest in a bar called the Jungle Inn located between Amsterdam and Schenectady, after heisting a crap game in Albany, N.Y.

I believe I spent about 2½ months in the City Hospital in Amsterdam, N.Y., recuperating from the gunshot wound. At that time I was becoming involved in organized crime activities, especially in the field of gambling.

I thereafter migrated back to the Bronx in New York with my mother. While I was there, I went to work for a person known as Jimmy Blue Eyes whose real name is Vincent Alo. I picked up the numbers lottery for Jimmy Blue Eyes, and I went out and collected some bad debts. Since that time, Vincent Alo has become a powerful organized crime figure.

Then, later on, through people in Manhattan, I went to work for Joe Nesline who at that time was working for Charlie "The Blade" Tourine. Nesline was turning numbers money in to Tourine, and Tourine was working for the Genovese people over in New York.

I went to work for Joe Nesline here in Washington, D.C., as a runner, picking up numbers and also picking up his bad debts, what is commonly referred to possibly as an "enforcer."

In about 1945, I left the D.C. area and went to work at the Naval Supply Depot at McAlester, Okla. I went to work as a truckdriver, and while out there as a truckdriver, I picked up numbers and engaged in a little shylocking in McAlester, Okla.

From there, I migrated to Hot Springs, Ark., where I went to work for Owey Madden who operated several gambling establishments in that city.

In about 1947, I returned to Washington, D.C., again going to work for Joe Nesline. During the course of working for Nesline, I got myself involved in a situation where I received some stolen Government checks. I served a 3- to 15-month sentence at Lorton, Va.

In 1949, I went to the Atlanta Penitentiary to serve a 21- to 63-month sentence for passing stolen Government checks. Upon my re-

lease from Atlanta, I went to work with my father at the New York Daily News, New York City.

Then in 1957, I migrated from New York City over to Newark, N.J. I went to work first for the Newark Star Ledger; then from the Ledger, I went to work with the Newark Evening News; and from the News, I branched out and formed my own union, the International Amalgamated Service Employees Union of North America. I operated the union for about a year when the Government made me shut it down. It was really only a paper union and was designed to shake down business people.

During this period of time, I associated with many organized crime figures in the Newark area who were also involved in labor racketeering. One of these, Eddie Pecora, later OK'd me with Deminic Mantell when I became involved in stolen securities and other frauds in Florida.

During 1963 and 1964, I was arrested for several offenses, including forgery, bank fraud, obtaining money under false pretenses, and even impersonating a police officer.

I received a total of 9 years' imprisonment in the New Jersey State Prison. During my confinement at the State prison, I was transferred to the New Jersey State Hospital as being criminally insane. I was released from the hospital in 1965 and from the prison in 1967. In 1968 and in 1971, I was examined by Government psychiatrists who found me to be of sound mind and legally competent.

I might add that since that time I have been convicted and sentenced in Federal court for crimes relating to stolen securities and Bank of Sark checks. I am currently a Federal prisoner serving an 8-year term.

I first became involved with stolen securities in 1969 when I received a call from a Mr. Sam Garrison of Miami, Fla. He asked me to come up to his office so that he could introduce me to someone. At that time, his office was at the Rani Building on Biscayne Boulevard; I think it is the 3100 block. I arrived at his office and was introduced to a man by the name of Harry Rivers. At a later date I found out his real name to be Charlie Procacci.

At this first meeting, Mr. Rivers (Procacci) said to me that he had some U.S. Smelting & Refining bonds and he would like to borrow money on them and he didn't want to go into a bank himself. He asked me would I handle the transaction for him. At that time, I was self-employed as a labor relations consultant, doing business as L & M Associates in Miami, Fla.

Procacci said there was nothing wrong with the bonds. Also, at that time he gave me a handful of coupons which I took down to the Bank of Kendall which is located on U.S. 1, south of Miami. The fellow at the bank took the \$6,000 of coupons and cashed them and credited them to my checking account, but they wouldn't accept the U.S. Smelting bonds. At that time, I had \$25,000 worth.

I then went from there to the University Bank in Coral Gables where I had another account. I saw one of the bank officers and left the U.S. Smelting bonds with him. I went back up and I saw Procacci and told him I had left the bonds at the bank to get a loan.

At that time, Procacci told me to go back and get the bonds because there was something wrong with them. So I immediately went back

to the bank, picked up the bonds because the bank was checking 'o see if they were hot, and went back up to Mr. Procacci.

That is when they told me that these bonds had been stolen, and if I knew where I could push them, I would be in for a bigger piece.

I got hold of Austin Proferi, a man I owed some money to. He and I went down to the City National Bank of Coral Gables. We went in there and he knew the lady who was a loan officer there and she made me a loan, I think, of \$17,000 or \$18,000. She took out the money that Mr. Proferi had coming, and she gave me a check for the balance, which I, in turn, deposited this check at the University Bank.

When I deposited this check at the University Bank, someone from the University Bank called the City National Bank to find out why they had given me the check. The City Bank had told them that I had hypothecated or acquired a loan on these various securities.

The University Bank told the City National Bank that the securities were stolen. Immediately, the woman loan officer at City National called Austin Proferi up and told him to get the checks back, that she would return the stock to me and she wouldn't call the police.

The following day I went back to the University Bank, they in turn gave me the check that the City National Bank had issued me, and Proferi had his check, and I told him to go in and get the securities.

When he gave me the securities, I was to release the check to him in the parking lot. So he went in and got the securities. He gave me the securities and I gave him the check back. I took off.

From there, I went to Francis I. duPont, a brokerage firm, and I sold all the stock in three transactions—\$300,000 worth of stolen U.S. Smelting bonds, which netted me \$268,000. The money was divided among Charles Procacci, Sam Garrison, and myself. I understand that Dominic Foti and Bobby Cardillo were to get their share for supplying the bonds to Procacci.

I recall receiving a check for about \$115,000 from F. I. duPont; I went to one Frank Petrucci because I had no bank that could cash a check for \$115,000. He sent me to the Key Biscayne Bank. He had called up Bebe Rebozo, and Rebozo had gotten hold of Mr. Stearns. Mr. Stearns was a vice president that handled the whole transaction, set the account up.

Because when I walked in with the check for \$115,000, Stearns mentioned to Mr. Rebozo and Mr. Rebozo came out and introduced himself to me. He was happy to have an account like that.

Mr. Rebozo asked me what I did. I told him I was a labor relations and public relations consultant. He wanted to know if I could get some union funds into his bank. Mr. Stearns and I had a lengthy conversation about how I knew Mr. Petrucci. Petrucci, at that time, was an automobile dealer in Coral Gables and was well known at that bank.

At that time, I asked him how much cash I could take down on the check. He said, "I only have about \$18,000 in cash available. That is all I can give you now. If you tell me how much you want tomorrow, I will have it ready for you." So I took \$18,000 in cash, and I took a number of cashier's checks.

The following day I went in the Key Biscayne Bank and picked up \$40,000 in cash and some more cashier's checks; and I met Garrison in a nearby Holiday Inn where I gave him \$40,000 in cash.

I was arrested in May 1969 for this transaction and ultimately received a 4-year sentence. Subsequent to this arrest, I cooperated in an undercover capacity for the U.S. Postal Service for a period of approximately 2 years, on and off. I believe that Procacci, Garrison, Foti, Cardillo, and some others were convicted as a result of the information provided by me to Federal authorities.

During 1970, I became involved in committing various frauds relating to the Bank of Sark. My first impression of the Bank of Sark was that it was a bank over in the Guernsey Isles off the coast of Normandy between England and France.

The bank was located at Saint Peter Port. I visualized a bank where people would walk in and make deposits and withdrawals. The bank had a telex machine and was listed in the Polk Directory, which is the directory to indicate to one bank that these banks are in existence. This is where one bank can find out what the total assets of another bank are and who the officers are.

The first time that I had any knowledge that there was a Bank of Sark was when Dominic Mantell explained it to me. Dom Mantell is, to my knowledge, the Florida business representative of the Stefano Magaddino organized crime family out of Buffalo, N.Y. He also represents the interests of the Carlo Gambino family out of New York and the Angelo Bruno family out of Philadelphia.

Dominic told me that the Bank of Sark would issue commitments, they would issue checks, international bank drafts, letters of credit, certificates of deposit, open up an account, anything that we needed.

It was through Dominic Mantell that I met other persons who were dealing in Bank of Sark paper and other worthless instruments. These persons included Joseph Lubin, Salvatore DiPietro, and Michael Pelle, all of Prudential Leasing Co.; Philip Wilson, Jack Axelrod, Joel Ginsburg, Carl Brown, Neil Maloney, Harold Audsley, Ron Kotler, and others.

All of these individuals were involved in all types of frauds in Florida and elsewhere including securities frauds, advance fee rackets, and establishment of phony insurance companies, offshore banks, and mutual funds.

The first transaction that I handled with Bank of Sark paper involved a proposed loan to a company called Princeton Properties of Indianapolis, Ind. This was an outfit that originally had come to me in Denton, Tex., looking for a loan of \$2 million.

They brought me to Indianapolis, and at that time, they were into a modular or prefabricated home development. They owned the lumber company. They also had racing cars out of Indianapolis Speedway. It appeared to be a well diversified little company.

The principals of Princeton Properties, Al Warne and John Newcomer, were looking originally, I believe, for a \$2 million loan. They asked me if I could provide them with this loan. I said yes. I would need at least a \$20,000 advance fee before I would do anything.

The first check they gave me bounced. Then I had refused to do anything for them. Then later, they sent \$20,000 into a bank in Gainesville, Tex., into my account. Princeton Properties was going to put up a total of \$120,000 in escrow.

Upon the delivery to Princeton Properties of \$4 million in loan commitments, I was to take down the \$120,000. I had, I think, two checks totaling \$4 million drawn on the Bank of Sark to use in this

deal. I received them from Ron Kotler who was introduced to me by Dominic Mantell.

We were going to close this deal at the International Bank in Miami but this bank was reluctant to accept Bank of Sark paper because they had been unsuccessful in collecting on other Bank of Sark paper which had been deposited there in an unrelated transaction. Meanwhile, the principals of Princeton Properties sent an additional \$20,000 to my account at the International Bank of Miami.

In order to finance the deal, Mantell introduced me to one Bernie Schwartz who had an outfit called the Midland Bank in Panama. Schwartz gave me a certificate of deposit with a face value of \$2 million. Actually, both the bank and the C. D. were fraudulent.

We then, by prearrangement, went to the International Bank & Trust Co. in Nassau where I knew two bankers, George Davis and Robert Hazen. I turned the C. D. over to Al Warne of Princeton Properties, who turned it over to Hazen for collection from the Midland Bank with the proceeds going to the International Bank of Nassau for deposit to the account of Princeton Properties at the Bank of Montreal in Nassau.

Actually what happened was that Hazen, who was part of the scheme, returned the C. D. to me and the fraud was complete.

Out of the total of \$40,000 which was taken down from Princeton Properties, Mantell got \$2,000, Schwartz got \$2,000, Hazen got \$5,000, Herbert Leming, an associate of Mantell, got \$2,000, and Jim Richardson of Birmingham, Ala., the original finder, got \$2,500, leaving me with the balance of \$26,500.

On yet another Bank of Sark transaction, I met Ron Kotler at the Fairmont Hotel in Dallas, Tex. Ron Kotler came into the Hotel Fairmont with more Bank of Sark checks. He had the gray and pink Bank of Sark checks.

The gray check was more or less a personal check; and the pink was an international bank draft. What would happen would be this: Kotler asked me if I had a bank lined up. I said, "Yes, I am going in and open up an account at this particular bank." He said, "Good. I will have to know because I have to call Phil Wilson tonight. Phil Wilson will call Bernard Green."

Phil Wilson was the originator of the Bank of Sark. He had control, period. B. Green was a fellow who worked for Phil Wilson. He was the office manager of the Bank of Sark.

Whenever the bank we intended to take down would call the Bank of Sark, the girl would answer and she would switch you over to B. Green.

Green would verify what he had already been told by Phil Wilson, that, for example, Mr. Mastriana had a trust account of maybe \$3 million, a very good customer. This was to give me credibility. Of course, this was the door opener with the victim we were going to beat.

On this occasion in Dallas, I walked into the Dallas Bank & Trust Co. and opened up an account. I believe I put in a Bank of Sark check in the amount of \$250,000, a quarter of a million dollar check. At that time, Kotler had given me about \$175,000 of First Liberty Fund stock.

First Liberty was a mutual fund started by Phil Wilson over in Europe. It was a phony deal; strictly to beat the American public. I deposited the First Liberty shares as "props" to make the account look

good. I beat the Dallas Bank & Trust for \$10,000 on the same day that I deposited the \$250,000 check by making a withdrawal on the account.

Later, when the bank knew it had been taken for the \$10,000, it instituted a civil action against me. I, in turn, countersued them for \$1 million for the loss of the Bank of Sark check. They lost the check.

When I say they lost the check, in reality the check was not lost; because when the original check was mailed by the Dallas Bank & Trust directly to the Bank of Sark, B. Green at the Bank of Sark, would then take the check and put it in another envelope and send it to Nassau.

When the check reached a post office box in Nassau, someone would then mail it back to Phil Wilson. I could then claim to the victimized bank that it had lost my check. As a matter of fact, Phil Wilson was supposed to give me the original Bank of Sark checks prior to my being arrested. This is the way banks would be defrauded by the use of Bank of Sark paper.

This same system works with any fraudulent offshore or foreign bank operated by international swindlers.

On another occasion, in Duncan, Okla., Ron Kotler and I went into the First National Bank and deposited another \$250,000 Bank of Sark check. But, there was a mixup in communication because Kotler had contacted B. Green instead of contacting Phil Wilson first and the process was delayed.

Telegrams confirming my account at the Bank of Sark finally came into First National Bank, Duncan. But by that time, the bank figured they should have notification from the Federal Reserve that money was in the process of being transferred, so no money was actually taken down.

Not only was Bank of Sark paper used for defrauding banks but also we purchased jewelry and even automobiles with the proceeds of Bank of Sark paper.

On one occasion, Ron Kotler and myself purchased \$6,000 worth of jewelry from the Maynor Page Jewelry Store in Miami with Bank of Sark paper.

During September 1970, I met Dominic Mantell at Chicago's O'Hare Field. Mr. Mantell turned over to me two Bank of Sark checks totaling \$75,000. I deposited them in the Citizens Bank & Trust Co., in Park Ridge, Ill.

Based on these two deposits, one for \$20,000 and one for \$55,000, I took out a \$15,000 cashier's check in addition to buying three Continental Mark III automobiles. One Mark III was turned over directly to Dom Mantell, which he, in turn, wanted to put in the name of his son-in-law, Anthony Celeste; and I kept two.

I also gave a check to Ron Kotler for about \$9,000 and he deposited it in his bank and took the money out. Me, Mantell, and Kotler cut it up; we wound up with about an additional \$3,000 apiece.

Also around this time, Ron Kotler and I traveled to Las Vegas, Nev., where I deposited a \$50,000 Bank of Sark check at the casino cage at the Four Queens Hotel.

I took about \$10,000 in cash and I signed about \$30,000 or \$40,000 in markers, for gambling. Any time I needed \$1,000, I would go down to the cashier and take out \$1,000 in cash. But the rest of it, I gambled

and lost on the crap table. I believe I also cashed a \$2,000 Bank of Sark check at Lamar Modes at Dallas for the purchase of some clothing.

I also used the Bank of Sark as a "prop." in other words, as an aid to commit other frauds. The Bank of Sark was used in sending me telegrams in care of the University Bank, Denton, Tex.

These telegrams stated that the Bank of Sark was making \$12 million available to me for loan commitments. This was arranged with Joe Lubin and Jack Axelrod. Jack Axelrod is an accountant who helped Phil Wilson set up the Bank of Sark. I know that Joe Lubin was able to victimize many prospective borrowers in this manner, totaling about \$40,000 in the period of 1 week.

In January of 1971, Dom Mantell called me and asked me to fly into Miami, saying they had a new deal pending and he didn't want to discuss it over the telephone. It was a billion dollar deal and there would be a lot of money in it for both of us.

So I caught the next plane and went in, checked into the Americana Hotel where he outlined the whole Zurich International deal to me. We met in my suite. Mantell went on to explain to me that Angelo Bruno had been over to London.

He had met Ernest Shinwell, whose father was a lord or associated with the House of Lords; and that they had access to millions in letters of credit and bills of exchange. What they had done was taken various letters of credit and deposited them in the Credit Suisse Bank in Switzerland.

The scheme was that I was to be given either bills of exchange or letters of credit to use for loan commitments. I was also to walk into a bank and cash the bills of exchange. For verification on the commitments, all the victim had to do was call Chase Manhattan Bank.

For verification on the bills of exchange, all they had to do was call Jose Salamero at the Banco Exterior in Panama. The Banco Exterior was going to be a front for the Zurich International and Salamero was an officer in it.

The Banco Exterior, from my understanding, has been in operation for years but the Mantell-Shinwell group planned to use it to lay off stolen and counterfeit securities as backup for these deals. In addition, I personally observed millions of dollars worth of stolen blue chip securities which were being prepared for shipment to Europe and Panama for use in these schemes by Mantell.

The letters of credit and bills of exchange were all phonies. There was nothing legitimate behind them. In other words, the \$10 million that supposedly went into the Swiss bank was nothing but other phony letters of credit.

At this meeting in Miami, Mantell said that he would control it and that I would be directly underneath him. The only other guy that would be directly involved was Neil Maloney, a Mantell associate. In short, Angelo Bruno had cultivated Shinwell and they turned the operation over to Mantell.

Mantell, in turn, was looking to me and to Neil Maloney to distribute Zurich International paper in the United States. Maloney's function would also be similar to mine, to go out and give the Zurich International letters of credit to victims or other "bird dogs." "Bird dogs" are the people who pass the phony paper to the "pigeons" or victims.

Actually, there would be Mantell, Neil Maloney, and myself; each would cultivate his own bird dogs.

Harold Audsley, for example, was a "bird dog" in the Zurich transaction. I understand he victimized a man by the name of B. F. Nicholson by using a \$300,000 Zurich International letter of credit.

It was a \$10,000 takedown. The \$10,000 takedown was to be divided between Audsley, Mantell, and Maloney. The reason I know there was \$10,000 taken down is because Neil Maloney wanted me to collect it from Audsley. Audsley apparently neglected to inform Maloney he had scored.

The next fraud I got involved with, using a Zurich International letter of credit, took place during April 1971. On this deal, I took down \$7,500 in cash plus \$115,000 to \$120,000 worth of stock from a W. J. Moore from Las Vegas. Mr. Moore was looking to borrow a total of \$6,900,000 on behalf of two businesses he was representing, Mount Vernon Financial and Nevada Diversified Minerals Corp.

Upon my telling Dom Mantell about Mr. Moore's needs, he mailed two Zurich International letters of credit to my home in Texas. I typed in the blanks and gave the letters of credit to Mr. Moore in exchange for the \$7,500 and the stock.

I attempted to sell the stock I got from Mr. Moore but I met with no success at all. Mr. Moore discovered he would have trouble getting a bank to fund the Zurich International letters of credit, prior to my being able to unload the stock he gave me.

When I subsequently attempted to sell the stock through a broker, I was told that a "stop" had been placed against the transfer of those share certificates.

On still other occasions, Dominic Mantell provided me with additional Zurich International letters of credit, as well as phony bills of exchange drawn against other foreign corporations such as Inter-copa and Panama Timber Products Corp., in Panama.

On those occasions, however, the frauds did not materialize so Mantell and I didn't get the money to whack up. I recall sending two of the bills of exchange by air express to Harold Rothman in New York. He, in turn, gave them back to Mantell in Miami.

That about completes my dealings with Mantell and Zurich International takedowns.

I would now like to provide the subcommittee with a list and brief description of individuals with whom I have been associated in various enterprises of the sort I have described above.

(1) Harold Audsley: I met Mr. Audsley in 1969. I was introduced to Mr. Audsley by Phil Wilson. I was introduced to him when Dom Mantell's son-in-law, Anthony Celeste, had brought me up in reference to one of my corporations, International Holding Co., securing a mortgage to purchase a shopping center or commitment to purchase a shopping center for \$250,000. Audsley gave me a commitment on First Southern Financial and Investment Co., Inc., for \$250,000. It was for \$275,000 with the understanding that I would give him \$25,000 for the commitment.

(2) Jack Axelrod: Jack Axelrod from St. Louis, Mo., was a partner to Phil Wilson in the development of the Bank of Sark. He was also associated with Prudential Leasing in St. Louis. Jack Axelrod was instrumental in sending the \$12 million in Bank of Sark com-



mitment telegrams to my bank, the University Bank, Denton, Tex. He contacted B. Green, and B. Green in turn, forwarded the telegrams on to me.

(3) Carl Brown: I met Carl Brown the first time in St. Louis at one of the hotels there with Phil Wilson, Jack Axelrod, Joel Ginsburg, and Ron Kotler. We discussed various schemes of union commitments, insurance commitments, Bank of Sark commitments. We went over a complete program. We all had agreed to work together to fraudulently beat people out of money.

(4) Gus Caggiano: Gus Caggiano was, I understand, the fellow that originally had most of the stolen stock that came out of the Kennedy Airport theft in New York. I met him at the Diplomat Hotel in Miami Beach through Willie Dentamora.

(5) Bobby Cardillo: I met Bobby Cardillo through Charlie Procacci at the Bay Park Towers in Miami. Cardillo was a main supplier of stolen securities to Charlie Procacci and others in the Miami area.

(6) Anthony Celeste: I met Anthony Celeste when I met his father-in-law, Dominic Mantell. Anthony sort of acted as a chauffeur and I guess you would put it as a flunky for his father-in-law, Dom.

Dom would throw him a few dollars now and then to keep him happy. Celeste drove me around. He drove me up to Neil Maloney's office in Fort Lauderdale the day Maloney gave me two pink Bank of Sark checks.

On another occasion, I was brought to Audsley's office and Phil Wilson's office up in the warehouse in Fort Lauderdale by Anthony Celeste. Celeste received a new Continental Mark III which I had purchased from an agency in West Palm Beach, Fla., out of the proceeds from Bank of Sark checks.

(7) Peter Francis Crosby: I met Mr. Crosby in Nassau with John Lombardozzi. At that time they were discussing Standard Computers and Picture Island Computer Corp. The idea was to form both of these corporations over-the-counter, to run the stock sky high and then unload a load of it.

(8) J. C. and Michael Deardon: A father and son who were involved with Phil Wilson and Jack Axelrod in First Liberty and then the Bank of Sark. Some of the First Liberty certificates that Ron Kotler had assigned to me that we had on deposit in the Dallas Bank and Trust Co. were signed by the Deardons.

I never had any transactions with them. I just got a rundown on their background and told who they were and if any time I could assist them, they had my phone number. All they had to do was call me and I would be very happy to comply with their wishes.

(9) Willie Dentamora: Dentamora was from Boston. He was involved, to my knowledge, in moving stolen securities to Florida and elsewhere.

(10) Salvatore DiPietro: I met him the first time when he was associated with Joe Lubin at Prudential Leasing. I understand from Mantell that DiPietro invested \$100,000 of the mob's money through Joseph Lubin and Mike Pelle to get Prudential Leasing started in a laundry concession for the various hotels in Miami Beach.

When I associated myself with the Prudential Leasing, Joe Lubin and Mike Pelle, DiPietro was supposed to take care of Mantell's and my interests. DiPietro was supposed to be our man in the office. If any

money came in, he would make sure Mantell and myself got our end of it.

One time, DiPietro told Lubin to give me a check for \$2,000. That is the only check I ever got out of them that was any good. The rest of the checks that they gave me were all rubberized or vulcanized.

Lubin and Pelle gave me about \$60,000 in bad checks from deals they owed me and Mantell. When a check for \$40,000 bounced, I told DiPietro either I get my money or somebody is going to get whacked. So someone grabbed Lubin in the parking lot and worked him over. However, I never got the money.

(11) Howard Finkelstein; I met Finkelstein through DiPietro and Dom Mantell. Finkelstein at that time was pushing Picture Island and Standard Computer. He was later convicted for trafficking in stolen securities.

(12) Dominick Foti: Foti supplied Charles Procacci and me with stolen securities. At one time, when Foti discovered that Procacci held out \$125,000 from him, Foti wanted me to whack Procacci out. I hasten to add that I never did.

(13) Sam Garrison: Sam, acting as a "bird dog," brought me a victim in a union commitment takedown. I think I gave him \$2,000 for his part. He also introduced me to Charlie Procacci in Miami and was convicted for his part in dealing in stolen securities.

(14) B. or Bernard Green: He was the "officer" at the Bank of Sark on the Isle of Guernsey who would okay Bank of Sark checks and commitments, subject to the approval of either Jack Axelrod or Phil Wilson.

(15) Dave Kaplan: I met Dave Kaplan at the Americana Hotel in Miami. I was introduced to him by Dom Mantell in reference to Omega Investments. They wanted me to act as a "bird dog" to go out and solicit and find customers for them that were looking for loans.

They, in turn would take them down and beat them for the advance fees. Both Kaplan and Mantell told me that Kaplan represented Angelo Bruno's interests.

(16) Sam Kaye: Sam Kaye represented most of the money from Detroit and Cleveland and would pick up hotels and motels in Florida for those interests. Of course, Dom Mantell was there to make sure he didn't step out of line. When I finally did get to meet Dom through Red Weiler, I also met Sam Kaye. I was in Sam Kaye's office on one occasion with Mantell, when they were preparing a shipment of stolen securities to Germany in excess of \$5 million.

(17) Ron Kotler: The first time I met Kotler was on the Princeton Properties takedown. He had delivered to me Bank of Sark checks totaling \$4 million. Later on, Kotler and I became involved in other frauds involving use of Bank of Sark paper with the Dallas Bank and Trust Co. and others. Kotler was indicted with me in Texas but has not yet been tried.

(18) Herbert Leming: I met him at the Americana Hotel with Mr. Mantell on the same day that I met Dave Kaplan from Omega Investments. Herb Leming was a wheeler-dealer, a finder, looking for commitments or looking for people that could provide commitments for him so that he could take down prospective borrowers.

Leming was instrumental in helping me get that \$20,000 worth through the International Bank and Trust Co. from the Princeton Properties deal.

(19) Joe Lubin: He was the brain behind the Prudential Leasing. The legal man was Mike Pelle. But Joe Lubin prepared all of the contracts, went through all of the loan packages and he would set up the escrow accounts. They never put out a good loan commitment as far as I know.

(20) Neil Maloney: Neil Maloney and Dom Mantell were very close. The first time I heard his name mentioned was in connection with a guy he had beat in Texas. Anthony Celeste, Mantell's son-in-law, drove me up to Maloney's office in Fort Lauderdale where we went to pick up some of the Bank of Sark pink and gray checks, and the letters of credit.

While we were there, an accountant was in the office. He and Maloney were preparing a \$26 billion bank in Panama. Dom Mantell had told me earlier that there was a \$26 billion bank being set up in Panama where stolen securities and other fraudulent paper would be used.

(21) Dominic Mantell: Red Weiler introduced me to Dominic Mantell. I met him up in his office on Meridian Avenue. Sam Kaye and Mantell had an office on the third floor.

Dominic Mantell originally comes out of the Magaddino family in Buffalo, N.Y. When he went down to Miami, he went down there to represent the Magaddino family, the Angelo Bruno family from Philadelphia, and the Carlo Gambino family out of New York.

Mantell was the controlling force in the Zurich International frauds. He provided me with Zurich paper and shared in the money I realized as a result of their use.

(22) Lou Mayo: I met Lou Mayo through Dave Kaplan. When I met Dave Kaplan, Kaplan told me he would have his associate, Lou Mayo, call me in Texas so he could check out a business called Securities Industries. I think 10 days later, I received a call at my home in Texas from Lou Mayo that he was coming in.

(23) Al Meyer: Meyer was associated with Dominic Mantell in issuing mortgage commitments. He represented the Mortgage Corp. of America in Miami, Fla. Through Mantell, I met Meyer at the Carriage House in Miami Beach. We discussed various takedowns including the use of Zurich International paper.

(24) Joe Nesline: I worked for Joe Nesline in 1944 and 1945. He worked for Charlie "the Blade" Tourine from New Jersey and was involved in running gambling operations in the Washington, D.C., area, along with Sam Beard and Emmett Warring.

(25) Francis P. O'Neil: I met Mr. O'Neil through Phil Wilson. Phil Wilson had given him my phone number. He had a bunch of stolen checks out of a bank in South Carolina, counterfeit checks. He had a check for \$50,000 drawn on some bank in Chicago. O'Neil came out to Denton, Tex., and I cashed a stolen check for about \$4,300 or \$4,400 out at a liquor store.

(26) Frank Petrucci: I met Petrucci in 1969. I went down and bought a car at the Coral Gables Lincoln-Mercury where I met Petrucci.

I told him I was involved at that time with union commitments. Mr. Petrucci put me in touch with the Key Biscayne Bank when I had a check for \$115,000 to be cashed. He called up Bebe Rebozo, and Rebozo got hold of his assistant, Mr. Stearns.

When I walked into the bank, I was well received. I got the entry into the Key Biscayne Bank and I gave Petrucci \$10,000 for his introduction. This fee was set up as a loan but, naturally, I was never repaid.

(27) Charlie Procacci: Sam Garrison introduced me to Procacci as "Harry Rivers." I received hundreds of thousands of dollars of stolen securities to unload from Procacci. He was convicted with the aid of my assistance to the U.S. Postal Service.

(28) Anthony Romano: I never met him personally, but he sent me a half million dollars worth of stolen Westinghouse stock on Mantell's orders. Mantell knows him from Buffalo, N.Y.

When I was notified the stock was coming out to me, I called the postal authorities up and they instructed me to make photostats, send them the photostats, hold the stock for a while and send it back to Romano. I followed their instructions, but the stock never got back to Romano because the FBI picked it up in Dallas, Air Express.

(29) Harold Rothman: I met Rothman in Dallas, Tex., at Love Field. I sent him some bills of exchange on Panama Timber Products Corp. and Intercopa. He, in turn, gave them back to Dom Mantell in Miami.

(30) Jose Salamero: I never met Salamero but I spoke to him a couple of times regarding the cashing of the bills of exchange that Mantell gave me. He explained the procedure to me over the telephone. I called him at the Banco Exterior where he was a director. I was introduced to him over the phone by Dominic Mantell.

(31) Ernest Shinwell: I never met him personally, but I spoke to him over the telephone in several conference calls with Dominic Mantell. Shinwell was associated with Mantell in the formation of several foreign corporations including Intercopa, Zurich International, and Panama Timber Products, among others.

(32) Mel Warner: I met Mel Warner in Phoenix, Ariz., at the Del Webb's Townhouse. He was looking for a loan. During this meeting, Mel Warner stated he wanted to go to work for me as a "bird dog."

I purchased from him a 1,000-share certificate of Eastman Kodak which was a counterfeit, which I have turned over to the subcommittee.

(33) Red Weiler: I met Weiler in Tampa. He was associated with Santo Trafficante, traveled around the world picking up diamonds, narcotics, cocoa, whatever he could put his hands on. He introduced me to Dominic Mantell.

(34) Phil Wilson: I met Phil Wilson in St. Louis, Mo., with Jack Axelrod. Wilson at that time was identified to me as the man behind the Bank of Sark. Nothing could be done with the Bank of Sark unless he OK'd it to B. Green.

Wilson also provided me with a phony performance bond from a business called Assurance & Surety. It was illegitimate. If anybody wanted to make a fast dollar, Wilson stated the victim could be given the performance bonds. I know that Wilson was involved in many fraudulent transactions, both within the United States and internationally.

In my statement, I have attempted to relate to the subcommittee some examples of how frauds are perpetrated by the use of bad paper, whether that paper be stolen, counterfeit, or worthless securities.

The Zurich International case is but one example of how organized criminals can perpetrate fraud. In your deliberations, always remember that criminals are always perfecting ways to use stolen, counterfeit, or worthless paper.

There was a time when the bulk of stolen or worthless securities were pledged as collateral for loans at banks. I think this is becoming too risky for the criminal because it leaves traces of the crime. I am convinced that now, instead of establishing loan accounts directly in the United States the bulk of stolen securities are taken outside the country where tracing is difficult.

If the swindler wishes to use stolen securities in the United States, he will now find ways to establish trust accounts or safekeeping accounts in banks and obtain receipts or other forms of validation from a bank which can, in turn, be used to obtain credit.

These transactions are particularly difficult to detect and trace. I also know that swindlers are constantly looking for insurance company portfolios or pension funds as ideal places to put stolen, counterfeit, or worthless paper for the simple reason that nobody audits these places to determine whether securities are good.

Now I am prepared to answer any questions you may have of me.

Chairman JACKSON. Thank you, Mr. Mastriana. First of all, we wish to express our appreciation for your cooperation with our staff and the investigators.

Have you been convicted of security frauds?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Are you now serving a sentence for those frauds?

Mr. MASTRIANA. Yes, I am, sir.

Chairman JACKSON. Where are you serving that?

Mr. MASTRIANA. Texarkana, Tex.

Chairman JACKSON. At the Federal penitentiary there?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. I want to ask the staff at this time to present certain exhibits for identification to complete the record. Then I will have some questions. Following this I will turn to Senator Huddleston for questions.

Mr. FELDMAN. Mr. Chairman, I would like to enter into evidence 27 exhibits to corroborate Mr. Mastriana's testimony. We can number them seriatim from 32 up through 58.

Chairman JACKSON. Do you wish to present them to Mr. Mastriana?

Mr. FELDMAN. We have already done that, Mr. Chairman.

Chairman JACKSON. Mr. Mastriana, have you gone over the exhibits referred to by counsel prior to this hearing?

Mr. MASTRIANA. Yes, sir, I have.

Chairman JACKSON. Can the exhibits before you be identified by you in one form or another?

Mr. MASTRIANA. Yes, they can be.

Chairman JACKSON. Do you so identify them?

Mr. MASTRIANA. Yes, I do.

Chairman JACKSON. Without objection, then, the exhibits will be received.

[The documents referred to were marked "Exhibit Nos. 32 through 58" ad seriatim for reference and may be found in the files of the subcommittee. Exhibit No. 51 follows:]

## EXHIBIT No. 51

SWISS CREDIT BANK  
SOCIÉTÉ SUISSE BANCAIRE ET FINANCIÈRE  
CREDIT SUISSE SA  
ZURICH

Registered Office: 100 Wall Street, New York, N.Y.  
Branch: 100 Wall Street, New York, N.Y.  
100 Wall Street, New York, N.Y.  
100 Wall Street, New York, N.Y.

By order of the Board of Directors

Duplicate

Registered/Recommandé **EXPRESS** Airmail  
Zurich International Investment Corporation  
Boyle Building P.O. Box 437  
Nassau /BAHAMAS

We are sending you herewith:		Nous vous remercions ci-joint:	
Price No. (if applicable)	Amount/Montant	Due date/Échéance	Drawee/Tire
0239	US\$ 3,000,000.--	letter of credit	issued by your good-
	US\$ 3,000,000.--	" " "	selfes in favour of
	US\$ 12,040.--	our charges	Interecca SA, Panama
	US\$ 6,012.040.--	and cables	
		plus all your charges	
Documents:	Comm. / Particular / Customs Invoice / Facture	Date of Charge Date de l'émission	Specimen Échantillon
	Doc. of Title Certificat d'origine	Insurance Assurance	Bill of Lading Billet de mer
	Receipt Reçu	Other documents/Autres documents	Letter of Credit, No. PAA/7 and 8
by 1st mail par 1 <sup>er</sup> courrier			2
by 2 <sup>nd</sup> mail par 2 <sup>e</sup> courrier			

relating to the above-mentioned  
concernant l'expédition de

as per letters of credit No. PAA/7 and 8

by/par	from/de	to/à	on/le
Please follow the instructions marked X:		Veuillez suivre les instructions marquées par X:	
<p><input checked="" type="checkbox"/> You may dispose of these letters of credit against payment of US\$ 6,000,000.-- as per our instructions below.</p> <p><input type="checkbox"/> Do not charge for drawee's account Ne pas charger pour le compte du tiré</p> <p><input type="checkbox"/> Do not waive charges Ne pas abandonner ses frais</p>		<p><input type="checkbox"/> Draft/Effet: After acceptance/Après acceptation</p> <p><input type="checkbox"/> Send back by airmail &amp; remittance par avion</p> <p><input type="checkbox"/> Bill for collection at maturity and advice due date immediately by airmail &amp; remittance par avion your local branch at maturity date &amp; advance par avion.</p> <p><input type="checkbox"/> Protest in case of non-payment Protester au cas de non-paiement</p> <p><input type="checkbox"/> No protest in case of non-payment Ne pas protester au cas de non-paiement</p>	
After actual payment/Après encaissement:			
<p><input checked="" type="checkbox"/> Cash to account with the order drawn on us Veuillez créditer notre compte avec l'ordre sans avis par avion</p> <p><input type="checkbox"/> Cash to account with the order drawn on us Veuillez créditer notre compte avec l'ordre sans avis par avion</p> <p><input checked="" type="checkbox"/> US\$ 6,012,040.-- to the Chase Manhattan Bank, New York, for our account, instructing them to advise credit to us by cable stating exact amount and our reference Pdoc/8239/hq.</p>			

In case of need consult us by airmail  
En cas de difficultés, veuillez nous aviser par avion

Special instructions: Documents according to your stipulation in the letters of credit have been sent directly to your address and should be in your possession, therefore enabling you to honor the letters of credit. Advise payment directly to us by cable mentioning our ref. Pdoc/8239/hq.

I hereby acknowledge receipt by airmail and  
I have the collection number in all your  
documents.

Visa

Your truly / Vos dévoués

SWISS CREDIT BANK  
CREDIT SUISSE

100 Wall Street, New York, N.Y.  
100 Wall Street, New York, N.Y.

## Zurich International Investment Corporation

Boyle Building, P.O. Box 437, Nassau, Bahamas

Telephone: Nassau 2-4195-8 Cable Address: Law Chambers

PLEASE REPLY TO ZURICH INTERNATIONAL INVESTMENT CORPORATION  
 PANAMA OFFICE  
 P.O. BOX 10519  
 TELEX #34 80159  
 ANSWER BACK - PANAMA  
 PANAMA CITY, PANAMA

Irrevocable Credit No. Pdoo/8239/no  
 (Please quote this reference on  
 all correspondence relating 312-2111  
 hereto)

Dated MARCH 2, 1971  
 Expiring in 12 MONTHS  
 Amount \$500,000.00 U.S.

To INTERNATIONAL HOLDING CORP.  
 MR. LOUIS P. MASTRIANA  
 At the request of

We hereby authorize you to draw on us at

to the extent of \$500,000.00 U.S.

The following documents must accompany your draft(s)

- (i) ALL DOCUMENTS AND TITLES
- (ii) ORIGINAL LEASES

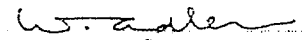
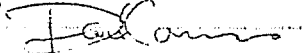
From MARCH 2, 1971 To MARCH 2, 1972

Drafts drawn hereunder must clearly specify the number of this credit, and must be  
 presented on or before MARCH 2, 1972

We hereby undertake to accept and/or pay all drafts regularly drawn upon us under  
 this credit.

Yours faithfully,

For and on behalf of Zurich International Investment Corporation

(Signed)  } Authorized  
 } Signatures.

## Zurich International Investment Corporation

Boyle Building, P.O. Box 437, Nassau, Bahamas

Telephone: Nassau 2-4195-8 Cable Address: Law Chambers

PLEASE REPLY TO ZURICH INTERNATIONAL INVESTMENT CORPORATION  
 PANAMA OFFICE TELEX #34 80159  
 P.O. BOX 10519  
 PANAMA CITY, PANAMA  
 ANSWER BACK - PANAMA

Irrevocable Credit No. Edoc/8239/no  
 (Please quote this reference on  
 all correspondence relating  
 hereto) 312-2111

Dated APRIL 27th, 1971  
 Expiring in 90 DAYS  
 Amount \$750,000.00 U.S.

To DUSHAN MEDIGOVICH

At the request of

We hereby authorize you to draw on us at

to the extent of \$750,000.00 U.S.

The following documents must accompany your draft(s)

- (i) ALL DOCUMENTS AND TITLES, TO FUNDING BANK
- (ii) ORIGINAL LEASES, TO FUNDING BANK

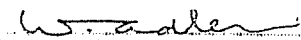
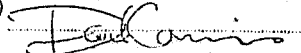
From APRIL 27th, 1971 To JULY 27th, 1971

Drafts drawn hereunder must clearly specify the number of this credit, and must be  
 presented on or before JULY 27th, 1971

We hereby undertake to accept and/or pay all drafts regularly drawn upon us under  
 this credit.

Yours faithfully,

For and on behalf of Zurich International Investment Corporation

(Signed)  } Authorized  
 } Signatures.

## Zurich International Investment Corporation

Boyle Building, P.O. Box 437, Nassau, Bahamas

Telephone: Nassau 2-4195-8 Cable Address: Law Chambers

PLEASE REPLY TO: Zurich International Investment Corporation  
Panama Office  
P.O. Box 10519  
Telex 34-80159  
Panama City, Panama

Chase Manhattan Bank, N.Y.

Pdoc/8239/ho

Irrevocable Credit No. 813-2201

(Please quote this reference on  
all correspondence relating  
hereto)

Dated March 5, 1971

Expiring in 18 months

Amount \$300,000.00 U.S.

To B. F. Nicholson

At the request of B. F. Nicholson

We hereby authorize you to draw on us at Panama City, Panama

to the extent of Three Hundred Thousand Dollars U.S.

The following documents must accompany your draft(s)

- (i) Note of B. F. Nicholson  
First Mortgage 88 2/3 Acres, Section 30, 1S, 2E,
- (ii) Murry County, Davis, Oklahoma.

From March 5, 1971 To September 4, 1972

Drafts drawn herunder must clearly specify the number of this credit, and must be  
presented on ~~4/16/71~~ September 4, 1972.We hereby undertake to accept and/or pay all drafts regularly drawn upon us under  
this credit.

Yours faithfully,

For and on behalf of Zurich International Investment Corporation

(Signed)

*W. Adler*  
*J. G. ...*

Authorized  
Signatures.

## Zurich International Investment Corporation

Boyle Building, P.O. Box 437, Nassau, Bahamas

Telephone: Nassau 2-4195-8 Cable Address: Law Chambers

PLEASE REPLY TO: ZURICH INTERNATIONAL INVESTMENT CORPORATION  
PANAMA OFFICE TELEX #34 80159  
P.O. BOX 10519  
PANAMA CITY, PANAMA  
ANSWER BACK - PANAIID

Irrevocable Credit No. Pdoc/8239/ho

(Please quote this reference on  
all correspondence relating  
hereto) 312--2111

Dated APRIL 27th, 1971

Expiring in 90 DAYS

Amount \$3,900,000.00 U.S.

To NEVADA DIVERSIFIED MINERALS CORP.

At the request of

We hereby authorize you to draw on us at

to the extent of \$3,900,000.00 U.S.

The following documents must accompany your draft(s)

- (i) ALL DOCUMENTS AND TITLES, TO FUNDING BANK
- (ii) ORIGINAL LEASES, TO FUNDING BANK

From APRIL 27th, 1971 To JULY 27th, 1971

Drafts drawn herunder must clearly specify the number of this credit, and must be  
presented on or before JULY 27th, 1971We hereby undertake to accept and/or pay all drafts regularly drawn upon us under  
this credit

Yours faithfully

For and on behalf of Zurich International Investment Corporation

(Signed)

*W. Adler*  
*J. G. ...*

Authorized  
Signatures

## Zurich International Investment Corporation

Boyle Building, P.O. Box 437, Nassau, Bahamas

Telephone: Nassau 2-4195-8 Cable Address: Law Chambers

PLEASE REPLY TO: Zurich International Investment Corporation  
Panama Office  
P.O. Box 10519  
Telex #34 60159  
Answer Back - FAMAID  
Panama City, Panama

Irrevocable Credit No. Edex/2598/ro  
(Please quote this reference on  
all correspondence relating  
hereto)

Dated March 2, 1971

Expiring in 12 Months

Amount \$500,000.00 U.S.

To International Holding Corp.

At the request of

We hereby authorize you to draw on us at

to the extent of \$500,000.00 U.S.

The following documents must accompany your draft(s)

- (i) All documents and titles
- (ii) Original leases

From March 2, 1971 to March 2, 1972

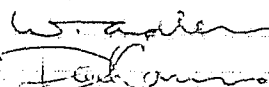
Drafts drawn hereunder must clearly specify the number of this credit, and must be  
presented on or before March 2, 1971

We hereby undertake to accept and/or pay all drafts regularly drawn upon us under  
this credit.

Yours faithfully,

For and on behalf of Zurich International Investment Corporation

(Signed)


Authorized  
Signatures.

## Zurich International Investment Corporation

Boyle Building, P.O. Box 437, Nassau, Bahamas

Telephone: Nassau 2-4195-8 Cable Address: Law Chambers

PLEASE REPLY TO: CH 4025 Basel  
Haldenstrasse 25

March 1st, 1971

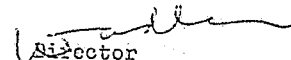
International Holdings, Inc.  
1440 Misty Wood Lane,  
Denton,  
Texas,  
76204, U.S.A.

Dear Sirs,

We have been asked to confirm by the Throop Corporation  
of Miami, Florida, that we have issued, in their favour, a  
letter of credit to the value of five hundred thousand  
dollars, U.S. with terms and conditions as specified.

We trust that this letter meets with your requirements.  
Should you wish for any further information we will be  
pleased to assist you.

Yours very truly,


  
Director

Directors: R. Crum W. Adler P. Camino S. Z. Berack

Chairman JACKSON. Mr. Mastriana, you have presented an incredible statement of how businessmen are duped. Can you tell us how you were so successful, and I use your words, with these so-called pigeons that you were able to locate and indentify and subsequently dupe?

Mr. MASTRIANA. With good props.

Chairman JACKSON. What kind of props, for example?

Mr. MASTRIANA. Letters of credit, bank statements.

Chairman JACKSON. How did you identify yourself and your background? How did you present yourself to these people?

Mr. MASTRIANA. Generally, you go into a town and you cultivate either a real estate man or someone looking to bring a readable into an area, making a good presentation, wining and dining them. The name of the game is fast women and pretty horses.

Chairman JACKSON. Fast women and pretty horses?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. In what order? Have you been in Kentucky, recently?

Mr. MASTRIANA. No, sir. And, of course, you go from there.

Chairman JACKSON. How did you identify yourself and your background?

Mr. MASTRIANA. With my identification.

Chairman JACKSON. Did you have cards?

Mr. MASTRIANA. Business cards, embossed, depending, again on the type of individual we are going to meet.

Chairman JACKSON. You had several different cards? You would have flashy cards?

Mr. MASTRIANA. Some were gold embossed, some were made on parchment.

Chairman JACKSON. Depending on what you thought would go over best with the potential victim?

Mr. MASTRIANA. There, again, you dress according to who you are going to take down.

Chairman JACKSON. Give an example.

Mr. MASTRIANA. If I was going to meet a banker, I would wear a regular business suit, probably an Elks pin or a Mason's pin.

Chairman JACKSON. Something typical of a small town?

Mr. MASTRIANA. Something typical of a banker.

Chairman JACKSON. And a conservative dress?

Mr. MASTRIANA. Very conservative.

Chairman JACKSON. Give us another example.

Mr. MASTRIANA. If you are going out to Vegas, you go out as loud as you can.

Chairman JACKSON. You what?

Mr. MASTRIANA. If you are going out to Vegas, you go out as loud as you can. You look the part and play it.

Chairman JACKSON. Let's take the banker, because this is where you have done, I think, the most amazing kind of entrance. How do you get into the bank and how do you dupe the bankers?

Mr. MASTRIANA. The first thing generally that I would do is, for example, if I was coming into Washington, I understand that Cafritz used to be a leading realtor. I would cultivate Mr. Cafritz first and then during the course of our discussion of possibly acreage. I would find out where the gentleman had done business and he would tell us

at what bank because at this point I would tell him I wanted to transfer funds into the bank so that I could possibly purchase this piece of property.

Chairman JACKSON. And bankers want to get more money in the bank.

Mr. MASTRIANA. They love it.

Chairman JACKSON. And then you go to the bank and what do you do?

Mr. MASTRIANA. Well, naturally—

Chairman JACKSON. You would hope—

Mr. MASTRIANA. Cafritz would generally call the banker because he wants to leave a tremendous impression with the bank that he is bringing in a big depositor. Of course, when I would walk in, with either stolen securities or letters of credit, checks totaling a quarter of a million.

Chairman JACKSON. The next step is that you bring in either stolen securities or a letter of credit on the phony Bank of Sark or some other bank. Then you deposit that. Then you turn around and in various maneuvers you get, shall we say, a cashier's check. If you deposit \$100,000, you get a cashier's check for \$10,000?

Mr. MASTRIANA. Cash or a cashier's check.

Chairman JACKSON. Cash or a cashier's check. Do you find that the banker makes no attempt at all to find out whether that check you are depositing is phony or real?

Mr. MASTRIANA. No trouble at all.

Chairman JACKSON. No trouble?

Mr. MASTRIANA. No trouble.

Chairman JACKSON. They don't bother to check it. Does the right hand know what the left hand is doing? Do you do it all in one transaction? In other words, you deposit the big check over here and then in the next breath you go in and get the cashier's check for a large amount? You do it all in one transaction?

Mr. MASTRIANA. All in 1 day. At the Dallas Bank & Trust Co. I deposited \$1¼ million and took down \$10,000.

Chairman JACKSON. And that was the Bank of Sark?

Mr. MASTRIANA. With a Bank of Sark check; yes, sir.

Chairman JACKSON. This is a phony bank in the Isle of Guernsey. As far as you could ascertain, they made no attempt to check it?

Mr. MASTRIANA. Senator, the Bank of Sark was off of Normandy in the Guernsey Islands.

Chairman JACKSON. And that was very clear on the face of the check?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. And they didn't ask you any questions about it?

Mr. MASTRIANA. No.

Chairman JACKSON. Were there similar transactions like that?

Mr. MASTRIANA. Well, at the time when I was moving Sark paper, there was a red flag on it throughout the country.

Chairman JACKSON. Do you mean there was a state of alert as far as the Bank of Sark?

Mr. MASTRIANA. Yes.

Chairman JACKSON. And all banks had been advised or had available to them at least that kind of information. How long had there been a state of alert on the Bank of Sark?

Mr. MASTRIANA. I would say approximately 2 to 3 months.

Chairman JACKSON. Two or three months?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. How many Bank of Sark checks were you able to pass before you got caught up?

Mr. MASTRIANA. Actually, I never got caught passing a Bank of Sark check.

Chairman JACKSON. How many of them did you pass in terms of dollars?

Mr. MASTRIANA. It was a considerable amount. It runs into the millions.

Chairman JACKSON. It ran into the millions?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. And in various places throughout the country?

Mr. MASTRIANA. Yes, sir. Well, Vegas is a tough place to beat, and we beat them for about \$40,000.

Chairman JACKSON. In Vegas. Did you do as well at the crap tables?

Mr. MASTRIANA. I blew it all on the tables, and fast women. Between the broads and the tables, I went broke.

Chairman JACKSON. You had quite a conglomerate.

Mr. MASTRIANA. I know I had a hell of a headache the next day.

Chairman JACKSON. But you had the money.

Mr. MASTRIANA. Yes.

Chairman JACKSON. Did any bank or banker ever ask you questions about the Bank of Sark?

Mr. MASTRIANA. No. Only when they found out that they couldn't collect the money. They would call me up and want to know what happened. Of course, I couldn't give them that good of an explanation.

Chairman JACKSON. What kind of an explanation did you give them?

Mr. MASTRIANA. For example, the Dallas Bank & Trust Co. wanted to sue me for \$10,000. I asked them to give me back my check and they didn't have it. So I countersued them for \$1 million because they lost the check.

Chairman JACKSON. What happened in the Citizens Bank case in Chicago when the bank threatened to sue you for defrauding the bank?

Mr. MASTRIANA. Well, I called them up and told them we were getting ready to take them to court. Of course, the banks are reluctant to go to court because it leaves them in a very embarrassing situation, and the depositors start to worry what kind of a bank they are putting their money into, if they are just going around giving out these \$15,000 checks. So they backed away from it.

Chairman JACKSON. In other words, what you did was you engaged in a little bit of gentle blackmail by threatening the lawsuit. That is all you needed to do.

Mr. MASTRIANA. Yes.

Chairman JACKSON. That got you off the hook.

Mr. MASTRIANA. Yes, it did.

Chairman JACKSON. I think this is a fantastic story. Did any bank or banker ever raise a question initially, when you presented the check from the Bank of Sark of the Guernsey Islands? Anyone who reads the Wall Street Journal knows that the Guernsey Island operation has been involved in all sorts of situations that relate allegedly to international criminality and organized crime. Isn't that right?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. It is known as a haven, and it is set up primarily for that purpose. I don't know whether they read the Wall Street Journal or the financial page of a newspaper.

Did any bank or banker ever raise a question on the Bank of Sark of the Guernsey Islands?

Mr. MASTRIANA. Only one time. They wanted to know how to fund the money, and I had to explain it to them.

Chairman JACKSON. What did you tell them?

Mr. MASTRIANA. I told them just to mail it in. That is what the instructions said on the back of the check, and they mailed it in.

Chairman JACKSON. In other words, you had a question whether they could read or write?

Mr. MASTRIANA. You know what I think the problem is with most banks. The Italian people have a wonderful saying, money makes the blind see and the lame walk. So when you go in with a big check—banks generally receive some sort of notification that there are swindlers operating and the type of operation they have. When they get a letter of this sort, it goes right into file 13, the wastepaper basket. They don't even read them. They don't even bother to apprise their clerks or the rest of the people in the bank what is going on. So when you walk into a bank with a big check, they are ready to accept it, and especially if it says, "International Bank Draft." They are ready to cash it. You have no problems, none whatsoever.

Chairman JACKSON. I will just ask a few more questions before I turn to Senator Huddleston.

What was your main source of stolen and counterfeit securities? What is the main source for others engaged in such frauds? Is there an organized network to move this paper from point of theft to those who use it? Can you give us the broad picture?

Mr. MASTRIANA. Definitely so. I imagine—

Chairman JACKSON. What was your main source of stolen and counterfeit securities?

Mr. MASTRIANA. Most of my stolen securities came from Petrucci who, in turn, received them from people up in Boston.

Chairman JACKSON. From one of the families involved in organized crime?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. But it went through several hands and then you received it. In your judgment, is there an organized network to move this paper from the point of theft to the point where it is put into commercial channels?

Mr. MASTRIANA. Definitely.

Chairman JACKSON. Is it a part of an organized criminal business network?

Mr. MASTRIANA. This is big business.

Chairman JACKSON. Let me ask you this: You are a bright, intelligent person, with a very good sense of humor. What can be done to prevent such frauds as you dealt in? How can we turn the tide of this massive use of stolen and counterfeit securities. We have been advised by competent people on Wall Street that there is a possibility of \$50 billion floating around in stolen, forged or counterfeit securities.



Mr. MASTRIANA. If I may be permitted to cite you two cases which I personally had a transaction in, I cashed roughly \$300,000 worth at Francis I. duPont and they never called the transfer agent.

Chairman JACKSON. Francis I. duPont, the brokerage firm?

Mr. MASTRIANA. The brokerage firm in Miami.

Chairman JACKSON. Was this a check?

Mr. MASTRIANA. No; I walked in with \$300,000 worth of stolen securities.

Chairman JACKSON. Stolen securities?

Mr. MASTRIANA. Stolen securities.

Chairman JACKSON. What kind of securities?

Mr. MASTRIANA. I believe they were U.S. Smelting.

Chairman JACKSON. Are you talking about bonds or stocks?

Mr. MASTRIANA. They were in a street name. I had a power of attorney. I had all the props that were necessary to go with the setup to beat them, and I just walked in and gave it to the broker. As a matter of fact, I got the check the next day.

Legitimately if I open up an account I have to wait 5 days. In this instance I got the check the next day.

Chairman JACKSON. He sold them?

Mr. MASTRIANA. Sold them and I got paid the next day.

Chairman JACKSON. And you got paid \$300,000?

Mr. MASTRIANA. No; the first time I picked up about \$70,000. The second check I got for about \$90,000, and the third check was for \$115,000.

Chairman JACKSON. In how many days?

Mr. MASTRIANA. Three separate transactions. I would say within 2 weeks' time.

Chairman JACKSON. But you got the first one the next day?

Mr. MASTRIANA. Yes, sir. Each check was given to me the next day.

Chairman JACKSON. How long did it take them to find out that they had received stolen securities? Were these stolen?

Mr. MASTRIANA. Yes, sir. They were stolen out of Kennedy. They were part of the Kennedy theft.

Chairman JACKSON. Out of the mails at Kennedy Airport?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. How long did it take them to find out that they had received stolen securities?

Mr. MASTRIANA. Approximately, I think, 3 weeks.

Chairman JACKSON. Three weeks?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. And by that time, of course, they couldn't find you?

Mr. MASTRIANA. Well, they couldn't find the money. There is no sense of beating somebody and giving it back to them.

Chairman JACKSON. The first point here is that in handling the transactions the banks simply fail to check on the paper they receive?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. When you have a large check drawn on a bank, should it raise questions?

Mr. MASTRIANA. I cashed a check through Mr. Rebozo's bank.

Chairman JACKSON. Mr. Rebozo's bank?

Mr. MASTRIANA. Yes. A fellow by the name of Petrucci called up Rebozo and the door was opened for me to cash the check of \$115,000.

Chairman JACKSON. What happened?

Mr. MASTRIANA. When I come out, I saw Mr. Rebozo and he saw the check for \$115,000—I think they only had about \$18,000 the first day in the bank.

Chairman JACKSON. They only had what?

Mr. MASTRIANA. \$18,000.

Chairman JACKSON. In the bank?

Mr. MASTRIANA. Yes. I took \$18,000 and the next day I took another \$40,000.

Chairman JACKSON. What happened to the balance?

Mr. MASTRIANA. I drained the account out in a week's time.

Chairman JACKSON. By writing checks?

Mr. MASTRIANA. Well, checks and cash.

Chairman JACKSON. How much did you get out in cash?

Mr. MASTRIANA. I think I left maybe \$200 in the account.

Chairman JACKSON. That was to cover handling charges?

Mr. MASTRIANA. That is a service charge the bank charges me every month.

Chairman JACKSON. You were generous on that point.

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. You probably took that as an income tax deduction later.

Do you mean you came in there with a \$115,000 check drawn on what? What bank?

Mr. MASTRIANA. It was a company check on Francis I. du Pont.

Chairman JACKSON. It was a check—

Mr. MASTRIANA (continuing). That du Pont had given me. It was from the sale of the U.S. Smelting and I didn't know where I could cash the check.

Chairman JACKSON. Then your contact—

Mr. MASTRIANA. I went to a gentleman who was very well connected with people and he called Rebozo.

Chairman JACKSON. Was he a kind of front? Was he a reputable person?

Mr. MASTRIANA. In a sense. He was the vice president of a Lincoln-Mercury dealership in Coral Gables.

Chairman JACKSON. No. Had he been involved or connected? I want to be fair because names have been mentioned.

Mr. MASTRIANA. He knows a lot of the people. He knows a lot of the family people up in New Jersey.

Chairman JACKSON. He knows a lot of the underworld and organized crime?

Mr. MASTRIANA. Yes.

Chairman JACKSON. But had he been involved, to your knowledge, in anything fraudulent or any part of the organized crime operation?

Mr. MASTRIANA. Well, he knew I was handling hot securities.

Chairman JACKSON. Was he aware that you were handling hot securities?

Mr. MASTRIANA. Yes.

Chairman JACKSON. But despite that fact, he called Mr. Rebozo and vouched for you; is that correct?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. In fairness to Mr. Rebozo, did he have any knowledge of your connections?

Mr. MASTRIANA. I don't know. I understand he would take a hot stove, too, if you gave it to him.

Chairman JACKSON. He would take a hot stove?

Mr. MASTRIANA. I have a receipt where I gave Mr. Petrucci \$10,000.

Chairman JACKSON. Now I am confused.

Mr. MASTRIANA. Mr. Petrucci is the man who called Rebozo up.

Chairman JACKSON. And you gave Petrucci \$10,000 as sort of a finder's fee?

Mr. MASTRIANA. Well, it was a loan. It was classified as a loan.

Chairman JACKSON. Classified as a loan?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Was it really a fee in order to cash that check?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. In fairness to Mr. Rebozo and Mr. Petrucci, because these statements are a matter of concern, of course, do you have any knowledge that Mr. Rebozo knew about your background?

Mr. MASTRIANA. I don't know. When Mr. Rebozo come out of his office, I was introduced to Mr. Rebozo and I told him I was public relations and labor relations consultant and he asked me if I could get any union funds in the bank. That is it.

Chairman JACKSON. Is that all he asked?

Mr. MASTRIANA. He was happy to see the account.

Chairman JACKSON. But your testimony is the \$115,000 check you wanted to get all cashed and they only had \$18,000 in the bank?

Mr. MASTRIANA. Yes.

Chairman JACKSON. How much did you get the first day?

Mr. MASTRIANA. For example, the first day I took \$18,000 in cash and maybe another \$20,000 in cashier's checks.

Chairman JACKSON. Did you deposit those cashier's checks in that bank?

Mr. MASTRIANA. No. I cashed them.

Chairman JACKSON. Did you cash them in another bank?

Mr. MASTRIANA. In another bank, where they would take a smaller check.

Chairman JACKSON. Did you have a whole series of them in smaller amounts?

Mr. MASTRIANA. I bought a Mark III at that time. They didn't have the IV's.

Chairman JACKSON. Do you mean the Continental?

Mr. MASTRIANA. The Continental, yes, sir.

Chairman JACKSON. Of your own personal knowledge, did you have any information that Mr. Rebozo was aware of your operation?

Mr. MASTRIANA. No, sir.

Chairman JACKSON. He did not?

Mr. MASTRIANA. No, sir. I can't say this and be truthful about it.

Chairman JACKSON. Was Mr. Petrucci, who introduced you to Mr. Rebozo, aware that you were involved in stolen securities or in fraudulent transactions?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. He knew?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. And you don't know, therefore, what he may have told Mr. Rebozo because that would be pure hearsay?

Mr. MASTRIANA. You know, I think I would have enjoyed this a lot better if these various gentlemen that I am discussing were present.

Mr. HUDDLESTON. So would we.

Chairman JACKSON. I wasn't aware it was going to come up. This Chair and this committee, when anyone's name is mentioned, try to let them know in advance. I want to say that we did advise Mr. Rebozo's attorney that his name might be mentioned. That is why I want all the facts out here. I think you agree that is the only decent thing to do.

Mr. MASTRIANA. Yes, sir. This is why I would like to have the gentlemen present so if they think I am saying anything wrong we can discuss it.

Chairman JACKSON. We can't always arrange to have all the people whose names are mentioned here at the same time. Mr. Rebozo, if he wishes, will be given an opportunity, certainly, to make a statement. We advised him in advance that his name might be mentioned because you had been in touch with the staff regarding this particular transaction.

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Zurich International is a key case in our study. Could you explain the mechanics of setting up such an operation and how stolen securities were obtained to inflate the worth of the various companies and how the entire operation was coordinated?

Mr. MASTRIANA. Stolen securities? At that time, Sam Kaye—at the time that Zurich International was set up, I explained to the investigators that I had gone into Mr. Kaye's office and there was an untold amount of stolen and possibly counterfeit securities. A portion of these, I think about \$10 million, were sent over to Switzerland, which are used. They are either deposited in a trust fund because when they go into a trust fund at that point no bank is going to investigate to find out whether the security is stolen or counterfeit because it is only going into a trust fund and you are not hypothecating for a loan. You are just using this as a prop to build up your balance sheet or financial statement.

Chairman JACKSON. In your planning and scheming in these things, how much lead time do you allow yourself? In other words, when you are drawing checks on a phony bank abroad and using all the other commercial devices, knowing that back of it is nothing but a shell, a fraudulent entity, what sort of lead time do you allow yourself? Do you set up a transaction so you have 3 or 4 weeks before they start bouncing?

Mr. MASTRIANA. Under the setup that they had, the checks would never come back.

Chairman JACKSON. The checks would never come back but the point is they are sent for payment and they didn't get their money.

Mr. MASTRIANA. The argument is the check must have gotten lost or stolen or maybe somebody in the bank misappropriated the money.

Chairman JACKSON. For planning purposes, you can only carry on a certain number of these transactions and they start catching up. Do you figure that you can kite them for 3, 4, or 5 weeks? I realize there are different kinds of pigeons.

Mr. MASTRIANA. When you deposit a Bank of Sark check in a bank, later on, as we sort of got to the end of it, we would allow ourselves about 10 days, if they mailed it. It depends on how they send the check back. If they mailed it back you had 2 or 3 weeks. If they send it by way of Federal Reserve for collection, then you have maybe possibly a week to 10 days and that was it.

Chairman JACKSON. I am going to ask Senator Huddleston to take over the chairmanship.

[At this point Senator Jackson withdrew from the hearing room.]  
[Letter of Authority follows:]

U. S. SENATE,  
COMMITTEE ON GOVERNMENT OPERATIONS,  
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,  
Washington, D. C.

Pursuant to Rule 5 of the Rules of Procedure of the Senate Permanent Subcommittee on Investigations of the Committee on Government Operations, permission is hereby granted for the Chairman, or any member of the Subcommittee as designated by the Chairman, to conduct hearings in open session without a quorum of two members for administration of oaths and taking of testimony in connection with traffic in stolen securities and related frauds in the U. S. and international markets on September 18, 1973.

HENRY M. JACKSON,  
*Chairman.*  
CHARLES H. PERCY,  
*Ranking Minority Member.*

Senator HUDDLESTON [presiding]. Mr. Mastriana, I am interested in what type of businessman you pose as. When you come into an area, such as in the instance you mentioned in connection with the person in the real estate business, how do you make your entry? Are you a big spender out of the East or a banker or a person interested in real estate yourself?

Mr. MASTRIANA. Generally, I pose as a man who is interested in building a shopping center, financing it. When you say "spender," I am the last of the big spenders, believe me.

Senator HUDDLESTON. What happened in the case of Princeton Industries? Do you know what happened to that company, itself?

Mr. MASTRIANA. I understand they eventually went broke. I beat them for 40.

Senator HUDDLESTON. What recourse did they have or did they take? Did they attempt to sue you?

Mr. MASTRIANA. Against me?

Senator HUDDLESTON. Yes.

Mr. MASTRIANA. Nothing. No recourse, no, sir.

Senator HUDDLESTON. There was no course of action they could take?

Mr. MASTRIANA. Well, they could have went to court, but then I am only an hour-and-a-half away from them.

Senator HUDDLESTON. I was curious about your prepared statement. You indicated that at one time while you were incarcerated in New Jersey you were transferred to a State hospital. Would you tell us about that?

Mr. MASTRIANA. Well, I had myself adjudicated insane so I could go in there.

Senator HUDDLESTON. You had yourself adjudicated?

Mr. MASTRIANA. Yes.

Senator HUDDLESTON. Was this a deliberate attempt on your part?

Mr. MASTRIANA. Yes, sir.

Senator HUDDLESTON. How did you manage to accomplish that?

Mr. MASTRIANA. Well, I whacked a guy in the joint and I told them that God sent me down there and that was it.

Senator HUDDLESTON. What did this do for you? Did this get you out of prison?

Mr. MASTRIANA. No; the judge that committed me said I was insane so under a memorable U.S. Supreme Court decision, *Paine v. Robinson*, any time a man has a mental impairment he can't be tried for a crime, so whatever I want to do I can't be tried for it. All I got to do is say God sent me down, that is all.

Senator HUDDLESTON. Does that still prevail?

Mr. MASTRIANA. No; social security and myself couldn't see eye-to-eye, and they didn't want to pay me any more money so I threw the towel in and quit.

Senator HUDDLESTON. You quit being insane?

Mr. MASTRIANA. Yes, sir.

Senator HUDDLESTON. You also mentioned in your prepared statement that you had been involved in a number of illegal activities here in the Washington, D.C., area?

Mr. MASTRIANA. Yes, sir.

Senator HUDDLESTON. Would you elaborate on that some?

Mr. MASTRIANA. Well, I came down here in 1944. Charlie "The Blade" sent me down.

Senator HUDDLESTON. Who did?

Mr. MASTRIANA. Charlie "The Blade" Tourine, from Newark. I went to work for Joe Nesline. I used to pick up the bad debts. People owed them money and I would collect it for them.

Senator HUDDLESTON. You were a collector?

Mr. MASTRIANA. Yes, sir.

Senator HUDDLESTON. What methods of collection did you use?

Mr. MASTRIANA. Well, a knock at the door and I would give them a week to pay. Then if he didn't pay, you whacked them, that is all.

Senator HUDDLESTON. What do you mean you "whacked" them?

Mr. MASTRIANA. Break his head.

Senator HUDDLESTON. Some physical violence. Did this ever extend to a case of homicide?

Mr. MASTRIANA. What was that?

Senator HUDDLESTON. How violent—

Mr. MASTRIANA. I can't hear you, sir.

Senator HUDDLESTON. Was it ever necessary to exert the ultimate violence?

Mr. MASTRIANA. I never went to that extreme. It is not my cup of tea.

Senator HUDDLESTON. What were these debts for?

Mr. MASTRIANA. Gambling debts. People owed him money. They didn't want to pay him. It was shylock money.

Senator HUDDLESTON. Do you have any knowledge or information that similar activities are going on in the Washington area at this time?

Mr. MASTRIANA. It is always going on, as long as you have an American public that want to bet a horse, wants to bet the numbers, can't go into a bank and borrow money, they are going to shylock for money. It will go on and on and on.

Senator HUDDLESTON. Do you have knowledge that it is going on or are you just assuming?

Mr. MASTRIANA. No; it has to go on. It is going on. Otherwise the families are all out of business.

Senator HUDDLESTON. Back to the trafficking in stolen and fraudulent securities. Do you consider this as a major source of financing for criminal or underworld activities in this country?

Mr. MASTRIANA. It is part of it.

Senator HUDDLESTON. What are some of the other sources?

Mr. MASTRIANA. Gambling, prostitution, narcotics.

Senator HUDDLESTON. Can you give us some examples from your own knowledge of specific types of underworld or criminal activities financed through this type of activity?

Mr. MASTRIANA. In this day and age I understand that most of the families have gotten out of the smaller end of narcotics. This is only hearsay on my part.

Senator HUDDLESTON. They have gotten out of what?

Mr. MASTRIANA. They have gotten out of the major part of the drug end of it. They will finance. They will finance anything where they can make money, and take their money and make it double for them. They are mostly interested in gambling. A lot have gone into legitimate businesses. A lot have become public relations consultants, labor relations consultants. Without them, I think any one of the New York families could stop the strike in Detroit quicker than anybody else can.

Senator HUDDLESTON. How would they go about this?

Mr. MASTRIANA. Well, No. 1, through the unions. There are very few of the unions that are not controlled by the families. As a matter of fact, I was made the president of one union up in New Jersey and then I had another paper union.

Senator HUDDLESTON. Do you think the families have enough control over the unions and their members to start or stop strikes?

Mr. MASTRIANA. Yes, sir.

Senator HUDDLESTON. And they control this through the financial operations?

Mr. MASTRIANA. Well, a lot of it is control through strictly muscle.

Senator HUDDLESTON. What kinds of muscle?

Mr. MASTRIANA. You got a goon squad. A lot of people want to go home at night but they don't want to go home all busted up.

Senator HUDDLESTON. Do you mean this is still going on?

Mr. MASTRIANA. Of course it goes on. It goes on every day. The only strength that families have is to install fear in you. Once you have that fear, Senator, you become a slave to them.

Senator HUDDLESTON. Are they using this fear in quasi or apparently legitimate operations?

Mr. MASTRIANA. It is used in anything, anything they can get something out of.

Senator HUDDLESTON. You related the ease with which you were able to cash in at the du Pont Co., a large amount of stolen securities. Does this imply or was there, in fact, an accomplice within that company that made this possible?

Mr. MASTRIANA. No.

Senator HUDDLESTON. How do you account for the fact that you received your check quicker than you normally would have?

Mr. MASTRIANA. Well, I opened up an account at the brokerage firm. I think the account was in existence for 4 or 5 months. I got to know the broker fairly well.

Senator HUDDLESTON. Was this prior to your selling this stock?

Mr. MASTRIANA. Yes; I went in to him one day and told him I had some U.S. Smelting and I was looking to buy a piece of property out at Key Biscayne and I needed fast cash and I needed it in the morning. So he called the office manager over and they told me if I would sign them over to them I could have the cash in the morning. They called New York and they sold them immediately for me.

Senator HUDDLESTON. You were pretty careful to lay some groundwork there for this particular transaction.

In your dealing with stolen and fraudulent securities, what percentage would you say were stolen and what percentage were actually fraudulent securities?

Mr. MASTRIANA. There is no way I could tell.

Senator HUDDLESTON. Was there any concern to you which was which, whether they were fraudulent or stolen?

Mr. MASTRIANA. It didn't make any difference, sir.

Senator HUDDLESTON. Is it any easier for a brokerage firm to check the security that is fraudulent or the one that is stolen?

Mr. MASTRIANA. If the security is counterfeited and the work is done properly, the brokerage firm can't tell the difference. They would have to check it through. In many instances, for example, an individual would go out and buy 100 shares of IBM and he will go out and have 20 certificates or 100 certificates of the same one made, and he puts the original in one pocket and goes out with the 20 counterfeit ones. He gets rid of the 20 counterfeit ones because even if they do call the transfer agent there is a reference of this certificate being on the books.

Senator HUDDLESTON. In your judgment, do brokerage firms exercise the proper amount of diligence in trying to check these transactions?

Mr. MASTRIANA. The ones I have been in are very sloppy.

Senator HUDDLESTON. They don't make a serious effort?

Mr. MASTRIANA. No. Very seldom do any of them make a serious effort. It is a question of the commission and how much money they can make. If they did take a real serious effort, I don't think a lot of the securities would be hypothecated or loans could be made on them.

Senator HUDDLESTON. Just another point or two on the matter of timing that the Chair was inquiring about a few moments ago. In the normal course of events how long does it take for a bank, after you have made a deposit of a large check—even if they are not curious and don't make any special effort to determine whether or not it is fraudulent—how long would it take them to discover that it is a bad check?

Mr. MASTRIANA. Well, it depends upon how much diligence they exercise.

Senator HUDDLESTON. If they don't exercise any at all?

Mr. MASTRIANA. If they don't exercise it, you would go for months.

Senator HUDDLESTON. And during all this time you would have the use of that money to the full extent?

Mr. MASTRIANA. Yes, sir.

Senator HUDDLESTON. When they do find out, you say your general reaction is that you gave them the check and it is their responsibility for what happened to it?

Mr. MASTRIANA. First of all, they have to produce for me an original. I want to see the original check. If they can't produce the original check, then I, in turn, accuse them of losing it. I don't want to see a photostat. I want to see the original.

Senator HUDDLESTON. And this, in many cases, forestalls any legal action on their part?

Mr. MASTRIANA. Definitely.

Senator HUDDLESTON. Even to the extent of \$200,000? They didn't move against you?

Mr. MASTRIANA. Senator, we put a lot of them in banks and I have yet to have any bank move against me for fraud or anything else.

Senator HUDDLESTON. What is the most you have taken one bank for through this method?

Mr. MASTRIANA. Well, I think the Dallas Bank & Trust Co. when I got 10.

Senator HUDDLESTON. Do you mean \$10,000 is the most you have actually taken? You left \$230,000 on the table, so to speak.

Mr. MASTRIANA. The reason for that is there was a lack of communication between myself, Ron Kotler, Phil Wilson and the Bank of Sark.

Senator HUDDLESTON. What about the instance where you said you left \$200 in the bank?

Mr. MASTRIANA. I took damn near \$115,000 out of there.

Senator HUDDLESTON. And that bank suffered that loss?

Mr. MASTRIANA. No, because they sent the check back to Francis I. duPont. This wasn't a Bank of Sark check. This was the proceeds of the sale of stolen securities.

Senator HUDDLESTON. What happens to the original owner of those securities once they find out they were stolen?

Mr. MASTRIANA. The original owner, if he knows they are stolen, he notifies his bank or the transfer agent and the transfer agent makes a notation in his book.

Senator HUDDLESTON. Who suffers the loss, the duPont Co.?

Mr. MASTRIANA. The insurance company. Everybody is insured today.

Senator HUDDLESTON. Counsel, Mr. Feldman, will question.

Mr. FELDMAN. Mr. Mastriana, I have, as two of the exhibits we included in the record after you gave your prepared statement a set of documents, exhibits 51 and 54. They evidence a credit advice from the Suisse Credit Bank in Zurich and appended to each one is a Zurich International Investment Corp. irrevocable letter of credit. The Suisse Credit Bank, as I understand, is a highly reputable bank in Switzerland; is that correct?

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. And the proceeds of this are directed to the Chase Manhattan Bank in New York, which is another highly reputable bank?

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. This credit advice shows that the Zurich International Corp. has assets in the bank of \$6 million to support the letters of credit?

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. The Zurich International Investment Corp. letter of credit then uses that master credit advice to support letters of credit to dupe various pigeons down the road. Is that right?

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. It is interesting, Mr. Chairman, to point out that the Zurich International Investment Corp. on its letter of credit address has prophetic cable address of "law chambers."

How do these documents work in tandem? How do you get this document from the Suisse Credit Bank, a highly legitimate bank? It is in French and English and looks fancy, giving advice to Chase Manhattan of \$6 million. It says, "Zurich international letter of credit issued by your good selves in favor of Intercopa of Panama." How do you work these two in tandem? I suppose when you present this to someone in Duncan, Okla., it is pretty impressive. Would you tell us how the documents work together?

[Documents handed witness.]

Mr. MASTRIANA. In the Swiss bank, there is a trust account that may be opened up with either counterfeit or stolen securities.

Mr. FELDMAN. This is the point that is the foundation of what we are talking about. We have the stolen and counterfeit securities coming out of the United States, maybe through a mutual fund or maybe washed in some other way. But the basis for all these letters of credit are the stolen and counterfeit securities. That is what we are talking about?

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. Is it cash?

Mr. MASTRIANA. No, no cash at all. For example, you get a balance sheet or you get a receipt from the bank saying that \$6, \$8 million or \$10 million in securities are now on deposit in Zurich International Trust Fund. Off of this you in turn can get a letter of credit which you can send into Chase Manhattan.

Mr. FELDMAN. And Credit Suisse then says to Chase Manhattan, yes, there are securities valued at \$6 million, and they can issue letters of credit in that amount?

Mr. MASTRIANA. Yes.

Mr. FELDMAN. They accept the fact that these are legitimate securities and thus a fraud has been perpetrated on them. Of course, we are not accusing Credit Suisse of knowing they are stolen?

Mr. MASTRIANA. If they check them they know, but they don't bother to check them. I don't know whether the Swiss banks are that earnest to get the business, but they will accept all the business that comes in there. I believe if the banks would take a little more time and check, a lot of this could be avoided. A lot of these frauds just wouldn't exist anymore.

Mr. FELDMAN. Could you trace that down? The letters of credit are issued.

Mr. MASTRIANA. The letters of credit are issued on the strength of what is in the Swiss bank, the Zurich International. They prepare their letters and send them out. Of course, with a PDOC number in there that you can verify through Chase Manhattan. When I give you a verification sheet and a letter of credit, all you do is go into your bank and the bank will call Chase Manhattan and will verify that there is "X" amount of dollars on deposit.

Mr. FELDMAN. Concerning the PDOC number that you are talking about, in the upper right-hand corner of the Suisse credit advice, am I to understand that you use the Suisse credit advice as (in effect) a master letter of credit. You masquerade it that way to the pigeon and say, "Look, here is our letter of credit and here is a master letter of credit issued by the Suisse bank" even though it really isn't that?

Mr. MASTRIANA. Yes.

Mr. FELDMAN. Is that how you do it?

Mr. MASTRIANA. As a matter of fact, with the Diversified Metals in Mount Vernon when I took them down for \$7,500, he went into each of his banks and put forth each of the letters. The only reason they had a problem is because, as I say, it was getting toward the end of it and Chase Manhattan had been having their problems with Zurich International as far as the funding of the letters of credit. Once they don't start to fund, this is when your problem begins, so you have to be able to take down as many people as you possibly can.

Mr. FELDMAN. As fast as you can?

Mr. MASTRIANA. As fast you can. This is why maybe throughout the country you may set up 10 or 15 situations.

Mr. FELDMAN. All working at one time?

Mr. MASTRIANA. Sure. I have had them working in Dallas, I have had them working in Phoenix, and I have had them working in Vegas.

Mr. FELDMAN. To verify all of these—and we have these in our exhibit—telegrams are sent to B. Green in the Guernsey Islands who says, "Mastrinana and the Bank of Zurich are great. They have millions."

Mr. MASTRIANA. Yes. All the props are prepared. Everything is set so it looks real authenticated. Of course, the gullible bankers, they make the loans.

Of course, we never use the word "funding." Never have you seen in any of the agreements that I have prepared the word "funding." We will give you a commitment, period. When I give you a commitment then I want the escrow money. It is up to you to fund it. That is the agreement. I prepare an escrow agreement that upon receipt of a commitment, and I don't say fundable commitment because then if you can't fund it you have a legal action against me.

Mr. FELDMAN. Are you pretty safe from the legal standpoint?

Mr. MASTRIANA. Definitely, because I am giving you a commitment and it is up to you to fund it.

Mr. FELDMAN. An example of this would be exhibit 8, the Princeton Properties escrow agreement.

Did you draft that?

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. It just says that upon receipt of a commitment, the escrow money would be released. It doesn't say anything about funding.

Mr. MASTRIANA. That is correct. Once funding, then there is an intent to defraud.

Mr. FELDMAN. On the 11th exhibit attached to your testimony we have a Bank of Sark irrevocable letter of credit with you as the beneficiary for \$200,000, valid for a year. Did you get these in blank and just fill them in?

Mr. MASTRIANA. I filled them in. I filled them in for any amount.

Mr. FELDMAN. Would you show this one to Mr. Mastriana?

Did you get hundreds of these from the Bank of Sark?

Mr. MASTRIANA. Yes. Whenever you run out of them, they print them up for you. There is no problem.

[Document handed witness.]

Mr. MASTRIANA. Yes, that is it. These are the bank ones and I had one filled in for \$200,000.

Mr. FELDMAN. Who is Christopher Smythe?

Mr. MASTRIANA. I never met the gentleman.

Mr. FELDMAN. Exhibit 43 is one of your manipulations or one of your transactions with a bank in Duncan, Okla. Again you use the Chase Manhattan Bank and the Bank of Sark check for \$250,000. You move into Duncan, Okla., and you get a law firm to prepare articles of incorporation for a dummy corporation.

Mr. MASTRIANA. There is a classic example.

Mr. FELDMAN. How do you take a Bank of Sark check for \$250,000 into Duncan, Okla.? What do you promise them? How do you do it in Duncan?

Mr. MASTRIANA. The first thing we did was I went out and hired the district attorney and put him on the payroll. He prepared the articles of incorporation. I think he wanted \$500 and I said take \$1,000. It looks better. There is the old adage that money makes the blind see. I wined him and dined him. He was going to handle all the real estate work for me. He, in turn, called the bank up and told me what bank to do business in. Naturally, with his assistance along with the Bank of Sark and the necessary props I went in.

Mr. FELDMAN. How much did you take them for?

Mr. MASTRIANA. Well, there again we had another unfortunate accident. Kotler had called B. Green up himself instead of calling Wilson. Had he called Phil Wilson and cleared it through Wilson or Mantell we would have been able to take down the full quarter of a million dollars. Unfortunately, Kotler called B. Green up himself in London and Green wouldn't move until he got hold of Wilson. It took 4 or 5 days and the bank got a little leery.

Mr. FELDMAN. How do you do it in Duncan? Do you dazzle them when you come in with your gold cards?

Mr. MASTRIANA. Well, no. In this particular case, I think the bank president was an Elk and I became a member of the Elks. I went out and bought an Elk's ring and we were in business.

Mr. FELDMAN. Let me turn to exhibit 48. These are the exhibits supporting your Las Vegas escapade in which you passed Bank of Sark paper. I see on here you are listed with a complimentary room and markers; credit for markers, all sorts of credits based on your Bank of Sark check.

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. A telegram from Las Vegas to the Bank of Sark says, "Will you confirm that this check is going to be good?" I suppose that within seconds the response came in.

Mr. MASTRIANA. Yes, sir.

Mr. FELDMAN. It says: "We are verifying holdings of \$100,000 security. When item is presented, it will be paid. Bank of Sark, Guernsey." So they telegraph out there and B. Green is in the office?

Mr. MASTRIANA. We were one of the fortunate banks in having a Telex. It is an odd thing, but I guess if you go through the District of Columbia you would probably find maybe two or three banks that have a Telex. I think the cost of a Telex is about \$160 a month. But the Telex has a tremendous impression upon the banks. Especially when you give the Telex number. Of course, when this little bank that the Four Queens was doing business with, when they went into their bank and found that Sark had a Telex number, they wired and B. Green answered right away and I was able to take down a few dollars.

Mr. FELDMAN. Exhibit 49, on Bank of Sark, Ltd., stationery, to the University State Bank says that they are giving a firm and binding commitment of \$6 million in U.S. funds issued to International Holding Corp. It is addressed to University State Bank.

Did they accept this piece of paper?

Mr. MASTRIANA. Let me give you a little of the background. I had an office in the building. I opened up an account at the University Bank. You have to visualize a small bank. Maybe the president of the bank is making \$12,000 a year. I was going to put him on the payroll as a good public relations man with about \$15,000, with unlimited expenses. I had lunch with him a couple of times. I asked him if I could use the bank to fund in about \$12 million. When you are talking about \$12 million to a little bank like that, it is a lot of money. Of course, they went for it in a big way. So when I got hold of Mantell, Wilson and B. Green, we set it up to send in all the telegrams directly into the bank because I knew the next day as soon as the word got around town that I had \$12 million in commitments, people would come in with briefcases with money in it. They wanted to buy the commitments.

Mr. FELDMAN. Did they want to line it up?

Mr. MASTRIANA. Yes.

Mr. FELDMAN. They couldn't handle it.

Mr. MASTRIANA. They had a land-rush business.

Mr. FELDMAN. I don't want to go through all of these, but this one particularly strikes me. It is the 20th document that we have in the record.

Mr. MASTRIANA. A bill of exchange.

Mr. FELDMAN. Intercopa. It is a post card. It looks like a post card. It is all presigned and preprinted. It has a mailing address on it, and it is made out for \$40,000, another one for \$50,000. It looks like you might drop it in the mailbox.

Mr. MASTRIANA. They are what we call in this country a note. They use the term a bill of exchange over in Europe. There are 90-day bills or 90-day notes. In this particular instance, a corporation like Intercopa or Panama Timber would make them up and send them to me. I would bring them into a bank to have them discounted. The bank, in turn, would call Mr. Salamero at the Banco Exterior for verification whether the note was good. He would say the note was good and the bank would discount.

Mr. FELDMAN. Just to conclude the record, Mr. Mastriana, in these hearings we are going to hear from two other premier security specialists, Philip Wilson and Patsy Lepera. Have you ever had dealings with these two individuals?

Mr. MASTRIANA. I know Mr. Wilson very well.

Mr. FELDMAN. Have you dealt with him?

Mr. MASTRIANA. Yes, I have.

Mr. FELDMAN. How about Mr. Lepera?

Mr. MASTRIANA. I have never met the gentleman.

Mr. FELDMAN. Is he of some renown in the business?

Mr. MASTRIANA. I understand he is.

Mr. FELDMAN. Our other witnesses will be Mr. Slater, Mr. Creekmore, and Mr. DeGironemo. Have you had dealings with them?

Mr. MASTRIANA. No, I haven't. I was more or less confined to the Mantell operation down in Florida.

Mr. FELDMAN. Exhibit No. 54 is one of the loan commitments, a Zurich International letter of credit for a Mr. B. F. Nicholson. Are you familiar with that letter of credit?

Mr. MASTRIANA. Yes. I received a copy of it from Neil Maloney. What happened in this particular case was—and I don't recall the town in Oklahoma that Mr. Nicholson came from, but he applied for a loan of \$300,000 from a Mr. Harold Audsley. After 10 days, the letter of credit was prepared, and once the \$10,000 was paid, Audsley turned the letter over to B. F. Nicholson, which he deposited and couldn't collect it. How I got in the situation was Maloney wanted me to collect it from Audsley. That is why I went to Mantell to get his OK to get the \$10,000 out of him. Mantell told me not to bother him.

Mr. FELDMAN. In the example that you gave to us earlier, about how you would come to Washington and go about your business, you mentioned the name Cafritz. Were you using that only as an illustration?

Mr. MASTRIANA. I have never transacted—

Mr. FELDMAN. Did you deal with him?

Mr. MASTRIANA. No. I just used that as an example. Cafritz I know is a reputable firm.

Mr. FELDMAN. Thank you.

Mr. Chairman, I would like to point out that Mr. Mastriana has been extremely cooperative with us. On anything we have asked he has assisted. I think he has helped us in a very interesting and constructive way.

Senator HUDDLESTON. There doesn't seem to be any particular pattern as to the size of banks that you have dealt with. Is there any reason for dealing with a large bank versus dealing with a smaller one, or do you have a different operation for each kind?

Mr. MASTRIANA. You will find that most of the larger banks have an international department and you try to keep away from them because generally someone in the international department is apprised on all foreign currency, for swindles.

Senator HUDDLESTON. They can check quicker?

Mr. MASTRIANA. They can check quicker. They have the facilities. Whereas a small bank such as in Duncan or Ardmore, all they have available to them is a telephone.

Senator HUDDLESTON. So that is the type of bank you would actually seek out?

Mr. MASTRIANA. Yes, sir, or you try to find the smaller banks on the suburbs of a big city; for example, the Dallas Bank & Trust Co.

Senator HUDDLESTON. They would be impressed by a \$100,000 deposit?

Mr. MASTRIANA. Very much. I believe the investigators have checked this out. We had deposited a Zurich International letter of credit at the Republic Bank for \$1½ million and a bill of exchange, on which no money was taken down. But I believe it could have been taken down, had I pursued it.

Senator HUDDLESTON. Do you know whether or not any of your former associates are still engaged in this type of activity?

Mr. MASTRIANA. There is no way I can answer, Senator. In the past 20 months—

Senator HUDDLESTON. You have been out of touch?

Mr. MASTRIANA. [continuing]. I have been out of circulation.

Senator HUDDLESTON. Your testimony would certainly be of some concern to anyone who had been previously connected with this operation or who may be at the present time. Do you feel that you are in any jeopardy?

Mr. MASTRIANA. Well, yes, I feel there is a possibility maybe somebody may try to harm me.

Senator HUDDLESTON. Take a whack at you, to use your term?

Mr. MASTRIANA. Yes.

Senator HUDDLESTON. Mr. Mastriana, some other members of the committee who are not here now would like to ask some questions.

We will now recess for the lunch period and ask that you return at 2 o'clock.

The committee will now stand in recess.

[Whereupon, at 12:03 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

[Members present at time of recess: Senator Huddleston.]

#### AFTERNOON SESSION

[The subcommittee reconvened at 2:04 p.m., Senator Henry M. Jackson, chairman of the subcommittee, presiding.]

Chairman JACKSON. The subcommittee will be in order.

[Members of the subcommittee present at time of reconvening: Senators Jackson and Gurney.]

#### TESTIMONY OF LOUIS PASQUALE MASTRIANA—Resumed

Chairman JACKSON. The Chair will recognize Senator Gurney for some questions.

Senator GURNEY. Mr. Mastriana, on page 3 of your statement, you mention that you first became involved with stolen securities in 1969 with Mr. Sam Garrison. How did you happen to meet him?

Mr. MASTRIANA. I met Sam Garrison through an attorney by the name of Joseph De Bartolomeo.

Senator GURNEY. Where is Mr. Garrison's place of business?

Mr. MASTRIANA. His office, I believe, is at 83d and Berg Road, Miami.

Senator GURNEY. What do you know about Sam Garrison?

Mr. MASTRIANA. I know he was associated with an insurance brokerage firm that brokered insurance. I am trying to think of the fellow's name he was associated with. He has since passed away.

Senator GURNEY. This is down in Miami?

Mr. MASTRIANA. Yes, sir. They had an office in the Rani Building, 3300 Biscayne Boulevard.

Senator GURNEY. Do you remember the name of the firm?

Mr. MASTRIANA. No; I don't, sir.

Senator GURNEY. Was this Garrison connected with organized crime?

Mr. MASTRIANA. He seemed to know just about everybody. I met Charles Procacci through Mr. Garrison.

Senator GURNEY. Who else did he know?

Mr. MASTRIANA. He knew a lot of people up in New Jersey, a lot of the local people.

Senator GURNEY. Did you assume from your conversations with him that he was "well-connected" with organized crime?

Mr. MASTRIANA. Well, you just don't go around mentioning people's names unless you know them.

Senator GURNEY. And the names of people are in organized crime?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. Would you give some of the names he mentioned to you?

Mr. MASTRIANA. Well, Felice, Santos Trafficante—

Senator GURNEY. What did he say he knew about them? How did he mention these names?

Mr. MASTRIANA. On a couple of occasions he had brokered insurance for them.

Senator GURNEY. Would that be an illegitimate activity?

Mr. MASTRIANA. It could very well possibly be because a lot of the insurance companies are reluctant to put insurance on organized crime people. It is a losing proposition. You don't know how long they are going to live.

Senator GURNEY. Again you mention on page 3 that Mr. Garrison introduced you to Mr. Procacci.

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. What about him? Is he connected with organized crime?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. In what way?

Mr. MASTRIANA. Well, most of the securities that came into Miami were shuttled in through him by way of either Boston or New York.

Senator GURNEY. You are talking about stolen securities and counterfeit securities?

Mr. MASTRIANA. No; stolen securities.

Senator GURNEY. Was he recognized as the organized crime figure who handled the stolen securities in Miami?

Mr. MASTRIANA. There were various individuals that handled the stolen securities down there. Dom Mantell, Sam Kaye, Procacci, "Roughhouse" Rothman.

Senator GURNEY. "Roughhouse" who?

Mr. MASTRIANA. Norman Rothman.

Senator GURNEY. At any rate, Procacci was one of those who handled a good deal of stolen securities?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. Was he connected with any organized crime family?

Mr. MASTRIANA. Years ago he was associated with people up in Camden, N.J.

Senator GURNEY. Who were they?

Mr. MASTRIANA. The Marco brothers.

Senator GURNEY. Is that one of the organized crime families?

Mr. MASTRIANA. It is a branch of the Bruno family.

Senator GURNEY. Which family?

Mr. MASTRIANA. Bruno; Angelo Bruno.

Senator GURNEY. When you began dealing in stolen securities, I understand you were self-employed as a labor relations consultant. Is that a fact?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. What was the name of the company?



Mr. MASTRIANA. L. & M. Associates.

Senator GURNEY. Who owned this company?

Mr. MASTRIANA. I did.

Senator GURNEY. What kind of work did it do?

Mr. MASTRIANA. It would shut down various people that had businesses that we wanted to organize.

Senator GURNEY. In other words, your consulting work was the shakedown of people in business?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. Describe how did that.

Mr. MASTRIANA. Well, for example, we would take the recognition cards that a union needs to represent the worker and we would get two or three people to sign them.

Senator GURNEY. Go on.

Mr. MASTRIANA. Then we would represent them and we sat down with management and we would work out a sweetheart contract. In some instances you give them an agreement clause, jury duty. You would set up a contract that was acceptable to management for a fee.

Senator GURNEY. What, exactly, was the shakedown?

Mr. MASTRIANA. In other words, I would set up the contract to suit management and once we had a contract the workers would be content with it. They had to be content with it.

Senator GURNEY. And the management would pay you a fee for doing it?

Mr. MASTRIANA. Yes; cash.

Senator GURNEY. How much?

Mr. MASTRIANA. Whatever the tariff would bear.

Senator GURNEY. Give us an idea of what the tariff would bear.

Mr. MASTRIANA. Depending upon the size of the place, \$5,000. In one instance I understand the Newhouse chain up in Newark, when I attempted to strike their 13 papers, they paid Johnny Dio over \$15,000.

Senator GURNEY. How much were you paid for your labor relations work with L. & M. Associates?

Mr. MASTRIANA. For example, when I was associated with Elliott Roosevelt we took down a place for about \$15,000 on Biscayne Boulevard.

Senator GURNEY. How were you associated with Elliott Roosevelt?

Mr. MASTRIANA. Elliott would represent one side and I would represent the other side.

Senator GURNEY. Who is Elliott Roosevelt?

Mr. MASTRIANA. One of my business associates at one time.

Senator GURNEY. Where did he live?

Mr. MASTRIANA. Miami.

Senator GURNEY. Was he the former mayor of Miami Beach?

Mr. MASTRIANA. The former mayor of Miami Beach, yes, sir.

Senator GURNEY. Was he mayor at that time?

Mr. MASTRIANA. No; I believe he had just lost the election.

Senator GURNEY. Describe the nature of these business arrangements.

Mr. MASTRIANA. For example, if there was a strike in an area and they wanted the strike broke up, they would get ahold of Elliott; Elliott would call me in and I would break the strike.

Senator GURNEY. You are talking about business firms, management?

Mr. MASTRIANA. Yes.

Senator GURNEY. Can you name any of the people involved?

Mr. MASTRIANA. Well, at one time the hotels had a little problem out there. Some of the maitre d's wanted to walk out.

Senator GURNEY. Which hotels?

Mr. MASTRIANA. Well, the Americana, the Eden Roc, the Fountainbleu.

Senator GURNEY. What happened?

Mr. MASTRIANA. They wanted to walk out and they got hold of Elliott. Elliott got hold of me and I got hold of the union representative and we straightened it out.

Senator GURNEY. How did you straighten it out?

Mr. MASTRIANA. I had a little talk with them.

Senator GURNEY. What kind of talk was it?

Mr. MASTRIANA. I convinced them that they had to go back to work.

Senator GURNEY. How did you do that?

Mr. MASTRIANA. Well, it is either applied verbally or by force.

Senator GURNEY. First of all, what verbal language did you use?

Mr. MASTRIANA. Senator, if I tell a man to do something he is going to do it. If not, I am going to hurt him.

Senator GURNEY. Did you tell the union representative to break the strike and if he didn't do it, you would do something else?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. What else did you tell him?

Mr. MASTRIANA. I would break his legs. I don't talk too much. If I talk too much I am wasting my time.

Senator GURNEY. You are talking about the union representative?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. If he doesn't get his men back to work, if he doesn't call off the strike and tell his workers that they can't go on strike, then you are going to break his legs?

Mr. MASTRIANA. Well, he is going to have a problem.

Senator GURNEY. What problem might he have besides having his legs broken?

Mr. MASTRIANA. God only knows. It depends on how I feel.

Senator GURNEY. Did you ever go ahead with the physical violence instead of just a threat?

Mr. MASTRIANA. Senator, this is a ticklish situation. I don't know how much my immunity covers me for.

Senator GURNEY. I don't know either.

Mr. FELDMAN. He is covered with the limited immunity under section 6001 and any statements that he makes, Senator, cannot be used in prosecution.

Chairman JACKSON. Any statement that he makes here.

Mr. FELDMAN. Of course, there could be an independent corroboration of his statements by the Justice Department, the U.S. Attorney. But anything he utters in this forum is under the immunity order the same as in the Watergate situation.

[At this point Senator Huddleston entered the hearing room.]

Mr. MASTRIANA. Does that also cover a State charge?

Mr. FELDMAN. No.

Mr. MASTRIANA. That is what I am worried about. In other words, a State can move against me.

Chairman JACKSON. We better get into a huddle. We have to be fair with this witness.

Senator GURNEY. That is why I asked what the immunity covered because I certainly don't want to ask questions that would prejudice this witness.

Chairman JACKSON. I know you don't. I am sure it doesn't cover State charges. I suggest that the witness is here, of course, without counsel. You and I as lawyers would agree that we have to advise him here that if it relates to anything other than a possible Federal charge, if it is a local matter, I am afraid that we should defer asking him those questions where an answer would incriminate him in connection with a potential State charge.

Senator GURNEY. I would agree, Mr. Chairman.

This line of questioning is extremely valuable and pertinent to our inquiry. Perhaps we could get into it—

Chairman JACKSON. Perhaps in executive session.

Senator GURNEY [continuing]. In executive session rather than here in a public forum.

Chairman JACKSON. I agree. I am afraid that actually the questions related to sweetheart arrangements involve both State and Federal. It would be a violation of Federal law. I don't know the laws of Florida, but I am sure there is provision in Florida law that would cover this kind of thing, that would raise that question.

Senator GURNEY. I would think so, too.

Chairman JACKSON. We want to get the information, Senator Gurney, and we can handle it in executive session. We will treat it as privileged matter so that the witness would be protected.

Senator GURNEY. All right.

Let's go on to another subject.

You mentioned meeting a Red Weiler in your statement. How did you meet him? Who introduced you to him?

Mr. MASTRIANA. A fellow by the name of Grubman. I met Mr. Grubman at the Trenton State Prison.

Senator GURNEY. When was this?

Mr. MASTRIANA. In 1966-67.

Senator GURNEY. Why were you there?

Mr. MASTRIANA. Well, it involved bank swindles up in New Jersey.

Senator GURNEY. I understand that Weiler introduced to you to Mantell. Is that a fact?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. Who was Weiler associated with?

Mr. MASTRIANA. Weiler was working at that time for Santo Trafficante?

Senator GURNEY. Who is he?

Mr. MASTRIANA. He is the organized crime figure for the State of Florida.

Senator GURNEY. Is he recognized as havinug a lock on most of the organized crime business in Florida?

Mr. MASTRIANA. Well, areas of Florida. Miami is classified as an open city.

Senator GURNEY. But aside from Miami, Trafficante is in charge of the rest of Florida, as far as organized crime is concerned?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. Where does he reside?

Mr. MASTRIANA. Well, he is living in Miami, now, from what I understand. He used to make his base in Tampa.

Senator GURNEY. Besides Trafficante, what mobs operate in Florida?

Mr. MASTRIANA. Just about everybody. For example, I mentioned Dominic Mantell. He comes out of the Magaddino family in Buffalo.

Senator GURNEY. Who else?

Mr. MASTRIANA. I just can't think offhand. There are maybe 15 or 20 people down there that represent. For example, he is in the construction business. "Big Al" Polizzi, out of Detroit.

Senator GURNEY. Is that Polizzi's family?

Mr. MASTRIANA. No; I think it is the Zerilli family.

Senator GURNEY. If you can think of some of the names of the other mobsters operating in Miami and what crime families they represent, I wish you would supply that for the record.

As I understand it, your testimony is that organized crime families operate in Florida routinely.

Mr. MASTRIANA. Right in the open, sir.

Senator GURNEY. In Dade County, Miami Beach?

Mr. MASTRIANA. Right in the open, sir.

Senator GURNEY. How did you first meet Dominic Mantell?

Mr. MASTRIANA. Through Mr. Weiler.

Senator GURNEY. Mantell, as I understand it, represented several families, is that right?

Mr. MASTRIANA. Yes.

Senator GURNEY. Which families?

Mr. MASTRIANA. The Gambino and Bruno families.

Senator GURNEY. What about the Magaddino family?

Mr. MASTRIANA. He originally came out of the Magaddino family.

Senator GURNEY. He represented them, too?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. I understand you had to get somebody's approval to work under Mantell, is that right?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. Who was that?

Mr. MASTRIANA. Catena, Eddie Pecora. Well, there was a phone call made to Pecora and Pecora gave me to Mantell.

Senator GURNEY. So that made you legitimate as far as Mantell was concerned?

Mr. MASTRIANA. That is it. That is all I needed.

Senator GURNEY. What about the Bank of Sark. Who was involved in that fraud?

Mr. MASTRIANA. Well, there was Phil Wilson, Jack Axelrod, a fellow by the name of Singer. I just met the first two gentlemen.

Senator GURNEY. Where did you meet Wilson?

Mr. MASTRIANA. The first time I met Wilson and Axelrod was in St. Louis.

Senator GURNEY. Describe Phil Wilson a little bit. What were his activities? What did he do?

Mr. MASTRIANA. Well, Phil, actually, would call B. Green in the Bank of Sark after a situation had been set up. For example, in Duncan, Okla., we deposited a check for a half million dollars and Ron called B. Green himself and Green only referred it back to Phil Wilson for the okay. Kotler knew he should have called Wilson first and got the approval from Wilson and let Wilson call B. Green so that B. Green would verify the fact that we did have a amount of dollars in this particular account and send a Telex to the bank so we could take it down.

Senator GURNEY. What other kind of activities transcribed between you and Wilson?

Mr. MASTRIANA. Well, they had Transcontinental, there was various other situations. I was never directly involved. I was sort of an overseer, to make sure that nobody got away with anything. They turned in their piece of the action to Mr. Mantell.

Senator GURNEY. In your dealings with Wilson, you were working with Mantell as an enforcer to make sure that everybody was honest, is that correct?

Mr. MASTRIANA. Yes, sir. Everybody cut up the pie equally.

Senator GURNEY. Let's move on to this Princeton Properties swindle. I understand in May of 1970, that a Mr. Warne and a Mr. Newcombe, who apparently ran Princeton Properties, were swindled out of some \$40,000, is that correct?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. How did they get in touch with you?

Mr. MASTRIANA. Through a Harry Grover who got in touch with Jim Richardson who got in touch with me.

Senator GURNEY. Who is Jim Richardson?

Mr. MASTRIANA. What they call a bird dog. He is out in the field looking for new customers.

Senator GURNEY. Do you mean new people to swindle?

Mr. MASTRIANA. New people to be beaten.

Senator GURNEY. To be taken?

Mr. MASTRIANA. That is right.

Senator GURNEY. So he was one of your bird dogs?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. What happened to the first check in this transaction, the \$20,000, that you received from Warne and Newcombe?

Mr. MASTRIANA. What happened to what, the money?

Senator GURNEY. Did the first check bounce?

Mr. MASTRIANA. Yes; the first check bounced.

Senator GURNEY. Why did the check bounce? Were they trying to take you, by any chance?

Mr. MASTRIANA. No; it was just a question that they didn't have sufficient funds in the bank to cover the check for \$20,000 and I refused to do business. I like to do business with reputable people.

Senator GURNEY. At any rate, you went ahead with the transaction and took them for \$40,000. What was the role of George Davis and Richard Hazen in this swindle?

Mr. MASTRIANA. George Davis owns a bank, International Bank & Trust Co., in Nassau. The best place to take them would be in Nassau because where the crime was committed they would have a problem to extradite, to actually form a case to show that there was an intent to

defraud because actually the document that was given to Mr. Warner was a \$2 million certificate of deposit which he, in turn, turned over to Mr. Hazen, the vice president of the bank for collection. Of course, the following day Mr. Hazen gave it back to me.

Senator GURNEY. There was nothing backing up the certificate of deposit at all?

Mr. MASTRIANA. No; there was nothing behind it. That is why he gave it back to me.

Senator GURNEY. What bank was Mr. Hazen connected with?

Mr. MASTRIANA. The International Bank & Trust Co.

Senator GURNEY. Where is that bank located?

Mr. MASTRIANA. Nassau.

Senator GURNEY. Is he what you would call one of these friendly bankers?

Mr. MASTRIANA. Definitely.

Senator GURNEY. Would you describe what a friendly banker is?

Mr. MASTRIANA. Well, they take hot certificates, counterfeit certificates, they will take anything for a price.

Senator GURNEY. And a friendly banker knows that you are dealing in fraudulent securities, worthless securities, but he will hypothecate these instruments for a price?

Mr. MASTRIANA. Yes, sir.

Senator GURNEY. What was the price in this case?

Mr. MASTRIANA. I gave Hazen \$5,000.

Senator GURNEY. If you didn't have any friendly banker, would it be difficult to dispose of spurious securities?

Mr. MASTRIANA. It would be pretty hard, sir. It would be very hard.

Senator GURNEY. What was the role played by Mr. Leming in the Princeton Properties swindle?

Mr. MASTRIANA. I had \$20,000 sent into the International Bank of Miami, I believe at 27th and Trail, and apparently, through the Federal Reserve, there was some sort of a mixup and Mr. Leming, being very well acquainted with banking procedures, called up the International Bank and explained to them how to refund the money a lot quicker.

It was arranged that \$20,000 was placed in my account and I went down and drew it out.

Senator GURNEY. Mr. Chairman, my time is about up and I am due in another meeting. I will yield the floor at this time.

Chairman JACKSON. Senator Huddleston will take over the Chair. I have a conference on the Alaska Pipeline coming up. If you could get word back, we will have the witness held in abeyance and call him out of order again. We are going to another witness.

Senator GURNEY. I think Senator Percy wanted to interrogate Mr. Mastriana. He told me he would be here about 2:30.

Chairman JACKSON. When we are through with him we will start another one and then recall him.

Senator GURNEY. Thank you.

[At this point Senator Gurney withdrew from the hearing room.]

Chairman JACKSON. I want to nail down as much as I can in connection with your testimony regarding Frank Petrucci. Was he the individual in Miami who has a garage?

Mr. MASTRIANA. He was the vice president of the Lincoln-Mercury, the Coral Gables Lincoln-Mercury. It is a dealership.

Mr. MASTRIANA. Well, Phil, actually, would call B. Green in the Bank of Sark after a situation had been set up. For example, in Duncan, Okla., we deposited a check for a half million dollars and Ron called B. Green himself and Green only referred it back to Phil Wilson for the okay. Kotler knew he should have called Wilson first and got the approval from Wilson and let Wilson call B. Green so that B. Green would verify the fact that we did have a amount of dollars in this particular account and send a Telex to the bank so we could take it down.

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Senator GURNEY. Thank you.

[At this point Senator Gurney withdrew from the hearing room.]

Chairman JACKSON. I want to nail down as much as I can in connection with your testimony regarding Frank Petrucci. Was he the individual in Miami who has a garage?

Mr. MASTRIANA. He was the vice president of the Lincoln-Mercury, the Coral Gables Lincoln-Mercury. It is a dealership.

Chairman JACKSON. How did you get in touch with him?

Mr. MASTRIANA. Through an individual by the name of Biancano.

Chairman JACKSON. Where does he live?

Mr. MASTRIANA. Newark, N.J.

Chairman JACKSON. What is his business?

Mr. MASTRIANA. He is presently serving time with Hugh Andonizio, the ex-mayor.

Chairman JACKSON. So his profession now is a little different. Was he involved in a practice of that profession at the time you called him?

Mr. MASTRIANA. Well, he represented the Boiardo group.

Chairman JACKSON. Is this part of an organized crime group?

Mr. MASTRIANA. Yes.

Chairman JACKSON. Was he their representative?

Mr. MASTRIANA. Yes; he was.

Chairman JACKSON. Whenever you wanted to get a contact someplace, would you get in touch with him?

Mr. MASTRIANA. Well, with him—depending upon what I was looking for.

Chairman JACKSON. Did he handle the Miami contacts?

Mr. MASTRIANA. No; not necessarily.

Chairman JACKSON. How did you happen to go to him in this case?

Mr. MASTRIANA. Because he was very well familiar, I had found out through another individual, that he was very familiar with Mr. Petrucci and had done business with him.

Chairman JACKSON. Had done business with him?

Mr. MASTRIANA. Yes.

Chairman JACKSON. This is hearsay, but what kind of business had he done with him?

Mr. MASTRIANA. We had never discussed it.

Chairman JACKSON. When you say business, what did you interpret business to mean?

Mr. MASTRIANA. Let me explain this to you, Senator. If you tell me that you have done business with Senator Percy, I assume you have done business with him because of your association. I am not going to ask you what the business is because it is none of mine.

Chairman JACKSON. We deal with senatorial business. We don't want to equate these two.

Mr. MASTRIANA. No. I am trying to give you an example and I am using a bad one. When you sit down with people, you don't ask them why, where, or when.

Chairman JACKSON. Was he engaged in any legitimate business?

Mr. MASTRIANA. Petrucci?

Chairman JACKSON. No, Biancano.

Mr. MASTRIANA. They had a contracting outfit. As I say, they got involved with the shakedowns in the city of Newark.

Chairman JACKSON. Was that a cover?

Mr. MASTRIANA. It is a cover.

Chairman JACKSON. You contacted him and you found out that he had had some kind of business—you don't know what—with Frank Petrucci, is that right?

Mr. MASTRIANA. That is right.

Chairman JACKSON. Was it Petrucci who arranged for the check transaction with the Key Biscayne Bank?

Mr. MASTRIANA. Yes; he called Mr. Rebozo up.

Chairman JACKSON. Did he do business with Mr. Rebozo?

Mr. MASTRIANA. He must have. He knew him very well.

Chairman JACKSON. Did Mr. Petrucci realize that Mr. Rebozo was about to be taken by this kind of a transaction?

Mr. MASTRIANA. Mr. Rebozo couldn't have been taken because I am walking in there with a check. The check is good for \$115,000. It is not a bad check.

Chairman JACKSON. It all depends on whether the check was obtained by fraudulent means. You got the check from F. I. du Pont by a fraudulent transaction.

Mr. MASTRIANA. The only thing they could do is become involved in the transaction.

Chairman JACKSON. Did you indicate to Mr. Petrucci that there was anything illegal or illegitimate about the check that you had?

Mr. MASTRIANA. He knew it came from the sale of stolen securities.

Chairman JACKSON. Did he know that?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. How did he know that?

Mr. MASTRIANA. Because I told him.

Chairman JACKSON. Did you tell him?

Mr. MASTRIANA. Definitely.

Chairman JACKSON. The Chair will state that we will ask counsel to have Mr. Petrucci up here. This is a serious matter. Was Mr. Petrucci advised that the funds were obtained by disposal of stolen securities? Was he told that? Did he know it?

Mr. MASTRIANA. Yes, sir. He knew I was handling stolen securities.

Chairman JACKSON. Did he know that you had hot certificates?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. And that you got a check in payment for those certificates?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Do you have any personal knowledge as to any illegal activity that Mr. Petrucci has been involved in?

Mr. MASTRIANA. No; the subcommittee or the investigators in the process of their checking out found where through him I purchased a couple of Mark III's. They have checks I have given Mr. Petrucci.

Chairman JACKSON. Was that all above board?

Mr. MASTRIANA. It comes from a deal out of the Chicago bank where I used bad Bank of Sark checks.

Mr. FELDMAN. We also have a copy included as an exhibit of your so-called loan to Mr. Petrucci of \$10,000.

Chairman JACKSON. Was that a payoff?

Mr. MASTRIANA. Yes; I gave him \$10,000.

Chairman JACKSON. Was the cover for it a note that he gave you? Was that note intended as a cover for the funds that you turned over to him?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. How did you turn them over to him?

Mr. MASTRIANA. I gave him a cashier's check. It came out of Bebe's bank.

Chairman JACKSON. Out of the Rebozo bank?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Did you have the check made payable to him?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Did he get a cashier's check?

Mr. MASTRIANA. For \$10,000.

Chairman JACKSON. He got a cashier's check for \$10,000 and then he gave you a note.

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Was it intended that that note ever be repaid?

Mr. MASTRIANA. It was never repaid, sir.

Chairman JACKSON. Was an attempt made to repay it?

Mr. MASTRIANA. No attempt made to collect it, either.

Chairman JACKSON. Who suggested the note as a cover?

Mr. MASTRIANA. Frank said that in lieu of the \$10,000 he would give me a note and forget about the whole thing, which I did.

Chairman JACKSON. When you say Frank, do you mean Frank Petrucci?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Did he suggest the note?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. That is all I have.

Mr. MASTRIANA. Senator, may I interrupt here for a minute?

Chairman JACKSON. Yes.

Mr. MASTRIANA. You know, speaking about the Rebozo situation, I realize it is a touchy situation in this day and age. I don't know if you are familiar about the 900 shares of IBM stock that went through the bank.

Chairman JACKSON. No. You say 900 shares—relate that to the committee.

Mr. MASTRIANA. There was 900 shares of IBM stolen stock that was brought down to the Key Biscayne Bank.

Chairman JACKSON. Who brought that in?

Mr. MASTRIANA. That was brought in by Teresa.

Chairman JACKSON. Do you know that of your personal knowledge?

Mr. MASTRIANA. Yes, sir. I was with a fellow by the name of Finkelstein, who was present at the transaction.

Chairman JACKSON. How did the transaction go?

Mr. MASTRIANA. He brought the stock in to Rebozo and Rebozo—

Chairman JACKSON. Were 900 shares of IBM stock stolen?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Do you know whose names it was in?

Mr. MASTRIANA. No, I don't.

Chairman JACKSON. Was there a power of attorney? Did they have the usual props?

Mr. MASTRIANA. They had everything to go into the bank with. From what I understand there again about the checking or the diligence of the bank, the loan was made and I understand it was never checked out.

Chairman JACKSON. Was the stock put up as a loan?

Mr. MASTRIANA. As a loan, yes, sir.

Chairman JACKSON. Who put the stock up as a loan?

Mr. MASTRIANA. I believe a fellow by the name of Fox.

Chairman JACKSON. Mr. Fox?

Mr. MASTRIANA. Yes.

Chairman JACKSON. Do you know his first name?

Mr. MASTRIANA. No, I don't.

Chairman JACKSON. Is he a businessman?

Mr. MASTRIANA. The only thing I am familiar with is when the transaction went down. I had heard about it going through the Rebozo bank.

Chairman JACKSON. Who is Mr. Fox?

Mr. MASTRIANA. He was the fellow that brought the stock in.

Chairman JACKSON. Where did he get the stock? Did he steal the stock?

Mr. MASTRIANA. No. He got it from somebody in New York.

Chairman JACKSON. Legitimately?

Mr. MASTRIANA. No.

Chairman JACKSON. Did he know that it was stolen?

Mr. MASTRIANA. Definitely.

Chairman JACKSON. Did he know that it was stolen?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Did he put the 900 shares up as a loan?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. Collateral for a loan. How much of a loan did he get?

Mr. MASTRIANA. I think it was 60 percent of the value of the stock, 60 or 70 percent of the value of the stock on that day.

Chairman JACKSON. Was the loan ever paid off?

Mr. MASTRIANA. No. It was then discovered that the stock was stolen.

Chairman JACKSON. Counsel of the committee advises that this case has been adjudicated and there was nothing found against the bank. Are you aware of that?

Mr. MASTRIANA. I was just bringing this out as an example.

Chairman JACKSON. Mr. Rebozo's name has been mentioned. The Chair and all members of the committee want to be fair. Mr. Rebozo wasn't involved in this transaction in any way. Mr. Rebozo wouldn't want his bank to make a loan in which the collateral was stolen securities. They would be worthless. There is no evidence that he was involved.

Mr. MASTRIANA. If I was a banker and someone came in with 900 shares of IBM I would call the transfer agent up to find out if it was good or bad. All you had to do was call a transfer agent up and you would have found out it wasn't any good.

Chairman JACKSON. Did Mr. Rebozo handle it or someone in his bank?

Mr. MASTRIANA. I think it was somebody in the bank that handled it.

Chairman JACKSON. So there may have been negligence, but would you agree there would be no motive on the part of an officer of a bank to accept worthless securities as collateral?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. To your knowledge, was Mr. Rebozo involved in any way in any of these transactions that you referred to here today?

Mr. MASTRIANA. No, sir. Not that I know of.

Chairman JACKSON. I say to your knowledge.

Mr. MASTRIANA. No, sir.

Chairman JACKSON. Did anyone else ever claim he was?

Mr. MASTRIANA. Well, there again it is only hearsay.

Chairman JACKSON. I don't think we ought to take hearsay in open session. I will ask counsel to inquire about that in closed session in fairness to naming people on hearsay.

Would you agree to that?

Mr. MASTRIANA. Yes, sir.

Chairman JACKSON. That wouldn't be right or fair. What we want is your personal knowledge. I will say that the Petrucci matter is a matter of concern because it would appear, based on your testimony, that there are some matters here that the committee will want to clarify. I would think he would want to appear in light of the fact that he has been mentioned in a derogatory way in these hearings.

Senator Huddleston?

Senator HUDDLESTON. I have no questions at this time.

Chairman JACKSON. Do you wish to take over the hearing now?

Senator HUDDLESTON. I would suggest that the witness step aside, pending any other Senators coming to ask questions of him.

Chairman JACKSON. Counsel will arrange to have the witness available and subject to the call of the Chair.

We will take a 5-minute recess. Senator Huddleston will take over as chairman of the committee for the balance of the day.

[Whereupon, a brief recess was taken at 2:40 p.m., with the following members of the subcommittee present at time of recess: Senators Jackson and Huddleston.]

Senator HUDDLESTON [presiding]. The subcommittee will be in order.

[Members of the subcommittee present after the taking of a brief recess at 2:45 p.m.: Senators Huddleston and Percy.]

Senator HUDDLESTON. Senator Percy.

Senator PERCY. I wanted to indicate, Mr. Chairman, that I was extremely sorry not to be here for the hearing this morning. These are very important hearings. But I was also concerned with the nomination for Mr. Kissinger, and the final debate on it was also important.

I have just a few questions, and I want to express our appreciation to you for your very great cooperation and, I understand, colorful testimony used to present it.

During the course of telling your story to the subcommittee and during the course of questioning by Senator Gurney, I understand, you made various references to dealing with an Elliott Roosevelt. Were there certain transactions involving Mr. Elliott Roosevelt and a Frank Petrucci in Miami? Did you have such transactions and, if so, what was the nature of these transactions?

Mr. MASTRIANA. The transaction regarding Mr. Procacci—I believe I brought to Mr. Roosevelt's office about \$150,000 worth of stolen securities, which he attempted to unload.

Senator PERCY. Which he attempted to what?

Mr. MASTRIANA. To borrow money on them, unload them for us. He didn't meet with any success, so he returned them to me.

Senator PERCY. Did he have knowledge of the nature of those securities?

Mr. MASTRIANA. Yes, he did, sir.

Senator PERCY. He knew that they were stolen securities?

Mr. MASTRIANA. Yes, he did, sir.

Senator PERCY. How did you meet Mr. Roosevelt?

Mr. MASTRIANA. When I was released from Trenton State Prison, a fellow by the name of Dennis Carey, who was the Essex County boss, the Democratic chairman for Essex County—I knew him very well through one of the Democratic chairmen up in the Bronx, Edward Flynn—I went in to see Mr. Carey about a problem I was having trying to get back to Miami. He interceded to Pete Rodino for me, and Rodino got ahold of Congressman Fascell, and in the interim Mr. Carey said to me, "When you go down to Miami, look up Elliott Roosevelt."

Senator PERCY. What was the reason that you came together for the first time with Elliott Roosevelt?

Mr. MASTRIANA. Because Mr. Carey had asked me to go down and see him to see if he could do something for me.

Senator PERCY. Who was it that brought you together? Could you identify him more clearly?

Mr. MASTRIANA. Dennis Carey. He was the former Democratic chairman of Essex County.

Senator PERCY. Did Elliott Roosevelt hire you at all?

Mr. MASTRIANA. I submitted a letter to the Senate investigators, which he sent to the Florida Parole and Probation Commission on my behalf regarding my employment.

Senator PERCY. Could you clarify in what capacity you were hired by Elliott Roosevelt?

Mr. MASTRIANA. Labor relations consultant.

Senator PERCY. Could you identify just for purposes of clarity, to be sure there is no ambiguity, what Elliott Roosevelt we are talking about? What positions has he held, to your knowledge?

Mr. MASTRIANA. He was the mayor and his old man was the President. I mean his father.

Senator PERCY. What is the connection of Dominic Mantell to your dealings with Mr. Roosevelt?

Mr. MASTRIANA. Roosevelt knew Mantell. As a matter of fact, when Roosevelt went broke, Mantell sold his boat. They were very close, and on occasion the three of us sat down together and had lunch.

Senator PERCY. Would you tell us who Mike McLaney is?

Mr. MASTRIANA. He used to work for Meyer Lansky. He had a place over in Nassau. Mr. Pindling, the Prime Minister, was supposed to give him a gambling license. I understand they come up with \$1 million in cash. Right after the election, when he was elected Prime Minister, he threw McLaney out of the islands.

Senator PERCY. Is he a business partner of Mr. Elliott Roosevelt's?

Mr. MASTRIANA. Who?

Senator PERCY. Mr. Mike McLaney?

Mr. MASTRIANA. He represents organized crime. He is a gambler. He used to run a casino.

Senator PERCY. Do you know of any direct relationship? Can you describe from your own personal knowledge any direct relationship between him and Elliott Roosevelt?

Mr. MASTRIANA. Well, he got a check from him for \$2,500 and gave it to me in McLaney's house.

Senator PERCY. Would you tell us about when that was?

Mr. MASTRIANA. I would have to look at the date of the check, Senator. There is a check addressed to Elliott Roosevelt for \$2,500 and he signed it over to me.

Senator PERCY. Would you describe for the subcommittee what your understanding is of the interest that Mr. McLaney and Mr. Elliott Roosevelt have in the Bahamas? Why are they interested in the Bahamas?

Mr. MASTRIANA. For gambling. That is the only interest I understand they have. McLaney is a gambler. He represents Meyer Lansky.

Senator PERCY. You say he represents Meyer Lansky. Can you describe in greater detail their relationship?

Mr. MASTRIANA. They ran the casino in Havana for Meyer, and, of course, there again, as I say, I understand \$1 million was turned over to Pindling for a gambling license with which they could open up another casino. This never materialized. Mike McLaney was the one that come up with the money.

Senator PERCY. What can you tell us about the planned assassination attempt of the Governor of the Bahamas, Lynden Pindling?

Mr. MASTRIANA. They came to me and they wanted him dead, they wanted him killed.

Senator PERCY. Would you say that again? They came to you and did what?

Mr. MASTRIANA. They came to me and offered \$100,000 to whack him, to kill him. They give me \$10,000 front money, \$7,500 in cash and a check for \$2,500.

Senator PERCY. And they expected you to do what with that?

Mr. MASTRIANA. To kill him.

Senator PERCY. Counsel points out that you used the phrase "they". I know you have very much in mind who you mean, but to be sure there is no ambiguity in the record could you identify who you are talking about when you say "they"?

Mr. MASTRIANA. McLaney had come up with part of the money to Roosevelt. They had brought the contract to Roosevelt and they brought it to me.

Senator PERCY. What was the motivation involved, in your judgment? Did they explain that to you?

Mr. MASTRIANA. All I understand is that they paid him \$1 million and he didn't deliver and they wanted him dead.

Senator PERCY. When you say he didn't deliver, what was he expected to deliver?

Mr. MASTRIANA. The gambling license.

Senator PERCY. The gambling license. And that gambling license was to be purchased for \$1 million?

Mr. MASTRIANA. Yes.

Senator PERCY. What do you suppose a gambling license is worth if you are willing to pay \$1 million?

Mr. MASTRIANA. What is it worth?

Senator PERCY. Yes.

Mr. MASTRIANA. The good Lord only knows. I can't tell you.

Senator PERCY. Can you estimate? If someone is willing to pay \$1 million for it, over what period of time does he amortize that? It is not a deductible business expense, is it?

Mr. MASTRIANA. I would like to have two points of the action. That is all. I would be satisfied.

Senator PERCY. What are we talking about in ballpark figures?

Mr. MASTRIANA. Maybe \$50 million, \$100 million.

Senator PERCY. What would they get a year with a gambling license set up on that kind of a scale?

Mr. MASTRIANA. An operation over in Nassau possibly with a little bust-out work may be worth \$10 million.

Senator PERCY. Did you ever make any kind of recording of any kind of your meetings or dealings with Elliott Roosevelt? Have you ever made any notes? Did you ever make a recording, tapes, electronic surveillance, whatever it may be, or are you entirely relying upon your memory?

Mr. MASTRIANA. This was taped.

Senator PERCY. This was taped?

Mr. MASTRIANA. When I taped this conversation relative to the stock, I also brought out the fact—I sat and listened to part of the tape myself and it is not that distinguishable—the fact on the contract against the Pindling faction.

Senator PERCY. Could you go back on the taping now and describe the circumstances under which you taped it and describe in detail what these recordings indicate?

Mr. MASTRIANA. Well, at the time the postal authorities had given me an electronic device and they were in the immediate area. A young lady had delivered to me \$150,000 in stock. We had discussed the whole stock transaction in the presence of the young lady, Jack Shepard, Elliott Roosevelt, and myself.

Senator PERCY. Could you describe technically what the recording device looked like? Was it undisclosed?

Mr. MASTRIANA. I had it—

Senator PERCY. Was it hidden on you?

Mr. MASTRIANA. I had it down here in front with a little box that you could turn it on and off in my pocket. I cut a hole in my pocket and run it up and pinned it to the front of my pants.

Senator PERCY. What was the reason that you felt it necessary to tape these conversations? Isn't there honor among thieves?

Mr. MASTRIANA. This is what the Government wanted. The postal authorities wanted the conversation recorded.

Senator PERCY. And you followed that instruction?

Mr. MASTRIANA. Yes, sir.

Senator PERCY. Did they furnish you the equipment?

Mr. MASTRIANA. Yes, sir.

Senator PERCY. Where are these recordings now?

Mr. MASTRIANA. I understand the postal authorities have them.

Senator PERCY. The postal authorities have them?

Mr. MASTRIANA. Yes, sir.

Senator PERCY. I wonder if you can describe for us what happened to the assassination plot to the Bahamas governor?

Mr. MASTRIANA. Well, you have a problem over in Nassau. It is not a healthy situation. Ninety percent of the population is Negro, and they think the world of him. So if somebody wants to commit the assassination, as you put it, he would probably be turned in. There is no way you can get off the island.



Senator PERCY. Are there any other contracts that you know of that were offered by Elliott Roosevelt?

Mr. MASTRIANA. Not to me, sir.

Senator PERCY. Do you know of any others, of your own knowledge, that were offered to anyone else?

Mr. MASTRIANA. No; no, I don't.

Senator PERCY. I wanted to bring this out and put it on the record so that there is no possibility of misunderstanding about it. The name of Elliott Roosevelt, certainly a respected family name, was brought into the hearing this morning in my absence. Also, you brought into the hearing in your sworn testimony the name of a bank very close to my home in my own State, the Citizens Bank & Trust Co. of Park Ridge, Ill. What was your basis for selecting this particular bank to transact your "business"?

Mr. MASTRIANA. Well, two things: One, it is a small bank, and second, they have a beautiful check.

Senator PERCY. There are a lot of small banks.

Mr. MASTRIANA. This particular bank—it is a beautiful check. It looks like a money order. It is very hard to distinguish that from a Bank of America bank check.

Senator PERCY. Was it simply because of the attractiveness of the instrument that was used or did you have any connections there?

Mr. MASTRIANA. No; no connections.

Senator PERCY. Did you have a friendly banker there?

Mr. MASTRIANA. Not there; no, sir.

Senator PERCY. Not at all?

Mr. MASTRIANA. No, sir.

Senator PERCY. It was simply the fact that you had picked out a small bank and that you were attracted to this bank because of the attractive instrument that it used as checks?

Mr. MASTRIANA. How I got into the bank was, I believe, they had an ad in the Wall Street Journal, and I believe they said something about 4 1/2 percent on your checking account.

Senator PERCY. How much did you carry in a checking account?

Mr. MASTRIANA. Legitimately?

Senator PERCY. In your business, is that a fair return on investments?

Mr. MASTRIANA. I carry \$100, just enough for openers.

Senator PERCY. I am very happy to have this matter clarified on the record clearly and without equivocation with respect to the Citizens Bank & Trust Co. We have had other witnesses previously who have testified that it was essential to them in their work, in carrying on their business, to have friendly bankers who would not look behind the transaction, who would not look behind the instruments that were being used, that would accept them as genuine and so forth, and not ask too many questions. From your own deep experience, would you say that you have found it helpful to have friendly bankers?

Mr. MASTRIANA. Definitely.

Senator PERCY. Can you describe where you had such bankers and in what way you found them friendly?

Mr. MASTRIANA. Well, we will take the Princeton Properties situation, with a \$2 million CD. We gave it to the banker and he gave it back to me the next day. When Princeton Properties made inquiries

relative to the CD to find out why it had been funded, Princeton Properties would tell them to get in touch with me and when they would call me I would tell them to get in touch with the bank. It was just like playing a game of ping-pong. The ball just went back and forth.

Senator PERCY. Did you depend not only upon friendly bankers but also on your ability to dupe a bank and to not have that bank as sharp or astute and conversant with your method of operation and those of your colleagues and associates as they should have been?

Mr. MASTRIANA. A lot of the banks.

Senator PERCY. So there was an element of due diligence here, that bankers were somewhat gullible?

Mr. MASTRIANA. Yes, sir. They are very.

Senator PERCY. And stupid?

Mr. MASTRIANA. Very.

Senator PERCY. Very?

Mr. MASTRIANA. Yes, sir.

Senator PERCY. That is what we have been trying to tell our friendly bankers that we have had here. Some of them need to know a great deal more about how this business operates and what can be perpetrated upon them, what kind of fraud is available. Part of our hearing is concerned with the public understanding of that.

Finally, in all of your various dealings, was it always in your own name or did you use aliases? If so, what aliases have you used?

Mr. MASTRIANA. Well, I was always known as "the Doctor." That is my nickname. In most of my business transactions I always used my real name.

Senator PERCY. You did?

Mr. MASTRIANA. Yes, sir.

Senator PERCY. Counsel asks me to ask this question: Who is Gus Caggiano?

Mr. MASTRIANA. He is a member of the New York family, the Genovese family.

Senator PERCY. I would be interested very much in having you trace the movement of stocks stolen out of the Kennedy Airport in New York, in which Gus Caggiano may have been involved.

Mr. MASTRIANA. There again, it would only be hearsay, from what I heard from other people.

Senator PERCY. I would tend to think that if it was hearsay that it should not be put into the public record. If counsel would like to follow up on that in executive session, we would be happy to have your testimony there.

I have no further questions.

Mr. FELDMAN. In line with Senator Percy's questioning, I would like to place in the record as an exhibit an autographed photo from Elliott Roosevelt to Mr. Mastriana, with the inscription:

To my friend and associate, Louis Mastriana, with the fond hope that your association with my company will prove more rewarding to you and your family in years to come.

Is he talking about the labor company?

Mr. MASTRIANA. Yes.

Senator HUDDLESTON. That will be exhibit 59.

[The document referred to was marked "Exhibit No. 59" for reference and may be found in the files of the subcommittee.]

Senator PERCY. I have lived in dread of the day that someone would introduce in evidence an autographed picture that I sent to someone who had written in asking for one. But that wording seems to be rather specific, not a general wording of any kind. It refers to a business relationship and involvement, and I think must be accepted for the words he knew he was writing to Mr. Mastriana and he will have to stand on that record.

Mr. FELDMAN. It could be subject to many interpretations, but I thought it should be in the record to at least show the association.

The next exhibit is a copy of a check drawn on the Bank of Nova Scotia to Elliott Roosevelt, signed by M. McLaney and endorsed to "Pay to the order of Louis Mastriana," signed by Elliott Roosevelt and endorsed by Louis P. Mastriana.

Is that the check you referred to?

Mr. MASTRIANA. Yes.

Senator PERCY. The face amount of the check is how much?

Mr. FELDMAN. \$2,500.

[The document referred to was marked "Exhibit No. 60" for reference and may be found in the files of the subcommittee.]

Mr. FELDMAN. Finally, a letter signed by Elliott Roosevelt to Mr. Mastriana, which spells out the fact that his company would be pleased to employ Mr. Mastriana I guess it is on the satisfactory performance of duties engaged in by Mr. Mastriana for his company, dated May 21, 1968.

[The document referred to was marked "Exhibit No. 61" for reference and may be found in the files of the subcommittee.]

Mr. FELDMAN. As far as Mr. McLaney is concerned, we have information that he was indicted and found guilty in the U.S. District Court for the Southern District of New York in *U.S.A. v. N. Colasurdo*, et al., for violation of the securities laws.

Finally, Senator Percy and Mr. Chairman, I would like to say that in line with our practices, which I know you subscribe to, we attempted to interview Mr. Roosevelt. He was in the country. He is a resident of Portugal. He was in this country for a brief stay. We had some investigators in Florida on another matter. They went to his hotel to attempt to interview him but he had left just a few hours earlier and is back in Portugal. We had intended, and we still intend, to interview him when we are in Europe on a related matter of our Swiss bank accounts, so we will get his statement in an affidavit and his view so that we can put it into the record as I know we all want to do to complete the record.

Senator PERCY. Has Mr. Roosevelt been advised or will he be advised, at his last known address in Portugal, that we will send him a copy of the transcript of this proceeding so that he may know the allegations that have been made?

Mr. FELDMAN. Certainly, Senator.

Senator PERCY. When his name came up in executive session, was an attempt made then before public testimony to contact him and give him equal opportunity to clarify or testify at the same time allegations were made against his name?

Mr. FELDMAN. Yes; it was, Senator. In fact, we sent people to Florida when we found he was in the United States before this public session so that we could meet him personally rather than through

writing, and corroborate or have him deny the allegations. As I say, we missed him.

Senator PERCY. I think, then, the committee has done everything that can reasonably be expected and has followed the procedure that Senator McClellan and I worked out. I am very pleased, indeed, that it is fully adhered to by the majority and minority staff and by the chairman and members of the committee.

I did see Mr. Roosevelt in Portugal myself while I was there during the July recess for a few days. I was visiting George Woods, the former president of the World Bank. At a reception given by a former Ambassador to Portugal, I happened to meet Mr. Roosevelt. I did not know him. I obviously did not know that he would be involved and his name would be involved. But certainly he can be contacted. The American Embassy, I think, in Portugal knows of his whereabouts. I would certainly suggest that we make every effort to bring this immediately to his attention.

Senator HUDDLESTON. I believe that will conclude the questioning of Mr. Mastriana.

The next witness will be Mr. David W. Slater.

Mr. Slater, would you be sworn while you are standing, please?

Do you swear that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. SLATER. I do.

#### TESTIMONY OF DAVID W. SLATER

Senator HUDDLESTON. Would you, sir, identify yourself to the committee and present whatever statement you have?

Mr. SLATER. Yes. My name is David W. Slater. I reside at 14 Village Drive, Delmar, N.Y., a suburb of Albany. Formerly I resided in Wycoff, N.J., and worked out of New York City.

I would also like, before I leave this chair, to have an opportunity to address a few remarks to the remarks of the previous witness because I do think that bankers should stand in a somewhat better light than presented.

Senator HUDDLESTON. We will give you that opportunity.

Mr. SLATER. I am a consultant in international matters—in corporate finance and operations, and in banking. I have been in the international field for most of my business career.

With this brief introduction, and before narrating some of the details surrounding the matter before us—as I saw them—I wish to go on record with regard to courtesies shown me by the subcommittee staff, to commend what I believe to be the thoroughness of their study of the matter, and to say how very needed is the work they and this subcommittee are performing.

I address those remarks particularly to the investigators. I must say the same applies to the ladies who work with them in administrative capacities. I have been in touch with gentlemen, and only that, gentlemen of the highest order, in all of my dealings with the subcommittee staff.

Let me say this also: It is most needful for this investigation to proceed, to probe into the many facets of crime that are eroding our social structures that are sapping our fibers as a nation.

Now, I accept this to be a broad approach, a conceptualized one, as a problem that must be tackled bit by bit, operation by operation. Nevertheless, I think it has also to be seen in these broad terms.

They provide the focal goal at which to aim, and to keep aiming—or, the reason for aiming at all. With such a lofty goal, and it is a valid one, minor successes and/or failures then cannot detour or deter the overall and continuing effort to provide a business climate free of crime—which can be helped through the work of this subcommittee.

Through the work of this subcommittee, I might add, I have read and studied all volumes of the minutes thus far, in the stolen securities case.

Let us carry this thought to the direction in which this kind of crime is fixed—to developing areas to small banks in developing communities in this country, and it is directed toward use of paper collateral for borrowing.

First, developing areas as yet do not have the finance or banking sophistication to avoid the awful costs that would be imposed upon them, upon its citizenry or banks, if this type of crime is allowed to move unhindered from our shores or those of other advanced nations.

The absence of sophistication lies in training of personnel, communications, and, of course, in the very evident and great need there is—in the developing nations—for all working there to be in a sense, venture businessfolk. Chances are more apt to be taken.

Some of this thinking carries over to smaller communities in our own country, though the record shows that larger cities, and larger financial institutions are not immune to this type of criminal operation. And, of course, there is the pending threat to brokerage houses, banks, trust companies, insurance companies from which houses the securities are taken, or purloined for a time—and, all of these for the most part can be found in our larger cities. No area is immune. And as yet we are still working on a system or substitutes for safer handling of securities which often are the collateral basis for borrowing.

And in leaving these thoughts, I feel we should see also that unhindered crime of this sort, admittedly only part of a big package, is a devastatingly corrupting influence in our society.

In my case, as I learned later, the "group" were convinced they would break me by one or other means of compromising me. As I see it now, they tried. But, there are those younger and of lesser experience. These very often—those with valuable lives ahead of them, lives which could benefit society, are drawn into the meshes of a sinister operation, and, they do not know the forces taking them along.

I commend the subcommittee for being, and, for the way it has approached the information I have placed before it—and will place with it.

Now, back to the person before you and a recital of events in what might be termed the Shinwell/Mantell caper.

Having introduced those names let me say that Ernest Shinwell was the boss of the operations in Panama. At a later date it was seen that Mantell was at the heart of things. Shinwell is the son of Lord Emmanuel Shinwell of the British Parliament, and by my evaluation, a clever individual who could have made good in any business he would have inclined to.

He is about 57 years, smallish of stature—which may be good, for as of now, I understand he is in jail in Luxembourg for placing stolen securities in a bank there.

Let me say also before a more detailed explanation subject to your questions, that from my vantage point in Panama and my discussions with Shinwell and others, I was able to learn and can testify now about the movement of large amounts of stolen, counterfeit, and worthless securities by the Shinwell/Mantell group. Some examples are:

(a) At least \$800,000 of stolen securities which were placed at Credit Suisse in Switzerland;

(b) A batch of about \$5 million in stolen securities brought to Panama by Dominic Mantell in December of 1970. I have turned over a list of these securities to your investigators;

(c) Counterfeit Bethlehem Steel securities worth about \$400,000 which Shinwell attempted to negotiate through Merrill Lynch in Panama; and

(d) Securities worth some \$8 million that Shinwell admitted selling, or trying to sell, through Shearson-Hammill in Switzerland.

The group also attempted to trade and establish credit on other issues which turned out to be worthless. These included First Liberty Fund, Bank of Sark drafts, Cornucopia, Ltd., and Multi-National Fund of Acquisitions.

I also turned information over to subcommittee investigators which I understand led them to discover other stolen securities used by the Shinwell group which had been stolen from the mails in the United States and brought to Panama. These, I understand, total in excess of one and one-half million dollars.

In 1966, I went to the Albany area to set up an international banking division for a regional bank, a bank with holding company aspirations. In this capacity I met one Steven A. Samos of Panama. He is president of the International Service Co. in Panama City.

The meeting was in connection with setting up, establishing an off-shore branch bank. This was the least costly route to go to develop a Eurodollars window. The alternatives were London, or Nassau, or working through others, which had been in the works for weeks.

This initial contact ripened to the point of Mr. Samos asking me, in middle 1970, to visit in Panama to evaluate two banks toward the end of making either or both viable entities.

I was offered the position of chief executive officer of either bank, depending upon my evaluation of the value or values in either bank. I declined to head either—for a number of reasons.

Then, along in August of 1970, Samos phoned me from Panama. He mentioned a "British investment" group that intended vast operations in Panama, which group also wished to buy a bank owned by Samos, one of those I'd studied, and they wanted me to head up the banking operation for them. I was asked to consider it, and to wait for an approach from the United Kingdom.

We had no information on the group at this time.

Then Samos called and spoke of having received a draft, or drafts in payment for the banks; these were received in the form of collateral for payment. He asked as to the validity of the paper, and, of course, I had him send me a photocopy, which I discussed with banking friends in

Montreal, Canada. The paper was issued by the Bank of Nova Scotia, a St. James Street, Montreal office, for account of Cornucopia Investment Corp.

I was informed within 1 hour or so that the paper was worthless, that the principals of Cornucopia were "deadbeats," the company itself had no assets. The paper was purportedly signed by an official of the Bank of Nova Scotia. It could have been a forgery.

This information was phoned to Samos in Panama. I believe he, in turn, conveyed it to Shinwell, for later, Shinwell commended me for having saved them considerable financial embarrassment that would have ensued from further dealings with Cornucopia. Shinwell said it was an investment made by another of his group and with Shinwell's expressed disapproval.

It can be noted at this time that Shinwell also had with him, on bank stationery, that of a leading British bank, credit information on Cornucopia. This information made the reader to believe Cornucopia was a soundly financed company.

As learned later—only within the past year—Cornucopia is listed as an investment advisory firm to one of the supposed mutual funds whose shares were used in the course of the transactions to be recited.

Within days of the matters just touched upon, I received a call from Shinwell. He asked me to come to London at their expense, for discussion concerning Panama. After satisfying myself as to possible incentives, salary, expenses, I agreed to meet with him in London.

I went, I believe, on September 2. However, I flew to Manchester, as in the interim I had also received a phone call from one John Westcott, who identified himself as one of the Shinwell group, and who asked me to come into Manchester in order to visit with the group at their headquarters—an estate named Springwood in Faffield Bank, Duffield, Derbyshire, England.

John Westcott was the founder of AIM, Agricultural and Industrial Marketing, Ltd., as well as having other business interests. Westcott, I learned later, had financed much of the Panama venture from his own funds. He is a likeable chap, exceptionally able, and at the outset of the Panama venture, may well have been duped by Shinwell into believing the venture was soundly financed.

I was picked up at the Manchester Airport and driven to Springwood, an estate with spacious grounds, lawns, pools, a magnificent home of 25-30 rooms, a staff of caretakers, and always with Rolls-Royce, Bentley, or Jaguar cars available if needed. It was most impressive. It represented wealth and comfort considerably rare to us here in the States.

In town, the Shinwell group was spoken of highly. In London where I later journeyed for 2 days of meetings with Shinwell—after having met with him at Springwood—they seemed well received. And in that the manager of the Derby branch of one of the largest U.K. banks had gone out of his way to afford me time to visit, and had spoken glowingly of the "group"—I didn't take time to make further bank checks on the group—that is, in London.

I say further checks, for before leaving the States I had checked with a British banking friend and had learned that AIM utilized Swiss funds. In this banker's lexicon, Swiss funds were tainted. That is because he may have known the source of AIM moneys.

However, he stated simply that Swiss funds themselves were tainted—all—and, of course, this isn't so. However, I had, as did others in Panama, this information in mind as we worked with the "group."

I might add that foreign credit information is given sparingly by foreign sources. Their practices differ from ours. Fortunately, through efforts of groups like the Foreign Credit Interchange Bureau, and probably others, and I suppose because of the multinational tendencies of companies in the States, credit clearance practices are changing. This is for the good.

In this instance, if my friend had given me a fuller picture, that is, if he had it, I would have shunned the venture. However, I am glad it worked out as it did for if another had filled my spot in the venture, there is no telling as to the harm that would have come to Panama, and to Panamanians, some of whom are close friends.

And, I am quite ready to concede I am not the only one who might have been in the spot who would have tried to keep things in orderly course.

Undoubtedly, others would have too. Before departing this section of the narrative, while in Derby and/or Duffield Bank and/or London, I met also James Rogers, a third member of the "group," a sort of bag carrier for Shinwell; a Brian Ashby, a wealthy friend of Westcott who drove me to London from Springwood—and, I believe in no way connected to the business we are discussing; and, a Sigi Bollag, as understood formerly a Swiss diplomat in Kuwait, Shinwell's representative in Switzerland. There were others whose names are not recalled, and I believe not really important to this discussion.

We—Shinwell, Westcott, Rogers and I met at considerable length to discuss my participation. We agreed on terms. They wanted a signed contract immediately. I deferred on this, asking time for further consideration of it.

In this meeting, I asked Shinwell about his being an undischarged bankrupt. He said he was glad the point was raised as he would have brought it up himself. I had learned of this matter from my British banker friend—a real concession on his part now that I look upon it.

Shinwell told of trouble he'd gotten into, in Ghana I believe it was. How, through working with a corrupt finance minister in that country, he had been framed and had to spend some time in jail.

This matter was dwelt on at length. Later Westcott informed me that he had gone directly to Lord Shinwell to discuss the same matter, and had received assurances from Shinwell Senior that Ernest had been framed. It was on this basis that Westcott decided to throw in his lot with Ernest Shinwell—or, so he said anyway. I accepted the stories with reserve—holding them in mind for future reference.

Returning from England early in September 1970, I had committed myself to overseeing the "group" ventures—in all aspects, for as it developed, I had to insist upon seeing everything that could in any way have any political consequence, and, in Panama, that could be most anything. Too, I was to be chief executive officer of the bank.

At this time, I wasn't fully satisfied with my "run-down" on the group. There were holes to be filled, like sources of funds. However, I informed Panamanian interests, all of them, in this respect, and we agreed on a wait and see relationship. We wanted to see the funds, and then perhaps determine the source, before being fully assured of the integrity of the "group."

Panama welcomed the "British Investment" group. The British Ambassador to Panama put out the red carpet for the group members. Throughout Panama there was hope that at last the financial and developmental possibilities of Panama were to be realized.

Prior to leaving the States for Panama, in middle September, I had spoken with the bank of record for the "group" as to interim financing abilities of the group. I was informed that \$100,000 was available. This was given me by phone by the second in command of Banco Exterior de Panama.

Only after being in Panama for about 15 to 20 days was I informed the interim finance facility had never been triggered. This was not brought to my attention by the bank president, Jose Perez Salamero. I learned this only upon examining certain data and Perez Salamero said that he had been reluctant to so inform me. I tried unsuccessfully to trigger the interim financing arrangement. This was through Banco Espanol de Paris. It was never activated because the shares deposited with Banco Espanol apparently did not meet their credit approval.

As well, they shouldn't have, for later I learned them to be shares of a mutual fund, shares of no value. They were shares of Multi-National Fund of Acquisitions.

Upon arrival in Panama, I sought to establish systems for company operations, bank commitment, takeover of assets of purchased entities. It was a terribly active time. My office was in space rented by Samos in the First National City Bank headquarters building.

I lived at the El Panama Hotel.

And, sooner than expected, and most inconveniently in timing, the Shinwell "group" came to Panama—Westcott, Rogers and Shinwell. They took up residence with Roy Hammac in his spacious home some 10 to 12 miles out of Panama City.

Hammac was the intended seller of some properties purchased by the group. These totaled about \$5,500,000. The contract for purchase, originally on a cash basis, had been worked out by Shinwell and Hammac, with respective attorneys at meetings early in August 1970.

A Henry Protzman—with longer German name—had been the party bringing them together. Protzman was also along and lived with Hammac also. I was content, even desirous, to live apart from them. I was known in Panama, they were yet to be proved—as I saw it.

I think it well to note here that formal and correct contracts were drawn up for all transactions. I studied these. That for the Panama Plywood entities is interesting in that initially cash was to be transferred in payment for the properties. And, lacking the ability to pay, or lending support to that ability, there were exhibited at Banco Exterior in Panama, two supposed letters of credit, each for \$3 million—a total of \$6 million.

These were issued by Zurich International Investment Corp., Nassau, Bahamas. And accompanying the credits was a letter from a Hans Paul Baden, Switzerland, said to be an officer of Union Bank of Switzerland, which letter said the original credits were in his possession and could be availed of upon certain drawing terms being met.

These credits, as can be seen later, were but part of the continuous scheme to arrange transfers of property titles against questionable securities. For, as it developed, upon trying to avail ourselves (Intercopa) of the credit values, \$6 million, no payment was forthcoming.

And, then began the play on deposit of securities. First, it was \$800,000 plus deposited with Credit Suisse, Zurich by Sigi Bollag for account Intercopa S.A., the corporate entity in Panama through which the Shinwell purchases were made. In this regard, there was a second corporate entity, Juglar, S.A.

Regarding this \$800,000 in securities, I spoke by phone on a number of occasions with Credit Suisse in Zurich. Also, Credit Suisse confirmed the deposit to Banco Exterior. It can be noted that the documentary collections under the ZIIC letters of credit, for \$6 million were routed via Credit Suisse, and that the \$800,000 was then done through this bank.

This reflects on the attention given preparation by Shinwell and the group, not on complicity in the matter of Credit Suisse. Always there was the "softening" process, the passage of sums of money through an account, the establishment of confidence, or intent to do that.

Against this \$800,000, Shinwell was insistent that \$200,000 be obtained as a loan. As it developed, he wasn't able to do so. This can be addressed in detail if desired. The names of issues involved were given to the subcommittee staff.

Now back in Panama and my initial efforts there. My plans for corporate operations received little or no attention, except from Westcott. For with him, with Shinwell's approval, I went ahead with acquisition of another ranch, vastly superior to the ranch already bought, and at lesser cost.

In respect of two purchases, though I tried to renegotiate better pricing, and in one succeeded, Shinwell wanted no part of lesser costs. This created some frictions between us.

I voiced concerns in regard to the foregoing. Also to Westcott. He evidenced similar concerns but said Shinwell was under pressure and would, in time, come through and attend to matters of import. In fact, Shinwell, at one point, contacted lumber interests—so, he said—to help us create a cash flow situation.

The days until the end of October were tumultuous. There were promises of day to day arrival of payment funds. Bank advice numbers—number of payment orders—were given Westcott and myself in Panama.

Daily at 1:30 or 2:30 a.m., I was on the phone to London or Switzerland with Shinwell. There were some heated discussions. Always there was a new wrinkle to payment delays. And, fortunately at that time, he was able to fall back on the IOS and GRAMCO debacles as being major factors in the delays. Some seemed reasonable, but, only for a time.

Finally, I said I would go to Zurich to clear things. Shinwell accepted immediately. Then the next day he asked me to defer travel. This went from day to day. And, again with some finality, I went, meeting my wife in New York. She accompanied me.

I learned later my visit to London, Zurich was the last thing Shinwell wanted to have occur.

I went because Panamanian interests were pressing for payments. I went to preserve the credibility of the venture. In London, I learned Shinwell and Rogers were on the Continent—I had agreed to go via London rather than direct to Zurich—however, within a day I met them at Heathrow Airport as they were again en route to France and then Switzerland. We followed the next day, meeting them in the Hotel Scheuble in Zurich.

Protzman was there, Bollag, "Frank" Holmes (a new group participant who was a clever person, well versed in accounting and financial ways) Rogers and Shinwell. They looked as if they had seen an apparition. Shinwell begged off from discussions, saying he was ill. He asked me to continue matters with Alfred Gremli, a junior official of Credit Suisse, and I did.

From Credit Suisse offices, and using their telex facilities, at least two lengthy messages were sent to Banco Exterior in Panama. These pertained to documents on file in the public registry of Panama, signature and corporate authorities of two companies used by the "group"—Intercopa, S.A. and Juglar, S.A.

Though Shinwell thanked me profusely for this particular bit of work, saying it made my whole trip worthwhile, I told him it only represented "group" irregularities and that it suggested to me they, including Shinwell, didn't know their business in the international field.

He said he could appreciate this, and wanted my closer help in all future financial dealings. He wanted me in on dealings in Basel, then a few days off. These were to be in the office of Louis Amhof, from which office Shinwell conducted most of his business in Switzerland. Amhof, I understand, is a former Swiss banker.

Days passed and no Basel meeting came about. I tried repeatedly to contact Shinwell. Always Holmes returned the calls. Finally, I told Holmes to inform Shinwell I would be in London within hours, and that I had taken all the nonsense that I could. I was through and would go directly to the States. I wished to speak with Shinwell face to face.

We were met at Heathrow by Mr. and Mrs. Shinwell. We were asked to stay a number of days for discussions. We stayed 1 day.

While in London, Shinwell told me securities had been deposited with Shearson-Hamill for conversion to dollars. I got a list of them. They were Mattel, General Motors, I believe A.T. & T., altogether about 10 issues with market value in excess of \$8 million.

We conversed on these at length. Too, he informed me that Teamster's pension funding was involved. Hoffa was using him as a conduit because of favors in the past. I was a bit appeased—more at ease.

We returned to my wife's parents' home in Springfield, Ohio. Later, I traveled to my parents' home in New Jersey. All told, I was in the States for about 6 to 7 days. Each day Shinwell phoned details of progress. I returned to Panama with better assurance as to the validities of the venture. There remained some unsettled questions.

An important consideration surrounded foreign currencies. Shinwell had informed me the group had at their disposal in excess of \$15 million of Brazilian cruzeiros and over \$1 million each of Peruvian solas, Columbian pesos.

Knowing Brazil, it was inconceivable that currency would be kept from use for any time because of the rate of depreciation of currency. And, there was the additional factor—Shinwell had said the moneys were generated by Volkswagen in Brazil. Now I knew VW were tight for funds.

This raised questions. But, it was at that time consequentially we had the major matter of funds for purchases then made months ago. Looking back, it should have been a major red flag for me.

I informed Panamanian associates I thought things were at last on track. I thought they were. However, I had indicated I did not wish to continue beyond the initial phases of the "group" ventures, for I could not swallow their ways of doing business, of this I was sure. I told Panamanian friends I would see the payments through.

In this time frame things changed drastically and within days; this now is late November, early December, a Dom Mantell came to Panama. He was accompanied by one introduced to me as I believe Ron Jacobs. Mantell was the boss.

Shinwell did obeisance at the call of Mantell, and Mantell and Jacobs brought with them securities which were deposited in Banco Exterior for account Intercopa. As to Mantell running things, neither he nor Shinwell left the slightest doubt about it.

Mantell, and the one I recall as Jacobs, brought with them a large number of securities. Some, if not all, were deposited with Banco Exterior in Panama. A list of these securities, at least these that were planned to secure the purchase of Panama Plywood properties, was given me by Homer Jackson, financial advisor to Roy Hammac, the one who owned the properties.

This list has been given to the subcommittee staff. Securities listed thereon, excluding a large batch of First Liberty Fund shares, total in the millions. The visit of these men, rather the men to bring us the shares to assure purchase collateral, had been in the works for weeks. Mantell and Jacobs impressed me as being of unsavory characters. My impressions were conveyed to Samos and others. We waited to see what would happen.

I avoided them and the Shinwell group all the more. For, by this time, I was sure of what the "group" represented, or thought I knew anyway. Interestingly, before going to Panama on this last trip, early December, I informed my sister's husband, formerly in the Army counter-intelligence, that I gravely suspected the "group." I asked that he refrain from mentioning my fears to my wife, for I intended getting together as much information as I could in case my fears were confirmed.

Too, he would know the circumstances in case I met up with foul play. Yes; I expected it would occur. And, I became careful. I had a mission to perform for Panamanian interests if my fears were correct—as they were. I would protect them as best I could—and I did.

In the same time frame, Shinwell called a meeting of the "group." In it he informed that I would have to go along in "group" plans, he had informed all the others and gotten agreement.

I said only I made decisions for Slater—no one or ones had or would have that privilege. And I said if the meeting had to proceed on my acceptance of their decision as to my going along blindly, I would excuse myself from the meeting.

I did excuse myself. This incident was to have been immediately preceding the visit of Mantell and Jacobs to Panama, or immediately subsequent to their arrival in Panama.

At this point, these many points, things became certain as to their course.

The following morning Shinwell approached me saying I had shown frigidity in the meeting of the day before, and, if he perceived correctly the chill had not worn off. I allowed that he was most perceptive but that he didn't know the extent of the freeze.

He then told me I could separate from the "group," they had gotten their use of me—for adequate entry into Panama. He promised all expenses and compensation. I insisted on receiving cash immediately. And, I told him his evaluation of the situation in Panama was completely erroneous, that the Panamanians would see through my departure from the "group". He quickly changed course, probably seeing as I, that there would be a ripple; he asked me to continue.

I then told him he was either stupid or controlled—and, I believed him other than stupid. I told him that no person controlling a financial situation could handle matters as this one had been handled. He disavowed control.

To test him, I asked for \$5 million for bank capital. He agreed immediately to \$20 million to \$30 million.

Further, I told him I was nominating two to the bank board and asked who his nominee would be. Quick as a flash, he told me I could nominate the entire board. Thinking back on it, really what did it matter, for Shinwell had in mind getting what he could and leaving the bank with whatever problems were created.

The event of these days are too many to record: a luncheon for Mantell in the Hotel El Panama during which time I heard Perez Salamero, President of Banco Exterior de Panama tell Mantell—also to Shinwell—that Perez Salamero would pay \$500,000 on the next day against securities that Mantell and Shinwell had deposited; my attempt at avoidance of that luncheon—and after repeated pagings, I finally appeared for coffee; repeated meetings with Hammac, Raoul Arias and others, advising them of what was afoot; illness, probably a strong touch of equine encephalitis, the Venezuelan horse disease that was to come into the States via Mexico.

Striving to get agreement with Samos on taking the course we did to expose things and save Panamanians who were too eager sellers, for all except Raoul Arias were selling properties at a number of times their value; wondering if turning my door knob at the hotel might trip an explosive—which might have been far-fetched—trying to collate data and secrete it for later use.

Trying to appear as a continuing part of the venture, though somewhat sure the "group" had to know my stands; avoiding a Shinwell invite to a pre-Christmas supper for the "group" and their families. I went to church on that day as was planned; the event as recalled fell one upon the other.

A big blow in this time frame was the discovery that one Bethlehem Steel stock certificate was counterfeit, had been taken by Samos to Merrill Lynch's office (Frank Greene) with intent to pledge it, or learn if it were pledgeable for loan. Along with other shares of stock, as understood now, running into millions of dollars. These shares came to Panama via Mantell and were available to Panama after his visit.

Samos and I tried to corral a share certificate to really check on the "group." This chance came when I was just returning to Panama early in December.

Greene withheld information on his discovery that the stock was on the stolen list, or counterfeit, pending completion of a large party in honor of Shinwell. This party was attended by over 200 people.

I learned that Samos went directly to the office occupied by Shinwell upon being informed by Greene of the kind of paper involved. Shinwell immediately phoned Miami—saying "They couldn't do this to me, or they wouldn't dare do this to me." At any rate, upon completion of the call, Holmes, or Rogers, was dispatched immediately to Florida, taking the shares with him. Florida undoubtedly issued the orders.

As it had been determined, they were doing right along. As learned later, the market value of the Bethlehem Steel shares represented in part by the single certificate brought to Merrill Lynch, was approximately \$400,000.

It is my belief these shares, possibly others, were not deposited with Banco Exterior, but were retained by Mantell and Shinwell for use in Panama other than deposit with Banco Exterior in connection with the Panama Plywood transactions. If it is wished, it can be noted my references to the matter now reflect the name of the person obviously in control, Mantell—his name takes first place.

Also in this time frame, I was phoned from Florida by Rogers. He wanted me to assist a John Kmit in the sale of foreign currencies. I think, specifically, Peruvian solas. Neither Rogers nor Kmit knew the basics of trading in foreign currencies. The upshot was that I was asked to visit with Kmit in Miami to arrange sales procedures, at which meeting he would arrange for other principals from Nassau to be present. I had no thought of being there, however, I agreed to stop by on December 23—time to be confirmed.

I told Shinwell of this. He became pale—saying Rogers need not have "bothered" me with such details. He was gravely shaken and as learned later, Rogers got a calling down for letting me know folk in Miami.

Before Shinwell and his group departed from Panama, he asked me to visit with him in his office across the street from my office. There he said he was leaving me in charge. Would I sign a number of checks and issue them on receipt of \$2 million which would be telexed the following morning, December 22, from First National Bank of Miami Springs, Fla.

I advised that I signed on Intercopa account, but preferred that he, also a signer, would do the honors. He asked why. I told him "because I am a conservative banker," a term someone in Switzerland had applied to me. Or so he had said anyway. The situation was tense.

I told him they would be signed only if his signature went on them, and handed Shinwell my pen. He signed. I took the checks, after giving them to Samos for safekeeping as I planned for departure to the States on December 23.

I had stayed through it all. And, as I thought, all Panamanian interests were protected.

The next morning, December 22, Braniff brought in four Bank of Sark drafts for \$500,000 each. These I told Shinwell's secretary to proceed with as she had been directed to give them to Perez Salamero at Banco Exterior. She had been directed by Shinwell by phone to refrain from letting me see them.

Shortly after presentation at the bank, Perez Salamero asked about drafts validity. I told him he should know without asking, however, I allowed he could phone and inquire as to their value if he so wished; he said he wanted to do so. I told him to call would be a waste of money.

I need not go into details of the continuing facade. I planned going to the airport to say goodbye to them. Samos and I had decided to maintain the front to the end. A Panama rainstorm, my missing the airport road, caused me to believe I would be late for plane departure—12:30 p.m. I turned back.

Later I was informed Shinwell had held the plane because he wanted to talk with me. He had delayed the flight for more than an hour. Actually, he was not returning to Florida by scheduled flight, but, by a chartered plane—as it turned out, a demonstration flight for a plane he later purchased.

In Miami on December 23, my ongoing flight was delayed. There I met Herb Creekmore. I had carried his golf clubs from Panama and between my story to him and his to me, I learned the extent of the mess controlled by Mantell and Shinwell.

In this meeting, I asked Creekmore to phone Samos to straighten some matters with him and then to take a mutual fund matter in which he was involved to the SEC or FBI. And, in what he had afoot for the Mantell-Shinwell group, to go immediately to the FBI. He did both.

Before leaving Panama, 10 days or so, I believe, I met with Frank Greene and posted him in entirety as to what I knew. I put on paper all I knew and asked him to get it to his New York office.

After getting back to the States I inquired of Merrill Lynch as to receipt of this data from Panama. Finally, after a month or so had passed, I went in person to New York to Merrill Lynch where I again recited this story and again gave them written data similar to that given in Panama—with copy for the FBI.

From here the story is much in other hands. My prelude indicates the value I attach to the way this subcommittee has assiduously pursued the entire matter. I can't say I'm happy to be in this chair, but, I can say I am happy to be whatever little part I can in an altogether big problem.

There is no doubt, the narrative fails to cover every point as it should, and omit some. Wherever there is question, I shall be pleased to expand upon what is given at this time.

Perhaps I can help in making this fast-moving situation, a complex one to be sure, somewhat more understandable if I briefly summarize and bring into this exercise the benefits of seeing it through the many bits of information that have come to me since, and as I've had chance to reflect on it.

(1) The operation was planned well.

(2) If it had succeeded, the way would have been paved for similar operations in other developing areas.

(3) There has been interest in buying into and controlling some small State banks, specifically two in Florida.

(4) If the venture had succeeded, the Panama Bank—the bank that the Shinwell group had in mind purchasing—would have become the successor to Bank of Sark in operations of this kind. Or, at least a conventurer with Bank of Sark.

(5) There is no question but that Shinwell had close ties with, in fact took directives from, Mantell and Jacobs from the start. This is based on phone calls overheard while in London and elsewhere.

(6) That use of the Zurich International Investment Corporation letters of credit and the letter of Hans Frei, greatly facilitated Shinwell entree to banks he dealt with.

(7) That Shinwell used Swiss connections, for bank introductions, for depositories—namely Sigi Bollag, Louis Amhof at the top of the pile.

(8) That similar operations had been attempted elsewhere, only in months before the Panama transactions, and these had been laid aside for future consideration—namely, Hong Kong and the Philippines.

(9) That involved with Mantell and Shinwell and not mentioned thus far, were Kingdom of Greece notes payable to MacDonald Construction Co. These were in the amount of \$15 million as recalled. These were brought to Panama, I would say by Mantell as they came to my knowledge at that time.

(10) That others involved, meaning those named in this statement, including some sellers, had some knowledge of what was intended, and some may have had a rather full understanding of what was involved. This could apply also to bankers, maybe even State officials.

(11) That the operation seemed based on creating expectancy of great gains—expectancy on part of sellers of property—by buying properties from them at inflated prices for cash.

Specious paper—Cornucopia draft, bank references, letters of credit—were utilized to the fullest to create an aura of confidence and respectability. And, in this case, through use of an existing corporate entity, Intercopa, S.A. through which account at Banco Exterior large transfers were made prior to using Intercopa as the purchase vehicle for the Panamanian properties.

In this regard also Banco Exterior was in position to issue letters attesting to the credit standing of the Shinwell outfit. And, it is well to see also that Shinwell had planned use of this account for purchase of heavy industrial equipment—that is, use of the account credit. The ultimate destination of the equipment, of course, would be in doubt.

(12) That as initial purchase contract terms were not met, and as time elapsed—the sellers having commitments, and making new commitments—the use of stolen and counterfeit paper then became a neat and easy step. In Panama it almost succeeded.

(13) Also in Panama, and not mentioned thus far in this statement, there was plan for use of tens of millions of dollars in financing and construction of an offshore resort area, an island, to which the Government had given partial title to the Shinwell group.

This project would have amounted to \$70 million to \$80 million. A special decree was signed by the Torrifos Government making the venture possible.

(14) There is in my mind, from all I have seen, all I have worked with, all I have heard—no doubt as to the criminal intent of Mantell and Shinwell—that intent to obtain assets of others against delivery of stolen and/or counterfeit securities. Nor is there doubt that both were in possession of stolen and/or counterfeit securities for this purpose.

(15) I have specific thought on steps that may be taken, mechanical steps, to make this type of crime less certain of success, in part or in whole. These will be furnished in response to questions, or in addendum to this statement.



**CONTINUED**

**1 OF 2**

(16) There seems always one point not covered as yet--the Shinwell group, the British group, had not capital for operations. They and Shinwell especially, were dependent upon funds from other than their own resources.

It is my understanding that an overdraft incurred by Intercopa on the books of Banco Exterior, in amount approximately \$160,000 was covered by Mantell. There is no question as to the extent of the overdraft for Shinwell and group expenses.

Senator HUDDLESTON. Mr. Slater, you mention the fact that it might be very possible for an innocent individual, through lack of understanding or knowledge, to become involved and in fact be a party to trafficking in these securities. Is this something that is happening with some frequency?

Mr. SLATER. There is no question in my mind, Senator, that innocence is involved very often.

Senator HUDDLESTON. The operators know how to take advantage of this innocence, do they?

Mr. SLATER. They are very capable of taking advantage of innocence, yes.

Senator HUDDLESTON. Would you say also that the developing countries--and you mentioned Panama and the Bahamas--were more susceptible to this kind of operation?

Mr. SLATER. Very much so. The Shinwell group conducted a similar exercise I found out later in Ghana, a developing area, had anticipated one in Hong Kong, a more developed area, and certainly had the Philippines in mind. Shinwell, himself, had indicated that without doubt he intended moving on into other developing areas after Panama. Panama lends itself very well to the operation that Shinwell had in mind. He went in; he bought properties at inflated prices. He gained the attention of the sellers. They were most careful to see that the deal went through. They were willing to wait with delays.

Unfortunately there were many delays and the delays killed this thing. In time they apparently gained the assistance of a friendly banker. I might mention that the bank was referred to by the previous witness. The bank is one of the largest in the world. It is not a small bank. Its headquarters are in another part of the world, but it is an old established and well-known bank. There was the assistance of the friendly banker. If it hadn't been for kinks put into the operation, the operation might well have succeeded.

[At this point Senator Gurney entered the hearing room.]

Senator HUDDLESTON. I believe you mentioned that Shinwell operated on somebody else's money?

Mr. SLATER. He operated on mine, in part.

Senator HUDDLESTON. And on who else's?

Mr. SLATER. To the extent he operated on mine, that deserves clarification. I went to London initially and I was offered payment for all of my expenses. In that I was to meet them in Panama, I agreed to payment of expenses in Panama. I did nothing in the first 15 or 20 days in Panama, all the while incurring expenses, plus traveling expenses. When I delved into an interim financing arrangement that Shinwell supposedly had arranged with the president and general manager of Banco Exterior, Jose Perez Salameiro, I found out that no such interim financing arrangement existed. Had I known that, I

would not have gone there in the first place. In that there was no interim financing arrangements, I decided I would not avail myself of their few dollars, but hopefully to carry on and get something out of the mess. This went on and on. I did have some money in it. Money was advanced by one of the owners of another company--AIM, Agricultural Industrial Marketing--which was the parent company out of Derbyshire, England. I don't know how much this gentleman, John Westcott, put into it, but I assume it was everything he had. It must have run into tens of thousands of dollars.

Senator HUDDLESTON. Was he aware of the operation?

Mr. SLATER. At that time I cannot say. There is no question but by December of 1970 they knew of it because I personally told them.

Senator HUDDLESTON. The securities themselves that were used, how did the Shinwell group acquire those?

Mr. SLATER. The securities put into the hands of Shinwell came into Panama along about the end of November. I have made up a calendar from my books. It was along about the end of November and they were brought in by Mantell and an individual I remember as Jacobs or who was introduced to me as Jacobs, Ron Jacobs. They came in by a Braniff flight and were immediately taken to Banco Exterior for deposit. A list of those securities was given to me by one of the sellers, which list has been furnished to your committee.

Senator HUDDLESTON. Was there any indication at that time how they had gotten them?

Mr. SLATER. None whatsoever.

Senator HUDDLESTON. You had no reason at that time to know whether or not they were stolen or fraudulent?

Mr. SLATER. Senator, I had no reason at the time--I better put it this way: I had come to the States toward the middle of November and I spoke to my sister's husband who is with Army counterintelligence. All of this, by the way, is spelled out. I said to him, "I have serious doubts as to the integrity of this British Investment Group," as they were named. I might say the Panamanians throughout gave them a red carpet because they felt that here were the hopes of Panama being realized, somebody other than the Americans were coming in and they were going to start an industrial effort, an agricultural effort, that would benefit the country. To me, interest in developing areas was something I dreamed of as well. I told my sister's husband that I had doubts as to the integrity of the folk and that if anything happened to me he would at least know that foul play might have been involved. I asked him not to advise my wife as to what was going on. I came back to Panama on that visit and other things occurred that made me to be continually suspicious of what was happening. Then I don't know whether it was a day before the Mantell group came in or the day after, but Shinwell called a meeting in my office. Seated with him were the other members of his group, a Mr. Rogers, a Mr. Holmes and a Mr. Westcott, and he started the meeting by saying that he had informed the other members of the group as to what was transpiring, the course that things would take from that point on, and since they were in agreement to go on that I had to go on also, I had no choice in the matter.

I told him then and there that only one person made decisions for Slater and he would make them and if that were not satisfactory to

him I would excuse myself from the meeting, which I did. I certainly had grave doubts at that time.

The following morning he came to me and said, "David, yesterday I detected a degree of frigidity between us, an icicle barrier, and if I am not wrong the same thing is true this morning. I said, "Ernest, you are very perceptive, because it is the same only more so." He said, "Can I sit and talk with you?" I said, "Fine, you can, Ernest." He said, "David, we have come to the conclusion that we are going to let you go your own way. You don't serve our purposes any more. We have entered into Panama."

Senator PERCY. Those are the words he used, "You don't serve our purposes any more" or was that the intent?

Mr. SLATER. No; these are his words. I am quoting them almost the way he gave them to me and I have written them that way. Maybe with a little difference.

He told me that he had used me for getting into Panama where I was known and they felt they could cut loose from me at this time and go their own way. I said, "Well, that is fine, Ernest, I will take up the option." I said, "Before I take up the option, though, there is a good deal coming to me, both in compensation and in expense money. I would like to see it on the table before we break." He said, "David, we will have to put that in abeyance." I said, "No, Ernest, it will be done today or not at all." Then I said, "Since we have agreed that I am going to break off, let me just review a few things for you."

By this time I was very conscious of what this involved.

Senator HUDDLESTON. Let me interrupt right there. At what point or what instrument or what thing on paper or what action keyed you, as a person knowledgeable in international finance, that something was amiss?

Mr. SLATER. Senator Huddleston, I would say it has to be a dozen things, no one thing. I had come to New York and I had returned to Panama. I had worked on the purchase of a contract from a very close friend, a ranch from a very close friend of mine, by the name of Raul Arias, not involved in this in any way except as a seller of property. We bought the ranch from him for \$1,200,000. It was an excellent buy. We had it full of cattle. He was going to continue as a consultant. When I returned to Panama I found the contract had been entirely redone in my absence. Raul had agreed to taking a small cash payment of maybe \$50,000 and the rest was to be done in securities.

Senator HUDDLESTON. Who had redone the contract?

Mr. SLATER. Mr. Shinwell.

There was another ranch some 70 or 80 miles away that Shinwell had bought for \$1,800,000, one-half the size of this ranch that was done at \$1.2 million; one-half the number of cattle on it; far less as a value from the standpoint of industrial agricultural operation. Shinwell would have no word at all but that that had to be done at \$1.8 million because he was dealing with "my kind of people." I knew his kind of people by that time because he was telling me in effect who they were. I will not mention the name in open session, unless you wish.

There were agreements for the money to come into Panama. When I went there, the money was to have been brought into Panama, \$6 million, within a week. Always there was something more to delay it. I was on the phone night after night after night at 1:30 or 2:30 in the

morning, talking with London or Zurich trying to get the thing straightened out.

Senator HUDDLESTON. What was causing the delay?

Mr. SLATER. The problem was that they just couldn't make their securities work for them, the kind of securities they wanted to work for them.

Senator HUDDLESTON. Are you talking about the securities or the stock?

Mr. SLATER. The either stolen or counterfeit securities.

Senator HUDDLESTON. Was this discovered by the banks in which they were attempting to gain funding?

Mr. SLATER. There was stubbornness on the part of some people. My own stubbornness was one of them, because I insisted on knowing the absolute transferability of anything I worked with. That was a stubbornness that arose out of Panama. To put in perspective the efforts of Credit Suisse and in view of the previous testimony there was a complete disinclination on their part to assist in this operation. There was a disinclination on the part of other banks that were approached, other large banks. And Banco Exterior, already up to its neck in overdraft, at that time well over \$100,000, could not afford—

Senator HUDDLESTON. Overdraft by Shinwell?

Mr. SLATER [continuing]. Yes; could not afford to give Shinwell what he was looking for.

Senator HUDDLESTON. You have mentioned some specific shares that Shinwell had in his possession of seemingly good stock. Why wasn't this negotiable as collateral? Was somebody raising questions as to whether or not it was in fact stolen?

Mr. SLATER. I don't know that I mentioned that Shinwell had in his possession good stock. I do know that he had in his possession stolen stock.

Senator HUDDLESTON. You mentioned good companies which would normally be acceptable if someone didn't realize or think they were stolen.

Mr. SLATER. There was no question as to the issues, there was Pittway, ATT, Pennway, Beth Steel, South African Gold.

Senator HUDDLESTON. Normally it would be good collateral?

Mr. SLATER. Yes.

Senator HUDDLESTON. Are you saying, then, that some of the banks with which Shinwell attempted to do business raised questions about the validity of this stock and, therefore, withheld funding. Is that why he got into this cash deficit situation?

Mr. SLATER. In the case of Banco Exterior they were not in a position cashwise or capitalwise to do what Shinwell wanted. There was too much involved. To involve the Credit Suisse in the operation, I think they were just too knowledgeable to get involved with it deeply. There were other banks involved. There was testimony this morning of a major California bank, the largest one in the world, having been brought into their tentacles.

There was aborted with them the movement of a 20 million pound transaction. That is about \$45 million. First the Chicago was to have been brought into the operation in Panama. Banco Fiduciario, which is Banque Nationale de Paris, their branch in Panama, and there may have been others.

Senator HUDDLESTON. Are you saying if the Shinwell commitments might have been on a bigger scale, they might have had a better chance of succeeding?

Mr. SLATER. Unfortunately, Mr. Shinwell picked wrong representatives in Panama. On top of that, one of his representatives there had ambitions greater than those of Shinwell and committed him beyond what Shinwell was able to come up with at the time and threw the time table off. Shinwell was, I think, put into a position of having to operate without having all his strings tied.

Incidentally, this operation I talk of now went on from sometime around the beginning of August until I told Shinwell, by phone from Panama to Miami, that I was completely through with it, I would have nothing more to do with it on December 22. And that I know from papers I have seen, that there was continuance of it for months after that, even into May of 1971 by those in Panama still willing to go along with it, including the bank we named there.

Senator HUDDLESTON. You indicated a number of things that caused you to have questions about the Shinwell operation. How knowledgeable would a banker or an individual businessman have to be in order to spot irregularities that would indicate this kind of operation?

Mr. SLATER. For fear of mispronouncing his name, I will forego it, but the gentleman who testified this morning spoke of a prop he had used, a Zurich International Corporation letter credit. The first time that was shown to me my comment was, and I have been brought up in the international area, "This is worthless." If it were taken to a small banker, he would not have the same ability for evaluation as I had. If you take it into a developing area, there would be less ability for evaluation there than here, and certainly less opportunity for checking back in case of any question. There would have to be a degree of sophistication.

One other thing that was not mentioned this morning in this Intercopa account is before Mr. Shinwell made use of that—I will change that, before Shinwell. Before the Intercopa account was used money by the millions went into the accounts and came out of the account, into the account and out of the account. I only know that from having received from Frankfurt, Germany, not too long ago, which papers are in the possession of your committee, bank statements evidencing that these transfers took place. This undoubtedly lent an aura of respectability to the Intercopa account. The Intercopa account was sold to Shinwell along with the purchase of properties by the then owner of Intercopa, and the bank manager-president was going along on the credit value of the transactions as they appeared in the account up to that time.

[At this point Senator Gurney withdrew from the hearing room.]

Senator PERCY. I wonder if you would mind yielding for about 10 minutes. I must be in the Foreign Relations Committee at 4 o'clock. I will have to excuse myself for that, with the understanding that there will be no continuity in your questioning.

Senator HUDDLESTON. I expected to join the Prime Minister, too. I will yield.

Mr. SLATER. The witness is here at the convenience of the committee and if it means staying longer, I will stay longer.

Senator PERCY. You are very thoughtful and we appreciate that. I would like to say first that I think this has been very helpful. I

particularly appreciated your comments about the relationship you have developed with our staff. We happen to think it is one of the greatest investigative staffs that has even been put together, and I think your observation bears that out. They appreciate very much your cooperation.

I would like to talk about one aspect of the testimony which was questioned by the Chair just now. I can't recall exactly the words that you used, Mr. Slater, but it was something to the effect that following this meeting with Mr. Shinwell, in which he questioned the frigidity of the previous evening and the continued condition of frigidity, you said something to the effect that you began to realize what things were all about and that you then understood the nature of this business. But to promised compensation and expenses you testified that you wanted cash on the barrelhead, that you wanted to settle right there and then. I wanted you to clarify for the record that knowing whatever money you might get might be somewhat tainted and knowing that this transaction and the whole enterprise was a fraud, whether or not you wouldn't feel that you might be somewhat implicating yourself by the acceptance of such funds. Did you accept such funds, and, if so, how much?

Mr. SLATER. The answer to your last question is not one penny. I am so very, very glad you brought this up, because this taking of tainted money was something that came up in my conversation frequently with a gentleman whose name was not entered here, Mr. Samos, president of International Service Company in Panama. I told him we could not take money from Banco Exterior because it would just be creating an overdraft and making a further debt that that bank would not be able to collect. However, at this point I certainly would have been glad to have gotten my expenses and I felt Shinwell should at least have that kind of money himself. I did not know that he would have to resort to Banco Exterior for it.

One point I did not develop is in continuance of the thought as to why I had question, continuing question, as to what they were up to, and sort of gaining an insight.

Shinwell met with me the following morning, and I told you of this frigidity conversation and so on. I said to him after the matter of expenses and taking up my option and getting out, "Ernest, had you thought as to what kind of a ripple this is going to create in Panama? If I step out and if Perez Salamero at the bank knows that I am not in the picture anymore, you are going to have to do some kind of fast talking."

In case this is misinterpreted, I want to extend these remarks at the moment. I had friends who were in the business, who were selling. I mentioned Raul Arias and there were others. I had made it a premise and this was known for months, that if anything had gone wrong or would go wrong in this operation, I would do my level best to stick with it to see that they would not get burned. One of the prime facets of our moves at this time, or two of them, was to gain as much information as we could on the Shinwell endeavor while at the same time protecting Panamanian interests. We were trying to protect them having only suspicion, not fact. But after this we began to get the facts.

I said to Ernest, "Since this operation has gone so very, very poorly, I have to believe, one, you are a terribly stupid individual, which

you are not, or you are controlled. Which is it?" He said, "Well, David, you would know that no one would ever control me." I said, "Then tell me, Ernest, to begin this bank I want \$5 million of capital paid into the bank. Are we going to have it?" He said, "You can have at least \$20 million to \$30 million of capital in that bank." I was to be chief executive officer of the bank as well as consultant.

Senator PERCY. I think all of this is in your prepared testimony. How long were you involved with the Shinwell-Mantell group?

Mr. SLATER. Approximately 5 months; 4 months.

Senator PERCY. You have indicated, according to your testimony, that you had strong suspicions from the outset?

Mr. SLATER. Not strong; suspicions.

Senator PERCY. You had suspicions?

Mr. SLATER. Yes.

Senator PERCY. At what stage were your suspicions really confirmed?

Mr. SLATER. My suspicions were really confirmed around the beginning of December. I had during the time a wavering position and in the middle of October I actually handed in my resignation and said I was through with the thing.

Senator PERCY. That was how long after you started?

Mr. SLATER. Roughly 2 months.

Senator PERCY. And you stayed 5 to 5½ months?

Mr. SLATER. Four months.

Senator PERCY. How did you happen to stay so long after you had your suspicions confirmed?

Mr. SLATER. I explained in part why I stayed so long. I stayed 4 weeks beyond when I should have pulled out with the idea of protecting Panamanian interests. That may sound silly, but that is exactly the way it was.

Senator PERCY. Panamanian interests who were your friends?

Mr. SLATER. My friends, yes.

Senator PERCY. By protecting your friends, what did that do to all other investors who innocently might have been brought in either through your presence or the presence of your friends, who were respectable, responsible people?

Mr. SLATER. Excuse me. On that, when I talked of my friends, I considered anybody who was not involved, who I believed to be not involved in this to be friendly. We went first to the First National City Bank. We went secondly to the Chase Manhattan Bank. We went to Merrill Lynch. We went to Bank of London, Montreal. We went to Ramon de la Guardia, we went to Raul Arias, to Roy Hammac.

I say "we". I was most of the "we". The only one I didn't go to who was in any way involved was the banker at Banco Exterior, and the reasons are obvious.

Senator PERCY. How long after you left Shinwell-Mantell did you contact Federal authorities?

Mr. SLATER. I contacted Merrill Lynch and gave them a written report in the middle of December asking them to place the matter with their head office in New York, the reason for that being that Merrill Lynch were the peoples involved with the presentation of the stolen certificate, Bethlehem Steel. When I returned to the States I spoke with Merrill Lynch by phone at least three times and according

to my calendar I went to Merrill Lynch on the 21st of January, 1971. At that time—

Senator PERCY. You left in October, was it?

Mr. SLATER. No. December.

Senator PERCY. You left the group, Shinwell-Mantell, in December?

Mr. SLATER. December 23.

Senator PERCY. Along in the second or third week of January you contacted Merrill Lynch and put them on full notice about the nature of the group.

Did you at that time ask them to contact Federal authorities, or at what point were Federal authorities brought into the picture and by whom?

Mr. SLATER. The understanding was in the beginning of December when I went to Merrill Lynch from Panama and gave them a top written listing of everything I knew about the matter, that they would pass it to their head office in New York.

The understanding was that it would go to the Federal authorities here. I called New York, Merrill Lynch, a number of times, and finally—well, I will tell you what it was. They kept telling me, "We don't have the report from Panama as yet."

Finally, I went down on the 21st of January and gave them a copy of my report and asked them if they would present it to the FBI. I have here my first visit with the FBI, I think, was the 25th of March. This is a rather sad episode in the whole of it. I kept after them, kept after them and kept after them and nothing happened.

I did meet with them but there wasn't the grasp, the understanding, of what was involved. I finally wrote a letter to this committee telling them what I knew and within days, again commendatory of your committees, I received a call asking if we could speak on it.

Senator PERCY. Just two final questions. We have had tremendous financial pressure upon investment houses, brokerage houses, in this country. Many of them are losing a great deal of money now.

Is any part of the losses being experienced attributable to lost, stolen, or counterfeit securities?

Mr. SLATER. In my mind, there is no question but what some of the losses relate to stolen counterfeit securities, and there is no question but what some of the expense in brokerage houses is entailed—

Senator PERCY. Do you think that confidence in the dollar, in American financial enterprises, and in the international monetary markets in general has been shaken by the phenomenon of widespread fraudulent, counterfeit, stolen securities?

Mr. SLATER. I am quite a student of the money market, Senator Percy. I would hardly allow that the total international monetary picture is shaken because of this. There is no doubt some little element enters into it. There are more basic factors.

Senator PERCY. Do you place this very high in priority as a problem that we need to get to the bottom of as a part of the program, including Watergate, to strengthen confidence in our financial institutions, in the dollar, and in the American economy?

Mr. SLATER. There is no question about it. There is no question either that what is happening here, because this thing has offshoots into other areas of business, creates a problem for investments going into developing areas. It creates a problem for the exporter here. It creates

a problem for the exporter abroad. It creates undue trade problems and cost. There is no question that it has to be gotten to the bottom of.

Senator PERCY. I want to thank the Chair very much indeed for his courtesy. From the standpoint of the Senator from Illinois, I would be very happy to have the chief minority counsel ask the remaining questions so that the record can be complete.

I am sorry I have to leave to go to the Foreign Relations Committee.

Senator HUDDLESTON. Thank you, Senator.

[At this point Senator Percy withdrew from the hearing room.]

Senator HUDDLESTON. What significance do you see in the fact that you told a representative of Merrill Lynch in Panama of these activities and you later found you had to tell the same information to the representative of the same company in New York.

Did Merrill Lynch continue to do business with this operation?

Mr. SLATER. I told a representative in Panama and gave him written data on the operation. He passed it on to New York. I might say this from my knowledge of it, it was passed to New York only 3 months after I gave it to him in December. As to Merrill-Lynch continuing operations with the Shinwell group, absolutely no, they wouldn't have touched them with a 10-foot pole.

Senator HUDDLESTON. What impact has this involvement of yours with this company had on your life and business?

Mr. SLATER. Well, I can tell you this: I was greatly afraid in the weeks, and that would be roughly the last month when I made my decision to collect data which would be presented to whoever might be willing to look into it—I was afraid in going into my hotel room at night that turning the handle might create a problem for me that I might not recover from.

Unfortunately, at the time I picked up a bit of equine encephalitis and I think all of this had me pretty well down in the dumps for quite some months, during which time, by the way, I tried to push the matter with the FBI.

But if it has done anything, really, Senator, it has made me to be a stronger man rather than a weaker man, because I am now more determined than ever to stand for what I believe is right regardless of the cost.

[At this point Senator Gurney entered the hearing room.]

Senator HUDDLESTON. Were there any threats or actions supporting this fear that you had?

Mr. SLATER. None that I know of.

Senator HUDDLESTON. Counsel has some exhibits to put into the record.

Mr. FELDMAN. Mr. Chairman, I would like to place into the record as corroboration and backup for Mr. Slater's testimony a total of 26 exhibits which include telegrams, correspondence, letters of credit, and miscellaneous material which go to the statement that he has placed into the record.

Is that correct?

Mr. SLATER. Yes, sir.

[At this point Senator Huddleston withdrew from the hearing room.]

[The documents referred to were marked "Exhibit Nos. 62 through 87" ad seriatim for reference and may be found in the files of the subcommittee.]

Senator GURNEY [presiding]. Mr. Slater, as you know, we have had a rash of securities thefts over the past few years. What do you think have been the major factors that have caused the theft and counterfeiting of securities?

Mr. SLATER. There are certainly mechanical factors. I think basically the problem is a spiritual one, the absence of integrity on the part of our populace as a whole. It is not that I despair on that count, but I do think it has to be seen. Certainly, the growth of developing areas, the wealth that is in developing areas to be tapped, has made it attractive to peoples who would use stolen securities, creating the impetus to take them or to take the counterfeit security.

I think the mix-up in the brokerage houses, in the transfer areas, most of which I hope has been corrected, may have been a factor in it. I think inexperienced help has been a factor, and certainly that applies at least in the working out of the problem, inexperience on the part of those in the banking profession to some degree is a factor, if it permits this thing to go on.

If I may say this, and I am sure it is subject to debate, I think our penalties for this sort of thing are far too lenient. Even when there are penalties, we go beyond that and make them easier, if I may put it that way. These are the things that come to mind in answer to your question.

I know as I sift through it later, there will be more that comes to me later.

Senator GURNEY. When you speak of morality, I assume you are referring to the bankers and business people who handle these fraudulent transactions, is that so?

Mr. SLATER. If I understood your question correctly, when I speak of the morality factor, I am thinking of legitimate bankers handling the transactions. Yes, in organizations there are those who are greedy. This Mr. Mastriana said that stupidity was involved on the part of the bankers. Well, greed is stupidity.

There is prestige. The banker sits across the street from the bank in town and he wants his bank to become the bank with the greater deposits. He sometimes just doesn't care how that deposit comes into the bank and he grasps at the opportunity to increase deposits by a quarter of a million, as we have been told.

I think maybe it could be developed in further questioning, but that is the way I would answer your question at this time.

Senator GURNEY. Do you have any suggestions as to how we can put an end to securities fraud? You did mention criminal penalties, but I am talking about other practical solutions.

Mr. SLATER. I think merely the being of your committee has a very salutary effect in that regard. There is no question but that difficulties surrounding operation of this kind in this country, because of what you are doing, because of the indictments that are coming out of your work and, more than that, the information that is coming to us by the press, and I think particularly of the Wall Street Journal—these things of themselves have done a great deal.

I think getting information across to correspondent banks could well become a function of some of the larger city banks. I am thinking of those that you would know by name if I named them. They could well help their correspondent banks in this regard.

Then it has to be brought to another level. That is to develop within the bank, itself, an interest in getting these things across to all of the personnel. There is a communications problem within banks. The Committee on International Banking is very active in getting information to banks.

By the way, the proliferation of International Banking throughout our country is going to have salutary effects because more banks are going to have an interest in things abroad. Hence, when the sources or the areas where these stolen securities can be used effectively dry up, there will be less of a reason for stealing them, as I would see it.

The proliferations of multinational companies—some people don't find great value in them but I don't find anything wrong with them—this is introducing a new area of thinking in our citizenry.

The fact that we have had devaluation is of salutary effect as well. It is now possible for industry to go into foreign markets, whereas it wasn't before.

The inexorabilities of economics force them to go into foreign markets and they are going to learn the ropes and they, in many instances, are going to be the ones who are the preceptors of the bankers.

But I think we have a leavening influence with respect to whether this kind of thing can continue. Definitely, there has to be information gotten out, and I think that at the level of the major brokerage houses and of the major banks an effort could and should be made.

In fact, I thought of approaching Merrill Lynch, Chase and City and asking them if we could sit down and work something out on this and get it out to their correspondent banks throughout the world and get into the hands of developing areas information as to how these men operate, and in that way put a stop to the use of these papers abroad, thereby eliminating the need for selling them here or the reason for stealing them.

I think it is a possibility. It is something that I will look at again.

Another thing is you have had testimony here as to computerization with regard to stolen securities, counterfeit securities. I think some system of that kind would be most effective. Computerization as to transfer and registration.

And I know there are title problems involved. I think some enabling legislation might be looked at here.

Senator GURNEY. On that score I am told a vast majority of financial institutions which handle securities have been reluctant to adopt a security validation system. Are you familiar with this problem?

Mr. SLATER. I can't address myself to the question with any authority and, therefore, I prefer to pass. I just know this, that the thing has value, and I think it ought to be pushed, or at least a thorough study of it ought to be pushed.

I don't want to prejudice anyone's position where he has an interest involved, but I think it has validity, looking into the future.

Senator GURNEY. Are you saying there should be some valid system designed to acquaint the banking industry and the security industry with stolen and counterfeit securities?

Mr. SLATER. I, myself, could work out such a system and I believe it could have public relations value and could be done at very low cost.

Senator GURNEY. Could you simply state what you think might be done?

Mr. SLATER. Yes. I don't know what my friends in City will think, but, nevertheless, we will bring their names into it. If the First National City Bank were to take and put into pamphlet form just what has transpired in this Zurich International Investment Corp. case, and it could be six, seven, or eight pages, one in different languages, and be given to their branch banks throughout the world and to their correspondents throughout the world, "Here we are helping you with something, posting you with something so you can avoid a difficulty." City could have been involved in this, in Panama, too, but they have friends.

This, to my way of thinking, could have great public relations value to a bank the size of First City Bank, First of Chicago, Chase Manhattan. You have banks in your State that are greatly interested in Latin America that could well benefit from something of this kind on their own.

Most brokerage houses are located through branch offices or correspondents throughout the world and could also do the same thing.

Senator GURNEY. Are you suggesting that major financial institutions disseminate information on how to avoid getting caught in such schemes?

Mr. SLATER. Exactly. The unfortunate part of this, again, is that when you get it into an organization, the material gets into the hands of one person or two people and stops there. It is not disseminated down or up.

This Shinwell can be working in the next office whereas the chap who has the publication could be sitting, reading it in the office adjoining.

I believe if it were presented properly from a position of sufficient stature, it could be gotten across.

Senator GURNEY. Mr. Slater, I have not had the benefit of all your testimony, and I want to be sure that I do not repeat anything that might already have been covered.

Did you delve into the basic mechanics of how Shinwell planned to arrange for the transfer of these Panamanian properties against the credit instruments?

Mr. SLATER. No, I did not, sir.

Senator GURNEY. Could you tell us how that worked?

Mr. SLATER. Yes, I can. Shinwell came into Panama in August, early August 1970, and arranged for the purchase of Panama Plywood properties. There were four distinct purchase agreements—one purchase agreement for four corporations. The total involved was \$5.5 million.

Senator GURNEY. And he negotiated the contracts for the purchase of these properties?

Mr. SLATER. Exactly. These were very attractive properties at half the price. They were lumbering, lumber processing, cattle raising, and resort area properties. He did the contracts with the Panamanian counterparts on a cash basis.

The money was to have been paid into the seller's account in a Panamanian bank within August of 1970. This went on and no moneys were paid into the account and the contract was redone.

It was on the basis of letters of credit being issued. These letters of credit, which I saw first in Panama around the middle of September—

I wish Senator Percy was here now because that takes an edge off time—were Zurich International Investment Credits, each for \$3 million.

As a banker, I categorized them immediately as being worthless. We went through the credits required, the presentation of title transfer papers, and evidence of title transfer papers, and evidence of title transfer to all of these properties in Panama.

I personally went through the complete exercise with the corporate attorney, a Mr. Woodrow de Castro, and the attorney for the sellers, and we prepared all the title transfer papers. We put them in the hands of the bank and I personally prepared in Spanish and English a teletype through Madrid, tested through Madrid to, I think it was, Credit Suisse in Switzerland, availing ourselves, and I say ourselves because I was part of it then, of the \$6 million represented by the letters of credit. There was \$5.5 million to apply against the properties and \$6 million to be drawn under the credits.

The credits were payable at the Zurich International Investment Corp. office, Nassau, Bahamas. This exercise, from a banking standpoint, was very correct.

I understand when it reached Credit Suisse in Zurich that it created consternation. This is what never should have happened. It was one of the clinkers that got into Mr. Shinwell's thinking.

Senator GURNEY. Why did the telex create consternation?

Mr. SLATER. Because this is not the way it should have been done. It should have been done on the basis of papers presented and there should have been no forwarding through on a banking program. That is what I did, I put it through on a banking basis. I should have just sat there and asked Ernest Shinwell, "What do you do here?" And let Ernest tell me what the next step was. I didn't, which I wouldn't do.

Then there was no response to that drawing or drawings, because there were two credits, or letters of commitment, really, of the Zurich International Investment Corp., except that there was an acknowledgment from the Credit Suisse to the effect that they had sent on all of the papers to Zurich International Investment Corp. in Nassau. We further asked that Zurich International Investment Corp., Nassau, apprised the Credit Suisse in Nassau, who, in turn, would cable advice to their head office in Zurich, who, in turn, would cable advice to Panama.

We, I think, instructed that the moneys be placed in the Chase Manhattan Bank. Nothing happened, except that we had the advice and then Shinwell came up with the story that GRAMCO, an offshore mutual fund debacle, as well as the IOS mess, were creating securities disposal problems and the disposal of securities would not give them the cash that they wanted to fund the letters of credit and, therefore, the thing had to be delayed.

I told him, as I have testified here, that the thing was preposterous. Incidentally, if I was asked again, "What things led you to believe that the thing was built on shaky foundation?" Here is another one.

Senator GURNEY. Let me see if I totally understand what happened.

The first request for funds went to Credit Suisse in Switzerland?

Mr. SLATER. Yes.

Senator GURNEY. And they didn't know anything about it so they referred it to Zurich International in Nassau?

Mr. SLATER. Which is what they should have done in good banking procedure.

Senator GURNEY. They went to Credit Suisse in Nassau?

Mr. SLATER. They presented their papers to Zurich International in Nassau asking Zurich International, Nassau, to contact Credit Suisse, Nassau, who, in turn, would contact Credit Suisse, Zurich.

Senator GURNEY. What happened then?

Mr. SLATER. We simply got the advice that all of this had taken place and no money came.

Senator GURNEY. No money came?

Mr. SLATER. No money came. No money has come to this day.

Senator GURNEY. Was there any reason given as to why no funding occurred?

Mr. SLATER. Yes. Because the funding securities behind the transaction would not provide, due to the market declines—

Senator GURNEY. I heard that. But is that what Credit Suisse said?

Mr. SLATER. No. The bank gave no excuse whatsoever. They simply did not collect and advised us they didn't collect and that was it. Shinwell provided the rest.

Then we went around on the obtainment. Shinwell was forever obtaining securities and these securities would be forthcoming today, tomorrow, the next day, and this went on until finally I reached the end of my tether and I went to Zurich toward the end of October, October 24 or 25.

I told Ernest that I had come there to straighten out matters. I finally left Zurich, quite annoyed with what I had seen because my trip, other than to confirm to me that no serious effort was being made to come up with securities, seemed to be valueless from the standpoint of producing the money.

I called Ernest from Zurich and told him to meet me in London, I would be there within hours, and I was going directly to the States, I was through with the venture. The thing was just a flop throughout. He and Mrs. Shinwell met me and my wife at Heathrow Airport and begged us to stay on.

We wanted to iron out the differences, the securities, \$10 million—it is mentioned as \$8 million here but it is \$10 million worth of securities—were placed with Shearson-Hammill, and they were to be converted into cash within a matter of days.

If I had been then in Zurich, I would have gone immediately to Baden and checked. I was in London and on my way home. My wife's father had had a heart attack and we didn't want to delay. For that reason, I didn't check either with Shearson-Hammill in New York to find out from them what was happening.

But I went back to Panama, having spoken with Ernest Shinwell every day from the time I left London. He spoke to me in Ohio, New Jersey, and New York, giving a progress report, and even gave me, which has been furnished to the committee, I believe, a number related to the funds transmission to Chase Manhattan Bank, and I went back to Panama considerably relieved. This was the end of October—no, the beginning of November. I was considerably relieved but still with questions. I thought the thing would come through.

Ernest called me and asked when he should return to Panama and my comment to him by phone was, or cable, I don't remember which,



"Come back when you have the money in your hand." He said: "I think I can come before the money is there because the minute I am there the money will be there, too." It was right after that that we were introduced to the Mantell-Jacobs team and we then had the deposit of securities with Banco Exterior. I mentioned having been sick at the time. I remained in my room. I had a visit from one of the sellers of the property, the \$5.5 million seller, who asked me, and gave me a list of the securities, if the securities were good. I asked him to go to the bank and look at them, it was his right. Shinwell was terribly annoyed with that. It was another sort of nail in the coffin but by that time I pretty well knew what was going on.

Senator GURNEY. Are these matters covered in your statement?

Mr. SLATER. Covered completely, I think.

Senator GURNEY. I don't wish to duplicate anything. Let me ask you this question. You mentioned that you followed regular banking procedures and that here is where the Shinwell caper got bogged down. You said that if Shinwell had handled the funding, it would have gone through. Explain how this might have worked.

Mr. SLATER. For one thing, he would not have had people pressing from a number of angles as he did because of the way we handled things in Panama. In the stages up to, certainly, the end of November and the beginning of November, I worked as a banker should work. I must confess that until December 23 I worked to get information to uncover what was going on and I was not working for Shinwell at the time. I was working for, in effect, this committee. But Shinwell would not have been under time pressures, for one. He would have been able to have made substitutions. He would have been able to, as an individual, have explained to the sellers a bit more than the explanation that they were getting from me, which was that there was no money "and I don't like the way it looks."

Senator GURNEY. How would the money have been obtained if Shinwell had handled it?

Mr. SLATER. Somewhere along the line Mr. Shinwell was going to get someone, as the witness this morning testified, to advance moneys against the securities, and those moneys would have been transferred to a bank of Mr. Shinwell's choosing. In this case I think he did choose Chase for remittance to Banco Exterior in Panama. The moneys had to come out of securities that were placed at his disposal.

I might say this: Whether Shinwell changed his course of thinking due to what transpired, I do not know, but I do know this, and I reported it, that he renegotiated contracts and then he made the deposit of securities with Banco Exterior, and he was endeavoring to obtain title to properties, and he was working with both Chase and City, Chase Manhattan Bank and First National City Bank. This I didn't know at the time. That was to obtain funds totaling, I think, \$800,000 in one case and close to \$1 million beyond in the other case against cattle on each of the ranches. So he may very well have changed his course of action at the time. But the money, to my knowledge, never came in.

Senator GURNEY. What you are saying is that had Shinwell been given plenty of time, he would have obtained moneys by borrowing against stolen and counterfeit securities elsewhere; is that what you said?

Mr. SLATER. Quite frankly, yes.

Senator GURNEY. And the money eventually would have wound up in Credit Suisse and the transaction would have been capitalized?

Mr. SLATER. Yes. If he had the time he would have gotten the money.

Senator GURNEY. Shinwell just had time to present the Zurich letters of credit and he never was able to secure funding for these instruments?

Mr. SLATER. Exactly.

Senator GURNEY. You did say that operations like this were more likely to occur in developing countries. Would you care to elaborate?

Mr. SLATER. Yes. There is lesser expertise on the part of bank personnel in developing areas than you find here, although from testimony this morning one has to question that a little bit. There is a different organizational structure in some banks abroad in that the president and/or general manager really gives all the orders and all you have to do is get to one man in the bank and you have it sewn up. There is no question but that in some developing areas there are those who, it would seem to me, are very quick to lend themselves to this kind of an operation, more so than here, always, one, out of innocence or, two, out of knowing what is going on and believing they can get by with it because this kind of thing happens on occasion and it is nothing to be greatly disturbed about.

Senator GURNEY. Do you know a Mr. Herbert Creekmore?

Mr. SLATER. I do.

Senator GURNEY. What do you know about him?

Mr. SLATER. I know Mr. Creekmore as a resident of Florida. I met Mr. Creekmore in Panama, I think first in 1968. I did not know him at the time as Mr. Creekmore. I met him again in 1970. He came into the main office, of which I occupied a part. I brought his golf clubs back from Panama to Miami and due to a layover of an ongoing plane I conversed with him for approximately 5 hours. It was learning from Creekmore some of the things that he had seen in connection with the operation and putting them together with the things that I knew that I was able to come up with a more complete story. I spoke to Mr. Creekmore at the time. He told me that he had problems with a Mr. Pedley on the west coast.

This is in connection with a mutual funds matter. I recommended to him, as I am sure he would testify, that he go immediately to the SEC and/or FBI and get the matter straightened out, give them everything he had on it. He also told me that he was going to do an operation for the Shinwell group, and I recommended to him, as I am sure he will testify, that he contact the FBI immediately and have them to be knowledgeable of everything that he was doing. To my knowledge, this is exactly what he did.

Senator GURNEY. Where did you meet him?

Mr. SLATER. At the time of this conversation it was in Miami, Fla. I met him first in Panama.

Senator GURNEY. What was the reason for your meeting him?

Mr. SLATER. In Panama or Miami?

Senator GURNEY. Miami.

Mr. SLATER. I met him in Miami for the reason of bringing his golf clubs back from Panama to Miami. He had left Panama and left his

clubs there and when I was returning he had asked a friend in Panama if I would bring them back and I did. I met him in Miami and gave him his clubs.

Senator GURNEY. Did you have any transactions with him in Panama?

Mr. SLATER. I have had no transactions other than the golf club transaction.

Senator GURNEY. But Creekinore did tell you in a long conversation about his experiences with stolen securities?

Mr. SLATER. He gave me a rather detailed expose of what he knew of this thing.

Senator GURNEY. Are you talking about stolen securities in general and how they are used in banking?

Mr. SLATER. No, no. Just in particular this Shinwell operation. He didn't go beyond that.

Senator GURNEY. Did he have any connection with Zurich International?

Mr. SLATER. I would hope not. I am almost certain he did.

Senator GURNEY. You know Louis Mastriana?

Mr. SLATER. Only from meeting him this morning. Not meeting him; seeing him.

Senator GURNEY. Do you know Phil Wilson?

Mr. SLATER. No.

Senator GURNEY. B. F. Nicholson?

Mr. SLATER. No, sir.

Senator GURNEY. Patsy Lepera?

Mr. SLATER. No, sir.

Senator GURNEY. William DeGironemo?

Mr. SLATER. No, sir.

Senator GURNEY. And you have never had any dealings with any of these people?

Mr. SLATER. No. I have never heard the names until I saw them in connection with the testimony here.

Senator GURNEY. I have no further questions.

Does counsel have further questions?

Mr. FELDMAN. No, Mr. Chairman.

Senator GURNEY. We will adjourn until 10 o'clock in the morning.

[Whereupon, at 4:35 p.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, September 19, 1973.]

[Members present at time of recess: Senator Gurney.]

## ORGANIZED CRIME

### SECURITIES: THEFTS AND FRAUDS

WEDNESDAY, SEPTEMBER 19, 1973

U.S. SENATE,  
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,  
COMMITTEE ON GOVERNMENT OPERATIONS,  
Washington, D.C.

The subcommittee met at 10 a.m., in room 3302, Dirksen Senate Office Building, pursuant to section 4, Senate Resolution 46, approved February 26, 1973, Senator Henry M. Jackson (chairman of the subcommittee) presiding.

Members of the subcommittee present: Senator Henry M. Jackson, Democrat, Washington; Senator Walter D. Huddleston, Democrat, Kentucky; Senator Charles H. Percy, Republican, Illinois; and Senator Edward J. Gurney, Republican, Florida.

Members of the professional staff present: Howard J. Feldman, Chief Counsel; Philip R. Manuel, Investigator; Fred Asselin, Investigator; William B. Gallinaro, Investigator; Stuart M. Statler, Chief Counsel to the Minority; Robert D. Sloan, Special Counsel to the Minority; William F. Gibney, detailed from the Internal Revenue Service; Eugene G. Anguilla, detailed from SEC; and Ruth Young Watt, Chief Clerk.

Chairman JACKSON. The subcommittee will be in order.

[Members of the subcommittee present at time of reconvening: Senators Jackson and Gurney.]

Chairman JACKSON. Our first witness this morning will be Mr. Philip M. Wilson.

Mr. Wilson, would you come forward, please?

Mr. Wilson, would you raise your right hand to be sworn?

Do you solemnly swear that the testimony you are about to give before this committee will be the truth, the whole truth and nothing but the truth, so help you God?

Mr. WILSON. I do, sir.

TESTIMONY OF PHILIP M. WILSON, BALTIMORE, MD., ACCOMPANIED BY COUNSEL, BERNARD R. BRICKEL, ESQ.

Chairman JACKSON. State your name and address, please.

Mr. WILSON. Philip M. Wilson. My address is Baltimore, Md.

Chairman JACKSON. Are you represented here by counsel?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Will counsel identify himself?

Mr. BRICKEL. My name is Bernard R. Brickel, 515 Madison Avenue, New York, N.Y.

Chairman JACKSON. Are you an attorney?

Mr. BRICKEL. Yes, I am, sir.

Chairman JACKSON. Are you representing Mr. Wilson here today?

Mr. BRICKEL. That is correct.

Chairman JACKSON. Mr. Wilson, I would like to advise you of your rights and obligations as a witness before this subcommittee.

Firstly, you have the right to remain silent and not to provide any testimony or information which may tend to incriminate you.

If you do testify, anything you say here may be used against you in any other legal proceedings.

Secondly, you have a right to consult with your attorney prior to answering any question or questions.

Thirdly, under the rules of procedures for the Permanent Subcommittee on Investigations, your attorney may be present during your testimony. In that regard, we have already covered the fact that you are represented here by counsel.

As I have indicated, Mr. Wilson, in addition to your rights as a witness, you have an obligation while testifying before this subcommittee. You have sworn to testify truthfully. If you do testify, you are obligated to provide truthful responses so as not to subject yourself to the laws and penalty regarding perjury.

Mr. Wilson, do you understand the nature of your rights and obligations as a witness before the subcommittee?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Mr. Wilson, you have been called before this subcommittee because we have been informed that you possess certain knowledge regarding the subject of the theft, transportation and ultimate use of certain stolen securities. Is that a correct statement of your knowledge?

Mr. WILSON. I respectfully refuse to answer on the grounds that my answer may violate my guaranteed rights by the Constitution of the United States of America.

Chairman JACKSON. Specifically with reference to the provisions of the Fifth Amendment to the Constitution?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Mr. Wilson, the subcommittee has applied to Chief Judge John Sirica, of the Federal District Court for the District of Columbia, for an order conferring immunity and compelling you to provide testimony before this subcommittee.

This application was granted and I would request at this time that a copy of the order be marked for identification as exhibit 88.

[The document referred to was marked "Exhibit No. 88" for reference and follows:]

EXHIBIT No. 88

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

In the Matter of the Application of UNITED STATES SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, for an Order Conferring Immunity and Compelling Testimony of Witness; Misc. No. 83-73.

ORDER CONFERRING IMMUNITY AND COMPELLING TESTIMONY OF WITNESS

The United States Senate Permanent Subcommittee on Investigations, having made written application for an order conferring immunity and compelling PHILIP MORREL WILSON to testify and provide other information before it, pursuant to Title 18, United States Code, Sections 6002(3) and 6005, and good cause appearing therefore, the Court hereby finds as follows:

1. The Permanent Subcommittee on Investigations, a Subcommittee of the Committee on Government Operations of the United States Senate, is presently inquiring into syndicated or organized crime which may operate or otherwise utilize the facilities of interstate or international commerce; and into all other aspects of crime and lawlessness within the United States which have an impact upon or affect the national health, welfare and safety;

2. It is anticipated that said Philip Morrel Wilson may be called as a witness before said Subcommittee and may decline to answer questions or provide other information on the ground that to do so may incriminate him;

3. The application for an order conferring immunity and compelling Philip Morrel Wilson to testify was made upon the approval of an affirmative vote of at least two-thirds of the members of the Committee on Government Operations; and

4. Timely notice of these proceedings has been given to the Attorney General of the United States, and no objection thereto has been filed.

IT IS HEREBY ORDERED that Philip Morrel Wilson, in accordance with the provisions of Title 18, United States Code, Sections 6002 and 6005, shall not be excused from testifying or providing other information before the Permanent Subcommittee on Investigations on the ground that the testimony or other information sought may tend to incriminate him.

IT IS FURTHER ORDERED that said Philip Morrel Wilson appear before said Subcommittee and testify and provide such other information which is sought with respect to the matters under inquiry by the said Subcommittee.

IT IS FURTHER ORDERED that no testimony or other information compelled under this ORDER (or any information directly or indirectly derived from such testimony or other information) may be used against said Philip Morrel Wilson in any criminal case, except a prosecution for perjury giving a false statement, or otherwise failing to comply with this ORDER.

IT IS FURTHER ORDERED that this ORDER be and is hereby made effective *nunc pro tunc* as of June 11, 1973.

Dated this 12th day of June, 1973.

JOHN J. SIRICA,  
U.S. District Judge.

[Document handed to the witness.]

Chairman JACKSON. May the record reflect that you have now received a copy and you are now reviewing it with your counsel.

[At this point Senator Huddleston entered the hearing room.]

[Witness conferred with his counsel.]

Chairman JACKSON. Mr. Wilson, I would advise you that you may not further refuse to testify before this subcommittee on the basis of your right against self-incrimination. Do you understand that?

Mr. WILSON. Yes, sir.

Chairman JACKSON. I believe, Mr. Wilson, you have submitted a copy of your prepared statement.

Mr. WILSON. Yes, sir.

Chairman JACKSON. Are you prepared now to proceed to read that statement?

Mr. WILSON. Yes, sir.

Chairman JACKSON. All right, sir.

Mr. WILSON. My name is Philip M. Wilson. I was born in St. Louis, Mo., August 6, 1937, where I attended elementary school, high school and also college. I am married.

In 1961, I was a debit agent selling life insurance. In 1962, I became a broker with my own agency which was the Bel-Air Agency and I was selling both substandard and preferred automobile insurance.

I continued in the local agency business through 1965 and became the largest writer of substandard auto insurance in the eastern part of Missouri.

In 1964, I went into the offshore insurance business with the Buckingham Insurance Co., Ltd., of Nassau, Bahamas. It was at this point that I used my first fraudulent balance sheet. My fraudulent sheet was prepared by Dr. S. J. Wilkinson of Nassau, Bahamas, who has prepared at least 10 others for me.

From 1964 to 1972, I was involved in at least 150 paper frauds using offshore insurance companies, offshore banks, offshore mortgage companies, offshore CPA's and also domestic banks, insurance companies, mortgage companies and public accountants.

I have gained all of my practical business experience and knowledge from libraries, research materials and the street. My practices in the field of fraud have extended from St. Louis, Mo., to the capitol of Mongolia, to the reaches of Moscow, to Buenos Aires, Argentina, Panama, Australia, and even to the far reaches of East Africa.

My dealings have led me to do business with first-class banks, merchant banks and government banks in many corners of the world in the placement of spurious securities and insurances.

In my experience, I have also dealt with paper banks which is simply a corporate bank shell with no assets. I would estimate that there are 20 places in the world where you could pick up a corporate banking shell. This also pertains to the setting up and operation of paper insurance companies worldwide.

I have been arrested approximately 10 times and have been convicted twice—for contempt of court and mail fraud. My last arrest and conviction for mail fraud is what led me to cooperate with the Government.

The Department of Justice attorneys who I made my deal with, convinced me that the best way was to cooperate with the Government in exposing white collar fraud, both domestic and international.

It is my belief that the value of my cooperation with the Government has run into the millions of dollars; that the information and documentation I have supplied will benefit the U.S. Government and other governments for many years to come.

Even if not used in the prosecution of crimes, strictly from an intelligence viewpoint, this information will bring law enforcement and passage of legislation in white collar crime, such as insurance, bank, mortgage and securities manipulations, many years ahead of what it is today.

During the course of my illegal activities, both domestic and international, I have been involved with organized crime associates in organized criminal activity in the field of insurance, banking, and mortgages. Some of these individuals are:

Ernest Shinwell, Dominic Mantell, Dandy Kim Waterfield, Allan Lefferdink, Harold Audsley, Mickey Deardon, Byron Prugh, Jack Brandom, William Benjamin, Lee Zaharias, Roger Camp, Don Shepard, Neil Maloney, Dr. T. Shearon Jackson, Joel Ginsburg, William G. London, William Charles Smith, and Frank O'Neil.

These are but a few. I have provided the Government with the identity of scores of individuals who have been involved in specific frauds.

I would be happy to provide this subcommittee with that information if so desired.

Some of the corporate entities which I helped create and/or operate or use, both domestic and international, as a conduit for making money, include the following:

Zurich International Investment Corporation; Compreal Holdings; Anglo Canadian Group, Ltd.; Assurance and Surety, S.A.; Normandy Trust Company; First Liberty Fund, Ltd.; London and Wales Insurance Co., Ltd.; Bank of Sark, Ltd.; Belize International Insurance Co., Ltd.; Big Bend Insurance Co., Ltd.; Caribbean American Underwriters; Cumberland Insurance Investment Group, Inc.; Farmers and Merchants Mutual Fire Insurance Co.; First Southern Financial Investment Co.; Hotel, Inc.; Intercontinental Insurance Corp., BVI; Island Enterprise, Ltd.; Lawrenceburg Insurance Company; Mulock International Insurance Co., Ltd.; Old London Insurance Co.; Picture Island Computer Corp.; Allied Fund for Capital Appreciation; and Transcontinental Casualty Insurance Co., Ltd.; and many more too numerous to mention. Each of these had the common elements of false and fraudulent balance sheets, worthless assets and victims worldwide.

As a prime example of an international swindle, I will give an overview of the scope of the Zurich International Investment Corp. This swindle utilized the facilities of (a) banks, (b) mortgage companies, (c) kinky securities, (d) letters of credit, (e) bills of exchange, and (f) friendly bankers and brokers (insurance and mortgage) and operated in Switzerland, England, Bahamas, Panama and the United States. This was headquartered in South Florida.

The communications systems involved in the scheme were international mails, international telexes, telephones, and the transfer facilities of international banks and couriers.

In reference to Zurich International Investment Corp., I was introduced to this operation in January 1971 through Dominic Mantell at a meeting in Miami, Fla.

Mantell was in attendance, along with myself and my associate, Carl Brown. First of all, let me tell you what led me into the Zurich International Investment Corp.

I was introduced to Mr. Ernest Shinwell, Mr. James Rogers, Mr. Frank Holmes and Mr. John Westcott by Dominic Mantell and Ronald Kotler, at the Americana Hotel in Miami Beach, Fla., sometime in October of 1970.

At this meeting and subsequent meetings, I agreed to give to Ernest Shinwell \$10 million of First Liberty Fund shares and \$2 million of International Bank of Sark cashiers drafts to replace a group of stolen Coca-Cola stocks being held for Mr. Shinwell and his companies at the Banco Exterior at Panama City, Panama.

The securities that I delivered to Shinwell, the First Liberty Fund securities, were created by myself. The credibility of the First Liberty Fund shares delivered to Mr. Shinwell using my corporate entities in Florida, Switzerland, Panama and the British Virgin Islands, was to show the legitimacy of this \$10 million in fraudulent securities.

The \$2 million in International Bank of Sark cashiers drafts were filled out at the direction of Mr. Ernest Shinwell so that they could be properly deposited at the Banco Exterior at Panama City and cash could be drawn against them.

Again, the credibility of using the Bank of Sark drafts, using my British Virgin Islands corporations and my Swiss connections were used to confirm these drafts.

Subsequent to my two meetings with Mr. Shinwell and his group, Mr. Shinwell discussed with me in Miami Beach, Fla., additional corporations in his control that he was going to use to build a paper empire.

They included Intercopa, S.A., Agricultural and Industrial Development Co. (AID), Juglar, S.A., Panama Timber Products, S.A., and Trust Corporation of Canada.

At this meeting, Mr. Shinwell was attempting to solicit my complete cooperation to build a worldwide network of paper corporations and he proposed to me the one following scheme. The corporations in Panama were building up paper assets such as letters of credit, bills of exchange, worthless securities and land and mineral rights supposedly owned by these corporations.

Mr. Shinwell proposed as one example that on one of the corporations which had credibility with the Banco Exterior and with Mr. Salamero, that bills of exchange would be issued against Panama Timber Products, S.A. and machinery would be bought in Europe, very expensive farm machinery.

The bills of exchange would be confirmed by the Banco Exterior and Mr. Salamero; the farm machinery would be shipped to Panama on the Atlantic Ocean side, transported to the Pacific side and resold for cash in the Far East.

As I had received no compensation for the \$12 million securities and bank drafts delivered to Mr. Shinwell since it was done as a favor for Mantell and Kotler, I asked them what I was to receive in compensation.

By this time in January 1971, I received from Dominic Mantell a large manila envelope containing five blank bills of exchange on Intercopa drawn against Banco Exterior, Panama City; five blank bills of exchange drawn against Panama Timber Products, S.A., all signed with two signatures; and, approximately 5 to 10 blank Zurich International Investment Corp. letters of credit and a photocopy of a letter of credit transmittal from Credit Suisse to Chase Manhattan on behalf of Intercopa and Zurich International.

I was told by Dominic at that time, that Ernest had given him this package to pass on to me with the message that I should see what I could do with these pieces of paper to make some money.

At that point, I analyzed the material given to me and decided what I was going to have to do in order to make it a saleable piece of paper. I proceeded to do the following:

I went to see my printer and asked him to reproduce exactly on the same paper and same ink, the letters of credit with signatures intact so that instead of five letters of credit, I could have one hundred letters of credit. I also asked him to reproduce exactly on the same paper and ink with signatures intact, an additional 100 of each bill of exchange so that each copy looked like an original. I therefore, ended up with 300 pieces of paper, each looking like an original, instead of 15 pieces of paper. I also went to the stationary supply store and had two Zurich International Investment Corporation seals made. I was then ready to be in business.

I might add that at this point, I had done no checking on my own of any of the corporations that I have described so far, including the letter of credit transmittal from Swiss Credit Bank to Chase Manhattan in New York City. I did no checking at that time on Zurich International or the signatures of the individuals.

After experiencing one or two sales of the Zurich fraudulent letters of credit, I sent several telexes on my own to both Chase Manhattan Bank, New York, and to Swiss Credit Bank.

The replies that I received from each bank stated in essence, they were stale letters of credit and that I should proceed with caution.

I then proceeded to create my own Telex answer so that when I sold the additional letters of credit, I could deliver a Telex confirmation along with the letter of credit.

I then began to both wholesale and retail Zurich International Investment Corporation letters of credit backed up by the stale letter of credit issued by Swiss Credit Bank, and the bills of exchange drawn against the Shinwell corporations of Intercopa, S.A. and Panama Timber Products, S.A. at the Banco Exterior, S.A. in Panama City, Panama.

Some of the individuals to whom I distributed both on a wholesale and retail level the Zurich International Investment Corporation letters of credit include the following: Neil Maloney, Harold Audsley, Byron Prugh, Michael Strauss, James Boyd, Ronald Kotler and others.

As a result of the distribution of the Zurich International fraudulent letters of credit, we (that is the Wilson group) received cashwise, approximately \$125,000 which is a somewhat small takedown in comparison to others.

Additional funds were collected by distributors like Harold Audsley of which we received no remuneration and likewise by Neil Maloney who made his own distribution of which I received no remuneration.

My evaluation as to the validity, authenticity, legitimacy and actual value of all the assets used by these corporations is a very nominal amount as compared to the statements, the bank references and other information distributed by these corporations and their credibility makers.

I would estimate the cash value of all the corporations at less than \$100,000. These corporations had balance sheets totaling in excess of many millions of dollars.

During conversations I had with Mr. Mantell after receiving the Zurich International Investment Corp. letters of credit and the Intercopa, S.A. and Panama Timber Products, S.A. bills of exchange, the inference was left with me that Dominic Mantell was to receive a fee for every letter of credit that was sold, due to the fact that Dominic claimed that neither he nor I had received any remuneration for the \$12 million worth of paper that had previously been delivered to Mr. Shinwell.

Dominic was paid a very small amount of money on several of the letters of credit (approximately \$2,000) and we kept the balance of the funds derived from the sale of these fraudulent letters of credit.

One case in particular that stands out in my mind is the Salt Seas Holding, Ltd., of Grand Bahama Island, the Bahamas. This involved

the following: letters of credit on Zurich International Investment Corp. and mortgage guarantees and commitments from Compreal Holding for a total amount of \$11½ million.

For these letters of credit and mortgage commitments, three groups received the following amounts of money from one of the partners of Salt Seas Holding, namely, Mr. Neville Chan and his attorney, Mr. Gwin Williams of Freeport, Grand Bahama.

The amounts were as follows: the Strauss group in Tampa, Florida, received \$30,000; the Wilson group in Fort Lauderdale received \$30,000 and the Maloney group received \$174,000 in three increments.

Some of the people who received compensation from the Maloney group included Dominic Mantell who received \$30,000; Albert M. Meyers, a broker of Miami Beach, who received \$17,000; and Wallace LaGrange who received \$10,000.

The Neil Maloney group guaranteed the first \$30,000 paid to the Tampa group, the second \$30,000 paid to the Fort Lauderdale group, plus his own \$174,000.

On top of that, at this point in time, it is my understanding Mr. Maloney has returned, under judgment, in excess of \$200,000 to Mr. Neville Chan.

It is my opinion that the use of fraudulent financial statements in the perpetration of white-collar fraud, domestically and internationally, is one of the most important factors in the making of money in this type of business.

In all cases the assets, whether stolen, counterfeit, fraudulent or worthless, put into the right combination in the balance sheets do nothing but make money in the hands of experienced and knowledgeable operators of fraud, domestically and internationally, in any field—banking, insurance, securities, mortgages, shipping, just anything.

One example of where stolen securities were used in a small insurance company balance sheet was the Bankers Security Mutual Insurance Co. of Kansas City, Mo. In 1966, I came into possession of approximately \$400,000 of stolen securities, stolen in a bank burglary somewhere in rural Missouri.

The individuals who had done the bank burglary were friends of mine and didn't know how to dispose of the stolen securities. Therefore, they asked me if I had a place where I could use them. I paid nothing for these securities and promised nothing except to do the group a favor.

The securities consisted of series E bonds, Emerson Electric stock, RCA, Budweiser, and other blue chip securities. I then arranged for a financial statement to be created with the \$400,000 in stolen securities for the Bankers Security Mutual Insurance Co. and proceeded to write insurance business in Missouri, New York, Illinois, Michigan, Arizona, and California in excess of \$500,000 in the writing of this insurance in the United States. I was also able to write reinsurance for several Lloyds brokers with the Bankers Security Mutual Insurance Co.

In 1967, when I quit writing insurance in the Bankers Security Mutual Insurance Co., I then proceeded to dispose of the \$400,000 in stolen securities through a group of bumbling idiots.

The securities were taken by James Boyd to another fellow in Chicago named Sonny, who then proceeded to have them transported to

Los Angeles, where another group of individuals had been negotiating with a group of undercover government agents.

When the transaction was agreed upon and the securities delivered to the undercover agents, everybody in Los Angeles involved in the deal was arrested and the securities were confiscated by the authorities.

To the best of my knowledge, the Bank of Sark, Ltd. and the First Liberty Fund, Ltd. are two prime examples of paper frauds.

The tentacles of these frauds reached into every corner of the world and into every phase of legitimate business. The total face issue of fraudulent paper by First Liberty Fund and the Bank of Sark will be in excess of an estimated \$300 million.

The rippling effect of other paper issued in the form of loans, mortgages, insurance guaranties, purchases of real estate and other assets, would be in excess of \$500 million worldwide.

The credibility and market for First Liberty Fund and Bank of Sark was created by using other legitimate means of identity including the Rand-McNally Banker's Directory for Bank of Sark, Polk's Directory for Bank of Sark, and the Paris edition of the Herald Tribune.

We attempted to set up through legitimate banks worldwide, and stockbrokers worldwide, an additional market for our paper.

We also attempted to build a market for the securities by advertising in all the English-speaking newspapers spread out all over the world.

As an example of the flow of paper, we will use the Bank of Sark International cashier's draft. A swindler would get from us an international cashier's draft. He would fill out the draft and make an arrangement of how much of the proceeds would be paid to our group and then deposit the draft in a bank of his choice where he would get immediate credit and/or cash.

After selecting a bank and making the deposit, he would notify our group as to the bank and if the deposit had been accepted for cash or credit.

The movement of the draft at that point would be as follows: From the local bank to the correspondent bank if they had one; from the correspondent bank to the Bank of Sark in Guernsey, by mail; from the Bank of Sark, it would flow back to our office whether it was in Florida or St. Louis.

Therefore, our group ended up with all the drafts and checks that were issued to any banks anywhere in the world.

At that point, we would issue instructions to our employees at the Bank of Sark as to what type of delaying tactic or notification would be sent to the bank that had forwarded us the draft. We had created a whole book of form letters and answer-backs to create lulling actions on these drafts that were coming in worldwide.

Depending on the activities of the swindler that had issued the draft and if he had paid his fees, would be the criteria on how the drafts were answered back to the issuing bank.

Another interesting point was that the Bank of Sark was in possession of the American Bankers Code Directory, therefore, any bank anywhere in the world, could send a coded message to the Bank of Sark and receive a coded message back, attested, just as any other normal, first-class bank.

[At this point Senator Percy entered the hearing room.]

Mr. WILSON. To my knowledge, there were probably a minimum of five other banking operations similar to Bank of Sark, but not as sophisticated, operating at about the same time as Sark operated.

There was Atlantic Trust Bank, Ltd. and Atlantic Trust Bank, S.A. operated by Allen J. Lefferdink; the Bank of Anagada, Anagada Island, British Virgin Islands, operated by Kenneth Bates, a South African citizen; the Capitol Bank and Trust Co. of Panama, operated by Alex D. Miller and Jack Morrow; and the Normandy Trust Co., operated by myself and the Maloney group.

During the life of the Bank of Sark from 1968-71, approximately 1,000 pieces of paper were issued consisting of international cashiers drafts, bank checks, letters of credit and bank guarantees with an estimated face value of \$50 million.

The total approximate dollar loss to banks, insurance companies, mortgage companies, bond companies, private individuals and general businessmen around the world would probably be in excess of \$5 million.

First Liberty Fund, which was a Bahama mutual fund, was originally capitalized with Transcontinental Casualty Insurance Co. subordinated debentures with a face value of \$1 million. The balance sheet of First Liberty Fund grew from \$1 million in November of 1968 to \$32 million in August of 1970.

During the life of First Liberty Fund, Ltd. the estimated face value of shares of stock guarantees and commitments issued was in excess of \$200 million.

The total dollar loss worldwide to banks, insurance companies, mortgage companies, private individuals and general businessmen would probably be in excess of \$10 million.

These frauds were easily perpetrated due to the inefficiencies in the laws of their respective countries of incorporation and due to the inadequate enforcement procedures of the countries of their incorporation and the countries where the paper was distributed.

The scope of securities fraud as an organized criminal activity worldwide is probably one of the most important factors of law violators in white-collar crime being committed today.

It is my estimation that there are approximately, in the whole world, 10,000 people operating in white-collar fraud as an organized criminal activity.

In the United States alone, there are approximately 2,500 people involved in this type of activity. Many of the operators of this type of fraud in the United States know each other by reputation, references, or by dealing with each other either directly or indirectly on a peripheral basis in this field.

In my own situation, by knowing people in this field as I have previously described, I was able to move cross-country and locate somebody who I could operate with in any part of the United States.

For the remainder of the world with the other 7,500 estimated people, the same system—that of knowing a reputation or being referred to or having operated with the people directly or indirectly—a person is able to move to any part of the world to conduct this type of business.

If one chooses to deal extensively in the stolen securities business, which I did not choose to do—he can, instead, deal in the worthless,

fraudulent type of securities to accomplish the same objective. If a person in the organized criminal activity of white-collar fraud chooses to be involved extensively in the stolen securities business to meet his ends, the end result is being taken over by the more traditional concept of organized crime people.

The end result is that the white-collar fraud individual ends up being dominated and owned by the Mafia-type criminal. This necessarily happens because the normal white-collar fraud criminal in essence, is a nonviolent type of person.

Another point is that the white-collar fraud individual becomes dependent on the organized crime people to supply him with the securities to keep going further.

It is obvious that there are no easy solutions to this problem. If this type of white-collar crime is to be abated, corrective actions must come from within the financial community as well as well as from various governments concerned.

Basically, the perpetration of this type of white-collar crime, internationally, stems from the fact that the business community has difficulty in verifying and authenticating the assets listed in financial statements.

As far as I know, there is no regulatory agency which systematically is able to determine the value or the authenticity or credibility of many of the assets used in financial statements.

Obviously, there are problems that are peculiar to insurance, banking, securities and mortgage companies throughout the world that have to be eliminated by good type legislation matched by adequate and competent enforcement; and of immense importance, there must be recognition on the part of the courts that this type of crime must be dealt with severely because there are many people who would be willing to do 2 years for stealing \$2 million.

As far as the insurance industry is concerned in this country, I would recommend that legislation be considered similar to that in the banking field but with the authority to actually verify assets listed by insurance companies.

At this time, I will be glad to answer any questions you may wish to address to me.

Chairman JACKSON. Thank you, Mr. Wilson.

On behalf of the committee, we want to express our deep appreciation for your cooperation and your help.

I want to start off on the light side for a minute. I can't resist asking you to relate your frauds at the capital of Mongolia and the reaches of Moscow. Maybe we have achieved some new diplomatic breakthroughs.

I wonder if you could explain.

Mr. WILSON. During the years 1968, 1969 and 1970, while I was involved in the general business, I was also involved in the writing of insurance worldwide. I was able to make contact with several Lloyds brokers in London to be able to become a reinsurer at Lloyds.

I was able to use my group of companies to write reinsurance of both Lloyds syndicates and other companies around the world via the Lloyds brokers in London.

I remember explicitly in December of 1969 being called on Christmas Eve by one of the London brokers asking if I would be willing

to reinsure both the National Insurance Co. of Mongolia, the National Insurance Co. of Red China, and one of the insurance companies in Russia on certain lines of insurance that they had available. Since I was new in the business—

Chairman JACKSON. Was this before our new trade initiatives with China and Russia?

Mr. WILSON. Yes, sir.

Chairman JACKSON. You were a pioneer.

Mr. WILSON. Yes, sir.

I then did, through 1968, 1969 and 1970 write the business as reinsurance both in Russia, Mongolia, Red China, and in numerous other countries behind the Iron Curtain. Much of this information that I derived, including economic information, including the shipment of helicopters and planes from Russia to the Middle East, including dates of transfers and numbers, was supplied through my attorneys in St. Louis to the local office of the CIA.

Chairman JACKSON. To the local office of the CIA?

Mr. WILSON. That is correct, sir.

Chairman JACKSON. What sort of premiums did you receive for the reinsurance that you were supplying for Lloyds of London?

Mr. WILSON. Senator, over a period of the years that I wrote business, we probably grossed in excess of \$20 million in premiums.

Chairman JACKSON. I am just talking about on this operation.

Mr. WILSON. I really couldn't separate it.

Chairman JACKSON. Roughly what would it be?

Mr. WILSON. Less than a half million dollars in premiums.

Chairman JACKSON. Less than a half million?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Did you suffer any losses in Mongolia?

Mr. WILSON. No, we didn't suffer any losses in Mongolia.

Chairman JACKSON. China?

Mr. WILSON. None in China.

Chairman JACKSON. Did you suffer any losses?

Mr. WILSON. Yes, we had losses.

Chairman JACKSON. Where did they occur?

Mr. WILSON. Losses occurred in Poland.

Chairman JACKSON. How much?

Mr. WILSON. We had taken participation on the Polish airliners which fly under the name of "Lot" and within a 90-day period two airplanes crashed into the same mountain. Out of the two losses we paid—

Chairman JACKSON. It looks like there is a little fraud there.

Mr. WILSON. Out of the two losses in Poland, we paid one, and the other one since we had not received a premium we slipped them a Bank of Sark draft.

Chairman JACKSON. Did you pay on the first loss?

Mr. WILSON. Yes, sir.

Chairman JACKSON. What frauds were perpetrated on you, on the reinsurance? What frauds did you perpetrate on the reinsurance?

Senator PERCY. What Polish joke did you pull on them?

Chairman JACKSON. I can't believe that Lloyds of London wouldn't check out your insurance company in connection with your reinsurance endeavors here. Did they check it?

Mr. WILSON. Senator, the Lloyds brokers checked us, the Lloyds committee had what they called the black list of several hundred individuals in several hundred companies. Both myself and several companies I represented were on the list, but with the credibility that we were able to create, the brokers were in dire need of companies; therefore, they went ahead and used us.

Chairman JACKSON. What credibility?

Mr. WILSON. Well, at that time we were using Allan Lefferdink's—

Chairman JACKSON. Was Shinwell being used at this time?

Mr. WILSON. No, sir.

Chairman JACKSON. Is he the son of Lord Shinwell.

Mr. WILSON. Yes, sir.

Chairman JACKSON. Was he being used?

Mr. WILSON. No, sir.

Chairman JACKSON. What kind of credibility?

Mr. WILSON. What we did is first off we had to have a good bank reference so we used Allan Lefferdink's Atlantic Trust Bank in Guernsey as our bank reference. We agreed to leave certain deposits in London. The balance sheets seemed adequate for the London brokers.

Chairman JACKSON. But certainly at that time any bank in Guernsey would be suspect. Isn't that a fair assumption?

Mr. WILSON. Yes, sir.

Chairman JACKSON. They just accepted it without checking at all to find out whether it was a real bank or a paper bank?

Mr. WILSON. Well, along with their checking I was a good salesman and I was bringing them a whole new philosophy. Instead of coming to London and asking them to reinsure us, I was going in with the idea "Let me sell you some reinsurance."

Chairman JACKSON. It is like bringing in a nice big bank draft to the banker whose deposits have been rather slow. So you bring in a million dollar draft and he sees the million dollar draft and is overwhelmed. He immediately pays no attention to the source of the draft and allows you to write checks on it, from the testimony we had yesterday.

Mr. WILSON. That is correct, sir.

Chairman JACKSON. So it is a little bit of the same philosophy that you were applying in this situation.

Mr. WILSON. Yes, sir.

Chairman JACKSON. In your statement on page 7 you say,

*It is my opinion that the use of fraudulent financial statements in the perpetration of white collar fraud, domestically and internationally, is one of the most important factors in making money in this type of business.*

From what I have heard, that is a pretty accurate statement.

Mr. Wilson, I am handing you now a copy of what purports to be a financial statement of the First Southern Financial Investment Co. Can you identify it?

[Document handed to the witness.]

Mr. WILSON. Yes, sir, I can.

Chairman JACKSON. Are you familiar with that?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Would you tell the subcommittee what you know about this company and who operated it?



Mr. WILSON. What I know about it is the following: Harold Audsley, of Fort Lauderdale, Fla., and Howard Jones, of North Carolina, and Byron Prugh of Fort Lauderdale, had this company. In the assets and investments listed in here, which are not named, I contributed some of the paper that went into this statement.

Chairman JACKSON. Could you identify your paper and the nature of it?

Mr. WILSON. Well, insurance premiums receivable would be one.

Chairman JACKSON. How much is that?

Mr. WILSON. The total here is \$1,909,033.

Chairman JACKSON. Is it all fraudulent?

Mr. WILSON. Yes, sir.

Chairman JACKSON. All of it?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Would you read to the committee the certification?

Mr. WILSON. This is dated December 1, 1970, and it is to the board of directors of First Southern Financial Investments Co.

The accompanying consolidated balance sheets of First Southern Financial Investment Company and wholly-owned subsidiaries as of November 25, 1970, has been prepared from the accounts of the company. We have not audited this financial statement and, therefore, express no opinion on the statement. Very truly yours, Roy E. Price, Certified Public Accountant, 4548 North Federal Highway, Fort Lauderdale, Florida.

Chairman JACKSON. Is that signed by a certified public accountant?

Mr. WILSON. His name is printed on here, yes, sir.

Chairman JACKSON. What I meant is underneath is "Certified Public Accountant?"

Mr. WILSON. Yes, sir.

Chairman JACKSON. Are you familiar with the assets of the company in general?

Mr. WILSON. As I said, I contributed the reinsurance premium receivable.

Chairman JACKSON. Everything you had that you contributed was fraudulent. What about the other assets that are listed, to your knowledge?

Mr. WILSON. To the best of my knowledge, I would say that it is all baloney.

Chairman JACKSON. That is another way of saying it is all fraudulent paper. What do the assets total in that company?

Mr. WILSON. The total assets of \$26,785,540.

Chairman JACKSON. How much was the CPA paid for that certification?

Mr. WILSON. This I don't know, Senator. I never met the CPA.

Chairman JACKSON. Do you know anything about him?

Mr. WILSON. No, sir.

[At this point Senator Huddleston withdrew from the hearing room.]

Chairman JACKSON. In your dealings with CPA's, what kind of arrangements have you had? When people see something like this signed by a certified public accountant or approved by it, does it create the impression, regardless of the caveat that was put in there, that at least this is a going company of some kind?

Mr. WILSON. Yes, sir.

Chairman JACKSON. What has been your experience in dealing with CPA's?

Mr. WILSON. My experience has been anywhere from a nominal amount of \$300 up to at least \$10,000, depending on who does the certification.

Chairman JACKSON. Do you find it difficult to get a CPA who will sign most anything?

Mr. WILSON. No, sir.

Chairman JACKSON. Is it difficult?

Mr. WILSON. No, sir, it isn't.

Chairman JACKSON. Will certain ones do it?

Mr. WILSON. May I give you an example?

Chairman JACKSON. Yes.

Mr. WILSON. The Mulock International Insurance Co. of Nassau in the Bahamas which I mentioned previously in my statement, had a balance sheet of \$2.5 million. The balance sheet was made up of Bank of Sark CD's and Bank of Sark international cashier's drafts certified by Arthur Andersen and Co. of New York City.

Chairman JACKSON. The First Southern Financial Investment Co., statement will be marked exhibit 89.

[The document referred to was marked "exhibit No. 89" for reference and may be found in the files of the subcommittee.]

Senator PERCY. Isn't that one of the largest in the world?

Mr. WILSON. Yes, sir.

Senator PERCY. And most respected?

Mr. WILSON. Yes, sir.

Senator PERCY. They audit my office every year and prepare my income tax return.

Could you explain what Arthur Andersen certified?

Mr. WILSON. Arthur Andersen gave a certification on the Mulock International Insurance Co. as to the balance sheet and the assets, a nominal certification.

Senator PERCY. But were the terms of the certification limited?

Mr. WILSON. Yes, sir.

Senator PERCY. But they did certify that these are the assets and these are the liabilities. Did they describe the extent to which they went into their audit to assert that the assets were real assets and not fraudulent?

Mr. WILSON. No, sir.

Chairman JACKSON. Did they have a disclaimer?

Mr. WILSON. To the best of my recollection, yes, sir.

Chairman JACKSON. Read the disclaimer.

Let me have the exhibit.

The disclaimer that they have is as follows:

We have not audited this financial statement and, therefore, express no opinion on the statement.

Senator PERCY. Let's make absolutely clear for the record this is not an Arthur Andersen statement. It is Roy E. Price, certified public accountant, Fort Lauderdale, whoever he is. That is not Arthur Andersen.

Chairman JACKSON. I agree. The real problem here is that in this case the man signs off as a certified public accountant and to the public there is a feeling that there must be some authenticity to it.

I would like to ask you to supply or the staff to supply for the record the actual certification in the insurance case referred to by Arthur Andersen. I understand the Justice Department has those documents.

Mr. WILSON. Yes, sir.

Chairman JACKSON. But there is no reason why we can't get a photostat for our record. We will have a copy of it.

As you say, there was a fee of \$300 to \$10,000 which would get a CPA's signature on the line?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Would some of them falsely certify that they had audited when they hadn't audited?

Mr. WILSON. Yes, sir.

Chairman JACKSON. Were you able to do that with certified public accountants?

Mr. WILSON. Yes, sir.

Senator PERCY. To clear the record once again because we have only brought two names in, did you have any direct dealings with Roy E. Price and were you able to get them to fraudulently certify accounts?

Mr. WILSON. I had no direct dealings with them, Senator.

Senator PERCY. Did you have any direct dealings with Arthur Andersen & Co.?

Mr. WILSON. No, sir.

Senator PERCY. Do you have any knowledge, direct knowledge, that an outstanding firm such as Arthur Andersen, any individual or employee in that was "buyable" for \$300 or \$10,000?

Mr. WILSON. That I can't really answer. I supplied all the material to make the statement. I supplied the knowledge and the know-how. The people that went to Arthur Andersen were not knowledgeable in the insurance business, the two people that owned the company. I told them exactly what I wanted and exactly what I needed and they were able to obtain it. That is all I can tell you.

Chairman JACKSON. Will you supply for the committee the CPA's that you were able to procure for your purposes, paying fees of \$300 to \$10,000, in order to get a fraudulent representation?

Mr. WILSON. Senator, I will be more than happy to supply that list to the committee.

Chairman JACKSON. The staff should have that because it is a matter for action by State authorities. They are all licensed by State law and not by Federal law. It also relates to violations of Federal law where there is fraud in securities involved in interstate commerce. So it is a double-edged thing.

It appears to me from reading your explanation of the Zurich International caper that you attempted to complicate things to such a degree and insulate the first fraud so greatly that it was almost impossible to check; is that correct? Did you rely on the fact that perhaps bankers and businessmen were so awed and overwhelmed by this that they would not question the legitimacy? Was that one of the basic tenets?

Mr. WILSON. To complicate the matters when you commit a fraud is one of the prerequisites.

Chairman JACKSON. Is that a cardinal rule that you follow?

Mr. WILSON. Yes, sir. It gets so confusing that you even get confused when you are doing it.

Chairman JACKSON. Let me see if I can get to the heart of this whole operation, from listening to the witnesses coming in here who have been engaged in fraud.

When you went into this, did you really believe that you could come up with a foolproof kind of operation where you are not going to get caught, or did you play a game here in which you realized, especially as you got into it, that sooner or later you were going to get caught and the question was could you keep on the run long enough and fast enough to stay out? How did you really figure that you could ever get out of this?

Mr. WILSON. Senator, once I got into it I was so far into it I knew that I was going to get caught. There was no question about it. The postal inspectors were just like Sherlock Holmes. They were on my back all the time. They followed me everywhere, just literally. I knew, for instance, in 1967, when I went to Paris, France, and met with Jack Brandom and Al Lefferdink and rented a million dollars of Al Lefferdink's mutual fund certificates for my Farmers & Merchants Mutual Insurance Co., got the bank reference, got the reinsurance treaty, that I was going to get arrested just as well as I was sitting in Paris. I knew it was going to come.

Chairman JACKSON. Is that when you first discovered that you couldn't beat the racket?

Mr. WILSON. No. I had discovered it previous to that.

Chairman JACKSON. You started out in about 1964 going down this road?

Mr. WILSON. Yes, sir.

Chairman JACKSON. You had a legitimate business prior to that?

Mr. WILSON. I did, sir, and I had a chance when I got into the Buckingham Insurance Co., I was offered a chance by the postal inspectors at that time that if I had paid the claims and got out of the business that would be the end of it.

Chairman JACKSON. They would not file criminal charges?

Mr. WILSON. Right.

Chairman JACKSON. What you are saying is that once you made the move into fraudulent activities of various kinds, it wasn't very long before you were aware in your own mind that you couldn't beat the racket, is that right?

Mr. WILSON. I am sorry?

Chairman JACKSON. I said it wasn't long after you made your first fraudulent move that you were convinced that it wouldn't be long before you would be caught in one way or the other?

Mr. WILSON. I knew I was going to get caught, but I was in and I figured well, I am going to get the time whether I stop now or keep going, so I just kept going.

Chairman JACKSON. Is this the position that similar people find themselves in who have been engaged in this kind of operation, in one form or another? Whether it is actually stealing the securities or forging them or setting up paper corporations engaged in international intrigue, call it what you may, sooner or later they are going to get caught.

Mr. WILSON. Many of the people figure they will get caught and many of the people figure they will blame it on somebody else and say they were duped.

Chairman JACKSON. Do you know of any operatives who are still loose, who have been operating for a long, long time without being picked up?

Mr. WILSON. Senator—

Chairman JACKSON. That is, who are still in the United States?

Mr. WILSON. Senator, I have supplied in my records to the Justice Department a list of over 300 corporations and in excess of that many people that I know of personally who are involved in this business. Many of them are still on the street today. But one by one they are getting action taken against them.

Chairman JACKSON. Do you feel that our hearings are helping to alert the public to the frauds which some have indicated involve \$50 billion in stolen, fraudulent, or counterfeit securities?

Mr. WILSON. I think the hearings are helpful. I do. It puts the public aware of what is going on and it makes bankers and insurance company officials and other law enforcement officials think about people that they come by in passing that possibly this is a person who is involved in this business. Yes, sir.

Chairman JACKSON. What is the single most important move the Federal Government can make to stop the bulk of this kind of traffic? There may be more than one, but what would be the top priority, looking at your own experience and your own career?

Mr. WILSON. The top priority, or one in my mind, is a strike force on white-collar fraud made up of the different agencies and oriented strictly to white-collar fraud across the country. I think there probably has to be a lot of legislation put into insurance and banking so that this type of thing can't happen. But it is going on every day.

Chairman JACKSON. Your basic recommendation would be for additional law enforcement activity, investigative forces, zeroing in on what you call and describe as white-collar fraud?

Mr. WILSON. Yes, sir, explicitly oriented to white-collar fraud.

Chairman JACKSON. Senator Percy?

Senator PERCY. Mr. Wilson, you have said in questioning by the chairman that due to your success—I say success limited because you did get arrested 10 times and convicted twice—that you earned a good income and ran an operation for almost a decade. You were considered the top in your business, a great success.

Mr. WILSON. Thank you.

Senator PERCY. It is a dubious compliment. I suppose anything you go into you ought to do well.

Mr. WILSON. Yes, sir.

Senator PERCY. This is a matter of public education and alerting people to the problem. Obviously public accounting firms are unaware of the tactics used and you pulled the wool over their eyes and a lot of people's eyes. Let's assume Senator Gurney and Senator Jackson and I are in a business and we want some reinsurance. You say your success is due to your good salesmanship. Can you give us the pitch? Can you give us the spiel that you would give to convince us why we should buy our reinsurance from you in spite of the fact that in your mind you know you are going to perpetrate a fraud on us?

Mr. WILSON. I think it would be a little hard for me to give you the sales pitch in this type of setting, but I am quite convinced—

Senator PERCY. How would you go about the procedure? Here we are, three men of average intelligence, in a legitimate business, looking for a legitimate way to avoid risk through reinsurance.

Mr. WILSON. First off, if you were a reinsurance broker or insurance broker, that is one of the prerequisites. Two, one of the things that we looked for both in the United States and outside the United States was weakness, the weakness of the people we were dealing with as far as greed, as far as knowledge, and things of that nature, and their weakness of needing because this is where we filled the holes.

Senator PERCY. In other words, you would go about making a careful analysis of people you were going to call on. You wanted to know who your potential customers were. The object was for you to know more about them than they knew about you, obviously.

Mr. WILSON. Yes, sir.

Senator PERCY. It is not a haphazard, canned pitch that you give to anyone. You know who your customers are.

Mr. WILSON. Senator, in my operation we were as well organized as any other business. We had group insurance; we gave cars to our employees; we paid payroll taxes and withholding taxes while we were in our operations. We had a very qualified administrator. When I would go out and find a deal and gather up the paperwork and bring it back, he would analyze it, and then we would decide how to attack.

Senator PERCY. What sort of a representation would you make to us, however, in order to get our confidence and cause us to place our business with you?

[At this point Senator Huddleston entered the hearing room.]

Mr. WILSON. I would show you some of the other risks that we had written in other places, copies of checks where we had paid claims, copies of income checks where they had come in, bank references, copies of our reinsurance treaty. It was a pretty good package when it was done. We were able to sell many people on the product.

Senator PERCY. Where did you get your education, Mr. Wilson, for this skill that you developed?

Mr. WILSON. From the libraries, textbooks and doing it. Just starting from scratch and doing it.

Senator PERCY. Could you give us some of your educational background?

Mr. WILSON. I went to college in St. Louis, Mo.

Senator PERCY. What college?

Mr. WILSON. I went to Harris Teachers College and then I went on to the University College of Washington University. I did not graduate.

Senator PERCY. You did not graduate?

Mr. WILSON. No, sir.

Senator PERCY. A college dropout?

Mr. WILSON. Yes, sir.

Senator PERCY. Can you give us a feel as to what your motivation was for dealing in securities frauds? Was it easier to make money there than anyplace else? Was it the big money involved? Was it the excitement of it?

Mr. WILSON. It was more than excitement and it was hard work. It was not just sitting back and getting something from somebody and

taking this someplace else. I found that it was a lot better to create my own securities than it was to deal in the stolen securities. Quite frankly, it took a lot of long hours when we did it. We worked at it very extensively. I went to the printing shops. I sat with printers while they made the balance sheets. I sat with the printers in one instance when I used Dr. Wilkinson, who was a public accountant in Nassau. I took one of his pieces of stationery to the printer in St. Louis and got the exact stationery, got the color inks, and stood over the printer while we recreated the blank signed stationery, so we had our own do it your own public accountant stationery. When we did a new statement, all we had to do was fill in the spots.

Senator PERCY. That simplifies it.

Mr. WILSON. It is real simple.

Senator PERCY. Is it part of your motivation to match wits with others and to outwit them?

Mr. WILSON. I did that, yes, sir.

Senator PERCY. That is part of the challenge?

Mr. WILSON. Right. The money was good, there is no question about it.

Senator PERCY. If it is true that money is the root of all evil, how much money was involved and was it also the monetary incentive? Did you have a desire to acquire a lot of wealth and this was the quickest way and the easiest way to do it? What are we talking about when we talk about money? What were your peak annual earnings, for instance?

Mr. WILSON. Senator, as far as the total amount of money we handled it was in excess of probably \$35 million to \$50 million. As far as what my earnings were, it would be hard to say. I had enough money to live on.

Senator PERCY. Is it hard to say or you don't want to say?

Mr. WILSON. It is hard to say. Several hundred thousand a year.

Senator PERCY. How much did you pay income tax on?

[The witness conferred with his counsel.]

Mr. WILSON. I filed no returns in 1970, 1971, or 1972.

Senator PERCY. No returns?

Mr. WILSON. No.

Senator PERCY. And your income was in excess of several hundred thousand dollars?

Mr. WILSON. Yes, sir.

Senator PERCY. When we talk about taxable income, you are up in the several hundred thousands of dollars of gross income?

Mr. WILSON. Yes, sir.

Senator PERCY. You are rivaling some of my friends in business. So money is the motivation, and matching wits also?

Mr. WILSON. Yes, sir.

Senator PERCY. How did you originally get associated with figures in organized crime? Did you originally operate on your own as an independent operator?

Mr. WILSON. I am sorry?

Senator PERCY. Did you originally operate independently, on your own, exclusive of organized crime?

Mr. WILSON. Yes, sir.

Senator PERCY. What brought you into organized crime?

Mr. WILSON. I think some of the figures or some of the swindlers that I had dealt with around the country that were either peripherally associated or knew other people brought them to us as far as to do business with them. I never went out looking for them.

Senator PERCY. When did you first meet Dominic Mantell?

Mr. WILSON. 1970.

Senator PERCY. What were the circumstances of that meeting?

Mr. WILSON. Well, the circumstances revolved around the Prudential Leasing Co., of Miami and Joseph Lubin. What had happened was that Jack Axelrod and myself in St. Louis had bought the Prudential Leasing Co. franchise for St. Louis and St. Louis County. We thought it would serve as sort of a vehicle and as a legitimate front. Once we got involved with Joe Lubin and discovered that Joe Lubin was using it as his own front while he was dealing with other figures and taking advance fees, we reached a point where Joe Lubin did come check kiting on us. We asked one of our friends on his way back to Miami to find Joe Lubin. We asked Ron Kotler to find him. Kotler found Lubin and Lubin introduced himself to Dominic Mantell and put Mantell on the phone with me in St. Louis. I was introduced to him and asked if I would like to see him when I would come to Florida the next time, which I did on my next trip to Florida, some time in the Spring of 1970.

So I was introduced to him via Ron Kotler and Joe Lubin by phone.

Senator PERCY. Was your relationship with organized crime entirely voluntary on your part or was there any coercion or feeling on your part you had to associate with them because of the piece of the action that they had or claimed?

Mr. WILSON. Senator, several things. First off, we didn't need anybody in organized crime to operate our business. They weren't big enough to take us over. Quite frankly, that is the way we left it. Several times several people made overtures to us and several times we told them just what they could do.

Senator PERCY. You mentioned that worldwide this fraternity of people dealing in fraudulent securities numbers about 10,000 people, 2,500 of whom are in the United States. Can you give us an estimate as to the number of banks, mortgage, investment, and other security entities which have been set up to facilitate security swindling?

Mr. WILSON. I would say, just as an estimate, that there are probably several thousand insurance companies, banks, and mortgage companies that use, have used, this type of material to move forward. May I give you an example?

Senator PERCY. Yes.

Mr. WILSON. There is an insurance company that is in Chicago, which also owns a sister insurance company in Indiana. I have been over to the Treasury Department with the people from the fraud section of the Department of Justice, along with Jack Axelrod and Mr. Robert Hickey, attorney from the fraud section, to take a look at the Treasury list of the United States, the insurance companies. As we went over there and we looked at several of the annual statements of insurance companies, we noticed that in these two insurance companies, several of the securities were the same securities. The serial numbers were not listed but the question in my mind which I raised with the Treasury was why would an insurance company in Chicago,

which is admitted in other States, and a surplus line carrier, have to incorporate a separate insurance company in Indiana which is one State where it is easier to do business than many other States. So here is one example that I discovered.

Also, in another set of two insurance companies, the assets made a big circle. There is a Pennsylvania insurance company which had assets which belonged to an associate company in New Jersey from a Florida bank sitting in New York. Some of the things just didn't add up, but these are companies on the Treasury approved list. If you take the best book, and you take all the annual statements of insurance companies, another instance, Reliance Mutual of America Insurance Co., of Oklahoma City, Okla., which went into receivership in July of this year—in 1969 I arranged for this company to rent \$1 million worth of securities from Allen Lefferdink. Myself and Joel Ginsburg of St. Louis, Mo., arranged this. We took the Canadian Mutual Funds to Bermuda, and from Bermuda organized a London-based holding company, transferred the London-based holding company to a Delaware corporation, transferred the ownership of the Delaware corporation, to E. Ray Price and Reliance Mutual of America in Oklahoma City, put it in a statement and Mr. Price signed the statement and it passed inspection for 1968, 1969, 1970, 1971, 1972 and part of 1973.

Senator PERCY. Mr. Wilson, before I ask this question I want to again remind you we do not want hearsay. We want firsthand knowledge from you in the first person.

Previously I asked you about organized crime. You have responded that organized crime figures made overtures to you several times, I ask this: Who were they? Where did they come from? In what connection did they make overtures to you? What kinds of deals did they present to you?

Mr. WILSON. One of the first was Dominic Mantell. I explained previously how I was introduced. Dominic wanted to become a partner of the St. Louis group in 1970. We thought at that time and we told them at that time that we would just as well do business with them on the basis of he had his own operation, whatever it was, and we had our operation, and what could he supply to us. We didn't need any muscle. We had money. We had cash flow. We had assets. What was he going to do? What was he going to supply? He did know a lot of people around the country, so this is one thing he could supply—additional swindlers and possibly victims.

Senator PERCY. You have indicated there is a large number of national institutions that have facilities set up to handle securities swindling. Could you give us any idea as to what proportion of these would have connections with the mob or organized crime?

[At this point Senator Gurney withdrew from the hearing room.]

Mr. WILSON. Not honestly, Senator. I know that there are banks around the country where organized crime people can walk in and out with whatever they want to walk in and out with and get it negotiated. If you are in the business, it is really not hard to find. That is what it amounts to.

Senator PERCY. Can you then expand on your previous statement as to who else you know of that made overtures to you, in what form they made them, and why?

Mr. WILSON. Another gentleman would be Bob Ostrander, of Chicago, Ill.

Senator PERCY. A constituent of mine. I don't know him.

Mr. WILSON. Actually, he is from Lansing, Ill. He was working with Milwaukee Phil. I was introduced to Mr. Ostrander sometime around 1966 or 1967 by a Mr. Harold Sussman of St. Louis, Mo. Mr. Ostrander wanted to become our partner also. Again we advised him that unless he could supply something that was absolutely needed, we would just as well let him be a broker, bring us business, we would bring him business. That is how it worked.

Senator PERCY. Who else?

Mr. WILSON. Another gentleman on the west coast was a Mr. Dave Garowitz out of Los Angeles. He attempted to move in at one time, not knowing who I was, or who my friends were. He wanted to become my partner. I advised him that if he wanted to move in, fine, but he had better check with people in Florida before he moved in. After he discovered who I was, he wanted to know if I could teach him the ropes and the Bank of Sark type situation.

Senator PERCY. Anyone else you care to comment on?

Mr. WILSON. Not that I can recall at this minute, Senator.

Senator PERCY. Can you give us the names of some of the organized crime families that are associated with some of the various fraudulent operations in which you participated with which are listed on pages 2 and 3 of your statement? Would you identify the organized crime family or organized crime figures associated with each one?

Mr. WILSON. In that case, like Zurich International Investment Corporation, it would be Dominic Mantell and Ernest Shinwell. In Compreal Holdings, actually it was Neil Maloney and at the end it was T. Shearon Jackson and Dominic Mantell. In the Canadian group it was just swindlers. The Normandy Trust Co. was operated by myself and the Maloney group which included Dominic Mantell. First Liberty Fund was operated basically by my group and then by the Deardon group in Florida. It had no organized crime people attached to it. London & Wales Insurance Co. was operated by William Charles Smith. The Bank of Sark, of course, was one of our own, which many people used extensively in a lot of places.

Belize International Insurance Co. was one of ours. Big Bend Insurance Co. was one of ours. Caribbean American Underwriters was one of ours. Cumberland Insurance Investment Group was operated by Michael Strause out of Birmingham, Ala. Farmers & Merchants Mutual Fire Insurance was one of ours. First Southern Financial was Harold Audsley, Byron Prugh and Howard Jones. Hotei was a small public company in Ohio, operated by a man named Mr. Lammi. Intercontinental Insurance Corp—I was in partnership with some New York insurance brokers, Hank Miltrey and Ed White. Island Enterprise the same way.

The next one was operated by a gentleman named William Landwehr, the gentlemen I bought the Farmers and Merchants Mutual Insurance Co. charter from Mulock International Insurance Co. was operated by Bob Ostrander, Jeffrey Distant and Roger Comp. Old London Insurance Co. was operated by Lee Zaharias of the northern part of New Jersey and Miami, Fla.

Picture Island was operated by Peter Crosby and I had a part of it in the fact that I had a lot of shares in it. Allied Fund for Capital Appreciation—I don't know really who operated it but I had some shares in it. Transcontinental Casualty Insurance Co.—I played the part of a

bank reserve, supplying the \$9 million DC, and being their insurance broker worldwide.

Senator PERCY. I would like to yield to Senator Jackson and Senator Huddleston now. But for the record is the Milwaukee Phil you have referred to Phil Alderisio?

Mr. WILSON. Yes, sir.

Senator PERCY. It is?

Mr. WILSON. Yes, sir.

Senator PERCY. Thank you, Mr. Chairman.

Chairman JACKSON. Senator Huddleston?

Senator HUDDLESTON. Mr. Wilson, if an individual wanted to be supplied with stolen securities, where would he go?

Mr. WILSON. I am sorry, I didn't hear you.

Senator HUDDLESTON. If an individual such as yourself or someone else wanted to be supplied with stolen securities, where would he go?

Mr. WILSON. Depending on what you were looking for as far as the stolen security, there are people that are actually in the business of supplying stolen securities to other people that are in the fraudulent business and legitimate business. If I was to go look for stolen securities—is that what you are asking me?

Senator HUDDLESTON. Yes.

Mr. WILSON. If I was to look for them, I would go to one of three or four people, probably, right now.

Senator HUDDLESTON. Is the word out or around within the "industry" that certain people have stolen securities or can get them?

Mr. WILSON. When you say "in the industry," I would say among the people that deal in them, yes, it is.

Senator HUDDLESTON. If you were operating today and you needed some or wanted some securities to build a credit rating, what individual would you contact?

Mr. WILSON. I would probably go to Harold Audsley first.

Senator HUDDLESTON. You think he would be able to supply them?

Mr. WILSON. Yes, sir. That is the first person I would go to.

Senator HUDDLESTON. You have sold insurance for an insurance and security company.

Mr. WILSON. Assurance & Surety Co., S.A.

Senator HUDDLESTON. Is that a legitimate company?

Mr. WILSON. It was a legitimate Swiss chartered insurance company, but the assets that were in it were all spurious.

Senator HUDDLESTON. It was deliberately set up that way?

Mr. WILSON. I don't know if it was deliberate, but that is how it turned out.

Senator HUDDLESTON. That company does have some rather substantial clients, I would say.

Mr. WILSON. Yes, sir. It had several substantial clients.

Senator HUDDLESTON. Such as the Ford Motor Co.?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Did you sell any insurance to the Ford Motor Co.?

Mr. WILSON. I did, sir.

Senator HUDDLESTON. Do you have any personal knowledge of the activities of Mr. Louis Mastriana who testified here yesterday?

Mr. WILSON. I do, sir.

Senator HUDDLESTON. In your opinion, was he successful in perpetrating the frauds that he described to us?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Would you say he was a pretty good operator?

Mr. WILSON. I would say he was a good street man, he was a good dealer; yes.

Senator HUDDLESTON. Street man?

Mr. WILSON. Yes.

Senator HUDDLESTON. That, in effect, is the retailer? He is the fellow who makes the final contact with the customer?

Mr. WILSON. Yes, sir.

[At this point Senator Jackson withdrew from the hearing room.]

Senator HUDDLESTON. He has to be backed up by a large organization or individuals or companies such as yourself?

Mr. WILSON. That is correct, sir.

Senator HUDDLESTON. Incidentally, I didn't hear all of the questioning. If I ask anything that you have already responded to, if you will so indicate we will not go any further.

You have indicated that the traffic in stolen and worthless securities is worldwide, stretching all the way from South America to Australia and the Soviet Union. Are there any basic differences in the operations in the various parts of the world?

Mr. WILSON. No, sir.

Senator HUDDLESTON. They are pretty much the same?

Mr. WILSON. Right.

Senator HUDDLESTON. Is there any significant difference between operations in so-called developing nations and in the more industrialized countries?

Mr. WILSON. They are a lot more greedier.

Senator HUDDLESTON. Who?

Mr. WILSON. The developing nations.

Senator HUDDLESTON. So that makes them more susceptible?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. What are the differences between operating in the United States or operating in Western Europe and the Soviet Union or Mongolia?

Mr. WILSON. In my operations in Mongolia, the Soviet Union, and China, that was insurance, where I was not actually going there and doing the dealing. The dealing went through intermediaries. For instance, the business from Red China and Mongolia came to a broker in Milano, Italy, and from there to London.

Senator HUDDLESTON. The operation in Mongolia was handled by someone else?

Mr. WILSON. The National Insurance Co. of Mongolia submitted their request for reinsurance to their broker in Milano. The broker in Milano passed them on to London. So maybe six months after the coverages were effected, the company in Mongolia would have received notification that the risks were taken by somebody like myself. They put a lot of confidence into the broker in Milano and into the Lloyds brokers, a lot of confidence.

Senator HUDDLESTON. You said there were perhaps 20 places in the world where a person could pick up a corporate banking shell. What are some of those places?

Mr. WILSON. First off would be the Turk Islands south of the Bahamas, Panama, Gibraltar, Hong Kong, probably Malta, Lebanon, Switzerland.

[At this point, Senator Percy withdrew from the hearing room.]  
[Letter of authority follows:]

U.S. SENATE, COMMITTEE ON GOVERNMENT OPERATIONS, SENATE PERMANENT  
SUBCOMMITTEE ON INVESTIGATIONS

Pursuant to Rule 5 of the Rules of Procedure of the Senate Permanent Subcommittee on Investigations of the Committee on Government Operations, permission is hereby granted for the Chairman, or any member of the Subcommittee as designated by the Chairman, to conduct hearings in open session without a quorum of two members for administration of oaths and taking of testimony in connection with traffic in stolen securities and related frauds in the U.S. and international markets on September 19, 1973.

HENRY M. JACKSON,  
*Chairman.*

CHARLES H. PERCY,  
*Ranking Minority Member.*

Senator HUDDLESTON [presiding]. There is not much trouble in finding one?

Mr. WILSON. No, sir, not much finding.

Senator HUDDLESTON. The subcommittee has been focusing a great deal on the use of stolen and fraudulent securities to take down banks and fund shell business enterprises. You have mentioned several new areas of activity that the subcommittee hasn't concentrated on yet, like insurance, mortgages, and shipping activities, even. How are stolen or fraudulent securities used in shipping activities, for instance?

Mr. WILSON. I have seen the situations where the spurious securities were put into a corporate shell and corporate notes and guarantees were given to shipowners for the charters and/or for the sale of the ships.

Senator HUDDLESTON. To establish a shipping line?

Mr. WILSON. Right.

Senator HUDDLESTON. And in the insurance business, to establish an insurance company?

Mr. WILSON. Yes, sir. Spurious securities, the fraudulent ones, stolen securities, put into the right combination in the balance sheets with the proper bank reference.

Senator HUDDLESTON. This would really enable the insurance company, for instance, to invest large sums of legitimate money in legitimate enterprise?

Mr. WILSON. I am sorry, Senator?

Senator HUDDLESTON. Would this form of false or fraudulent securities then enable the insurance company to move in the area of legitimate enterprise by having funds available?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. And mortgage companies would operate pretty much the same way.

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. You mentioned white-collar crimes in the area of stolen securities ending up being dominated by the Mafia. Are you suggesting that this entire trade in stolen securities is tied to organized crime?

Mr. WILSON. No, sir.

Senator HUDDLESTON. There is a great deal of it outside of organized crime?

Mr. WILSON. Independent, yes, sir.

Senator HUDDLESTON. Are those independent of organized crime able to move in all facets of the industry, that is, to dispose of stolen securities?

Mr. WILSON. No, sir. I have heard of instances where certain people that were bank burglars took the cash and the travelers' checks and everything else they could get out of the bank vaults, out of the safe deposit boxes, and then took the securities and flushed them down the toilet.

Senator HUDDLESTON. They didn't know how to handle it?

Mr. WILSON. They didn't know what to do with it.

Senator HUDDLESTON. But now hasn't it developed to the point where somebody can dispose of them if they get to the right people?

Mr. WILSON. Yes, sir. They can either be disposed of or they can be used.

Senator HUDDLESTON. You, of course, mentioned a number of aspects involved in trading in stolen and worthless securities. You say you have created securities. Was this your idea?

Mr. WILSON. Well, I think the idea is older than me, but I just improved on it for my own benefit.

Senator HUDDLESTON. Is this actually creating a stock certificate of some kind?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Using a printer?

Mr. WILSON. Right.

Senator HUDDLESTON. You described "my printer." Did you have someone in your employment?

Mr. WILSON. It wasn't under my employment, but it was using him extensively. Another thing about the one printer that I used, when we would get done with the printing job, we would pick up all the samples and the printing plates so that when and if there was an investigation and it led to the printer, the printer had nothing to show the authorities.

Senator HUDDLESTON. And he knew what you were doing?

Mr. WILSON. In some instances; yes, sir.

Senator HUDDLESTON. Was he paid off beyond his normal printing fee?

Mr. WILSON. No.

Senator HUDDLESTON. You just paid him for the services?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. He was probably underpaid.

[At this point Senator Jackson entered the hearing room.]

Senator HUDDLESTON. How did you use these created securities?

Mr. WILSON. We used them in our balance sheets so that we could get statements, item one. Item two, we used them as collaterals to guarantee other purchases. We used them as securities for other purposes. We used them as trading devices with other people in the business. Maybe they had a group of securities—it was like Monopoly. You would lay them out on the table and say, "I need one, two, or three of those and I will trade you some of this." I did that on several occasions with Harold Audsley in Florida.

Senator HUDDLESTON. You didn't make any attempt to move them in the public market?

Mr. WILSON. When you say "public market"—

Senator HUDDLESTON. To put them on sale.

Mr. WILSON. Some of the people did: yes, sir. The only instruments we used that the public got, and I qualify that, was First Liberty Fund shares and Bank of Sark instruments.

Senator HUDDLESTON. To what extent did you acquire stolen securities?

Mr. WILSON. Senator, I had very nominal use for acquiring them because I didn't need them. I had them given to me in 1966, which I used in one insurance company statement. In 1971, Ron Kotler purchased from some people in Hartford, Conn., counterfeits and stolen securities by paying them with Bank of Sark drafts. And probably on one or two other occasions I used them in statements. I probably have seen them more times than that but it is hard to recall all of them.

Senator HUDDLESTON. But you weren't specifically looking for or seeking stolen securities?

Mr. WILSON. No. It was easier to make my own. Again, I was thinking about, ironically repercussions from the Government. I would rather get stopped carrying a briefcase of my own paper than get stopped carrying a briefcase of somebody else's paper.

Senator HUDDLESTON. You mentioned that you had developed a delaying tactic for those checking on these securities. What type of delaying tactic?

Mr. WILSON. I think we were talking in reference to the Bank of Sark. The way the Bank of Sark was set up, all the drafts would end up in Guernsey at our office. At that point our employee in the bank would notify us what drafts were in by Telex. We would tell him by Telex the same day exactly what to do with the drafts. The majority of the drafts were forwarded via circuitous route back to me either in Florida or in St. Louis, and I held on to them. The majority of the Bank of Sark drafts are now in the possession of the Justice Department.

Senator HUDDLESTON. How long could you delay?

Mr. WILSON. We delayed some as long as a year.

Senator HUDDLESTON. Mr. Mastriana, I think, testified that it was very important to have time.

Mr. WILSON. Yes, sir. And I do remember the draft coming from Las Vegas on Louis Mastriana.

Senator HUDDLESTON. Did you hold that one for a while?

Mr. WILSON. We just put it away with the rest of them.

Senator HUDDLESTON. I think Mr. Mastriana reported that bankers were impressed with the fact that you had a Telex system. You indicate that you developed the Telex system?

Mr. WILSON. We not only had the Telex set up so that the answer back would say Bank of Sark. We had the American Banker's directory, code book, and test key. Therefore, any other bank that wanted to send us a test key in code, could answer them back.

Senator HUDDLESTON. It would prove quite useful.

Mr. WILSON. It was one of the most valuable tools that we acquired.

Senator HUDDLESTON. What is necessary in order to set one up?

Mr. WILSON. Set up what, sir?

Senator HUDDLESTON. Telex.

Mr. WILSON. Nothing. You just go to Western Union or the International Telegraph Co. and tell them you want a Telex, give your deposit, the name of your company, how you want the answer back, and they graciously install a Telex for you within 30 days.

Senator HUDDLESTON. There is no inquiry as to the legitimacy of the enterprise?

Mr. WILSON. No, sir.

Senator HUDDLESTON. How do you get the bank codes?

Mr. WILSON. We came into the bank code possession through a banker in St. Louis, Mo. We were doing business with the bank in St. Louis, the West Side Bank in St. Louis County. The banker was a friend of ours. The treasurer. He was having his own problems and we were trying to help him out. One day, at lunch, Timmie brought the banker's code book with him to lunch. We had one of our girls pick it up, take it back to the office, we made three copies of it, returned it to him and he put it back in the vault that afternoon. It was as simple as that.

Senator HUDDLESTON. Did he know what you were going to do with it?

Mr. WILSON. Absolutely.

Senator HUDDLESTON. He knew?

Mr. WILSON. Yes, sir.

Chairman JACKSON. You don't need to mention the individual's name now because we haven't interviewed him. But if you will, supply that information to the staff so that it can be checked out.

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Was he paid for his services?

Mr. WILSON. Let me say this: This banker was caught eventually with his own hand in the till of the bank and the bank was able to recover some of the money. He did go to jail. He paid for what he did in the bank and he did receive remuneration. He used our money is what he did. We had probably \$100,000 in the bank, between our group and the Birmingham group, the Strauss group, and he used this money in an attempt to buy a rural Missouri bank. He also used our names in the buying of other cashier's checks for the buying of the bank. It got to be a real confusing mess.

Senator HUDDLESTON. But he was able to profit from his association with you?

Mr. WILSON. Yes, sir. One thing he did end up with was a color television. That I know for a fact.

Senator HUDDLESTON. Did you supply that to him?

Mr. WILSON. It came out of our office. It belonged to one of our employees.

Senator HUDDLESTON. Did the employee know he was going to get it?

Mr. WILSON. The employee was Mr. Bernard Greenberg, who was working for us at the Bank of Sark in Guernsey. He didn't know about it until after he got back.

Senator HUDDLESTON. Do you know anything about the assets listed in the financial statement of the Allied Fund for capital appreciation?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. What are they?

[The witness conferred with his counsel.]



Senator HUDDLESTON. What do you know about those assets?

Mr. WILSON. I know that in one of the balance sheets that I saw in 1972 that I was told there was approximately between \$5.5 million and \$15 million worth of securities listed in the balance sheet, and I was told by several people that those were all stolen securities.

Senator HUDDLESTON. All stolen securities?

Mr. WILSON. Yes, sir.

[At this point Senator Jackson withdrew from the hearing room.]

Senator HUDDLESTON. The list I have here indicates over \$15,178,000, including many big blue chip names. You say that these, to your knowledge, were stolen securities or fraudulent?

Mr. WILSON. These were told to me as being stolen securities.

Senator HUDDLESTON. Did they say where they had been stolen from?

Mr. WILSON. No, sir.

Senator HUDDLESTON. Mr. Wilson, we have a vote on the floor of the Senate and it is near the noon time. We will recess the committee until 2 o'clock this afternoon and ask you to come back at that time.

[Whereupon, at 11:40 a.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

[Members present at time of recess: Senator Huddleston.]

#### AFTERNOON SESSION

[The subcommittee reconvened at 2 p.m., Senator Walter D. Huddleston presiding.]

Senator HUDDLESTON. The subcommittee will come to order.

[Members of the subcommittee present at time of reconvening: Senators Huddleston and Gurney.]

#### TESTIMONY OF PHILIP M. WILSON, ACCOMPANIED BY COUNSEL, BERNARD R. BRICKEL, ESQ.—Resumed

Senator HUDDLESTON. We will continue with questions of Mr. Wilson.

Mr. Wilson, will you tell the subcommittee whether or not you have had any dealings with Elliott Roosevelt?

Mr. WILSON. I have had no personal dealings with Mr. Elliott Roosevelt, but, through my good friend, Harold Audsley, I was told of a situation which was as follows—

Senator HUDDLESTON. Just a moment. You are about to tell us information based on hearsay?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. In our judgment, it should not be included in the record at this time. I ask about your personal knowledge.

Do you know Mr. Harold Audsley and a Mr. Allan Lefferdink?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Do you know what associations they had with Mr. Roosevelt?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Would you tell the committee that?

Mr. WILSON. I was told by Harold Audsley—

Senator HUDDLESTON. We are back again to hearsay.

Are you familiar with the Capital National Bank in Miami, Fla.?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Do you know who the officers of that bank are, what connection they may have had with Mr. Lefferdink and Mr. Audsley?

Mr. WILSON. Capital National Bank was bought from Mort Zimmerman by Harold Audsley and Elliott Roosevelt and held by them to be resold to Allan Lefferdink. The Capital National Bank was used as a clearing bank for the Atlantic Trust Bank of Guernsey and the Atlantic Trust Bank of Panama.

Senator HUDDLESTON. Have you had any personal dealings with this operation and with Mr. Roosevelt in particular?

Mr. WILSON. I had dealings with the Capital National Bank in the clearing of checks against Allan Lefferdink's bank.

Senator HUDDLESTON. And no direct knowledge or direct dealings with Mr. Elliott Roosevelt?

Mr. WILSON. No, sir.

Senator HUDDLESTON. Could you explain how the clearing of checks between the banks worked?

Mr. WILSON. Well, Allan Lefferdink had the Atlantic Trust Bank of Guernsey which had an office in Guernsey, an office in Bermuda, and had kind of a mailing office at the Capital National Bank.

What would happen is when checks were drawn against the Atlantic Trust Bank of Guernsey or the Atlantic Trust Bank of Panama, on the back of the check it was said to the banker to please forward to the Capital National Bank of Miami, Fla., for clearing. Therefore, it gave the allure that here was an American bank that was clearing for a bank both in Panama and in Guernsey.

Senator HUDDLESTON. Was this used a number of times, to your knowledge, frequently?

Mr. WILSON. Yes, sir.

[At this point Senator Gurney withdrew from the hearing room.]

Senator HUDDLESTON. We will have to stand in adjournment for 15 minutes while we vote.

[Recess at 2:12 p.m. with the following member present: Senator Huddleston.]

Senator HUDDLESTON. The subcommittee will be in order.

[Members of the subcommittee present at 2:35 p.m. after a brief recess: Senators Huddleston, Percy, and Gurney.]

Senator HUDDLESTON. We will continue the questioning of Mr. Phil Wilson. I will yield to Senator Gurney.

Senator GURNEY. Mr. Wilson, you testified this morning that you learned your trade by various means. What contributed most to your knowledge of this paper fraud business?

Mr. WILSON. Both the research through the textbooks, work in the libraries, and practical experience on the street.

Senator GURNEY. Would you say the latter was really the main source of knowledge?

Mr. WILSON. Yes, sir.

Senator GURNEY. The sheer multitude of these funds enabled you to contact other people and learn how it was done?

Mr. WILSON. Yes, sir.

Senator GURNEY. Is that still a fact?

Mr. WILSON. Yes, sir.

Senator GURNEY. How long has this type of white-collar fraud been big business in this country?

Mr. WILSON. It has probably been big business for many years, but I only got into it about 1964. I imagine that it went on long before I came into the business.

Senator GURNEY. If it is being done on a wide scale now, would you say it is a fairly new crime or an old crime?

Mr. WILSON. I would say with the fact that people can travel to so many parts of the country and around the world in as little time as they can, it is pretty big and effective now; yes, sir.

Senator GURNEY. What did you find to be the most profitable fraud that you perpetrated?

Mr. WILSON. In the insurance business.

Senator GURNEY. In that respect, how were the insurance frauds perpetrated?

Mr. WILSON. I am sorry?

Senator GURNEY. How were the main frauds in the insurance business perpetrated?

Mr. WILSON. I will give you a for instance. We bought a Farm Mutual charter in Missouri for \$7,500, a Farmers and Merchants Mutual Fire Insurance Co. charter. We then proceeded to rent the assets from Allan Lefferdink to put in the charter, which cost us, I think, \$1,500 a month for \$1 million worth of mutual fund certificates.

We then got Allan Lefferdink to be our bank reference with his bank in Guernsey. We then started to write premiums, little premiums from \$500 up to premiums that ran as high as \$1 million, so that the actual cost factor of being an insurance company and what you could have in cash flow and what you could take out of it just made that the most valuable type of business we could be in.

Senator GURNEY. Did this company ever pay a claim?

Mr. WILSON. Yes, sir, many claims.

Senator GURNEY. You were having a colloquy with the chairman, and Mr. Roosevelt's name was mentioned. A certain line of questioning wasn't developed because of the hearsay problem. But could you state to this subcommittee the names of people whom you think could give the subcommittee some more information on the subject?

Mr. WILSON. It would be Harold Audsley, Allan Lefferdink and probably Mr. Mort Zimmerman.

Senator GURNEY. In your statement you admitted being involved in 150 paper frauds. Did most of these frauds use offshore or domestic companies?

Mr. WILSON. I am sorry, sir?

Senator GURNEY. You mentioned 150 paper frauds in your statement.

Mr. WILSON. Yes, sir.

Senator GURNEY. Were most of these frauds perpetrated in this country with American companies or were they done with foreign companies in offshore locations?

Mr. WILSON. Both, sir.

Senator GURNEY. What would be the breakdown?

Mr. WILSON. I would say about half and half.

Senator GURNEY. Which is easier, here or abroad?

Mr. WILSON. It depends on what you are going to do.

Senator GURNEY. What would that depend on?

Mr. WILSON. Well, if you knew where to look, for instance, for an insurance charter here you could use it or you could go to the Caribbean and incorporate an insurance company. It just depended on what you wanted to do and where you wanted to do the business.

Senator GURNEY. Some swindles are easier to commit in the United States and some are easier abroad, is that what you are saying?

Mr. WILSON. Yes, sir.

Senator GURNEY. What about the victims of these frauds? What kind of people or business entities are they?

Mr. WILSON. Well, since I was not dealing directly with the people, I was towards the middle and at the end, from what I could see, for instance, in the First Liberty Fund fraud many of the people that we did business with were very questionable themselves in what they were trading to us, their assets were questionable, what they were trading to us.

In the insurance, there we dealt with both large companies and we dealt with small companies, and we dealt with some individuals.

We dealt with companies like Ford, people like Seaboard World Airlines, INA.

Senator GURNEY. Would you say that these companies were questionable?

Mr. WILSON. In some of their dealings with insurance I would say they are.

Senator GURNEY. Give us an example of how Ford Motor Co. would fall into this questionable category?

Mr. WILSON. Ford Motor Co. pays a lot of money for their insurance. Ford Motor Co. also owns its own Bermuda-based insurance company. Ford Motor Co. has a broker in Boston it has been doing business with for years. When the Ford Motor broker writes the business through the broker in Boston, sometimes premiums are overpaid and sent out of the country to Bermuda and put into special accounts in Bermuda at Trans Global Insurance Co. in Hamilton, Bermuda.

Senator GURNEY. Why?

Mr. WILSON. For people at Ford. This way they sent money out as insurance premiums which is not taxed like other things into tax-free accounts in Bermuda.

Senator GURNEY. What do you mean for people at Ford Motor Co.?

Mr. WILSON. My dealings were with the brokers in Boston and through my friends at the brokerage in Boston I was told this is what was being done, that executive premiums were being paid via the broker in Boston through the subbrokers and some of the companies that were being used to write the coverages were questionable.

This is one of the reasons that I wrote certain portions of the business for 3 years in a row, and premium payments were overpaid to the company in Bermuda so that money would be sitting there in a tax free account.

Senator GURNEY. The premium was overpaid to this re-insurance company in Bermuda?

Mr. WILSON. Yes, sir.

Senator GURNEY. Who benefits from this overpayment?

Mr. WILSON. That company in Bermuda is owned by Ford. Therefore, Ford people, people from Ford Motor Co., have the use of that money in Bermuda and any other place that it has to be used.

Senator GURNEY. Are you saying that the re-insurance company in Bermuda is owned by Ford executives?

Mr. WILSON. No, I didn't say that.

Senator GURNEY. By the Ford Motor Company?

Mr. WILSON. Yes, sir.

Senator GURNEY. Again how are the Ford people going to use these overpayments?

Mr. WILSON. Apparently they are in coordination with the managing director of the company in Bermuda and it would be quite easy to handle this if you were the executives at Ford working together with the manager of the insurance company in Bermuda in conjunction with the broker in Boston.

Senator GURNEY. Give me an example.

Mr. WILSON. When you say an example, I don't understand what you mean.

Senator GURNEY. As I understand your answer, somebody is profiting from this overpayment of premiums.

Mr. WILSON. Right.

Senator GURNEY. I am trying to find out how they profit? Do they go on vacation in Bermuda or what?

Mr. WILSON. It is my understanding that the money is made available to the executives at Ford as they come to Bermuda. What happens from that point I have no idea.

Senator GURNEY. What is the name of that company?

Mr. WILSON. Trans Global Insurance Co., Ltd., Hamilton, Bermuda.

Senator GURNEY. You mentioned Seaboard World Airways.

Mr. WILSON. Yes, sir.

Senator GURNEY. What was your relationship to this company?

Mr. WILSON. You asked me previously about insurance. In reference to Seaboard World Airlines that was an airline that I had a piece of the re-insurance on through INA, Insurance Company of North America, through a London broker.

In 1969, October and November, they had a crash of a DC-8 at Oakland Airport. The total loss was in excess of \$8 million. My portion was one-half of 1 percent as a re-insurer or \$49,000, which I paid in February of 1970.

Senator GURNEY. Was Seaboard World Airways overpaying re-insurance premiums? I thought you said this was an analogous situation to Ford.

Mr. WILSON. I am sorry, Senator, but I got lost with you.

Senator GURNEY. When I started this line of questioning, I asked what kind of people benefited from this fraud. You replied that some of the large companies were involved and you mentioned Ford Motor Co. You also mentioned Seaboard World Airways.

Now I ask you was Seaboard World Airways also overpaying premiums?

Mr. WILSON. I have to say or go back and say that Seaboard was the wrong company to mention in relation to that type, yes, sir.

Senator GURNEY. What other big companies were involved in these questionable activities?

Mr. WILSON. Allied Chemical in New York.

Senator GURNEY. What were they doing?

Mr. WILSON. They were writing their insurance through a large broker in New York and there were overpayments being made on that account also.

Senator GURNEY. What insurance companies were involved?

Mr. WILSON. Well, there is a long list of insurance companies which I don't have with me, which I will supply to the committee.

Senator GURNEY. Those insurance companies are receiving overpayments?

Mr. WILSON. Yes, sir.

Senator GURNEY. I wish you would file that information with the subcommittee.

Mr. WILSON. I would be more than happy to, sir.

Senator GURNEY. And the pertinent names of people who are able to shed any light on that transaction.

Mr. WILSON. Will do, sir.

Senator GURNEY. Are there any other large or small companies that are involved in this kind of questionable activity?

Mr. WILSON. Senator, I would have to refer back to my files which are in the possession of the Fraud Section of the Department of Justice.

Senator GURNEY. Can you do that?

Mr. WILSON. I don't have them here, but I would make them available to the committee.

Senator GURNEY. Would you furnish that information to the subcommittee?

Mr. WILSON. Yes, sir.

Senator GURNEY. I am certainly interested if legitimate business is doing this. It is a fraud, too.

Tell me this: How does the white collar criminal go about cleansing illegal money and hiding it from the Internal Revenue Service?

Mr. WILSON. Well, as far as cleansing it and hiding it, the first thing you do is make sure that after you have collected the money, whether you have collected in check or any other form, when it comes out of the bank it comes out in cash. That is the first thing.

If it comes to you in the form of a check, when you go in the bank you take it out in cash. So right there is one stop.

The second thing to do is if you have been involved in this business—

Senator GURNEY. Still, if a check is made out to you and you cash that check, you can be traced at the bank?

Mr. WILSON. Right. Right there at that bank, though. The IRS can come in there and question you and question the bank, but you have stopped the line at the bank where the check has been cashed.

The next thing is that if you are involved in this and if you change your mode of living completely, or even 50 percent and it is noticeable, then people start looking at you, including the IRS. That is something else.

Senator GURNEY. In other words, if you make a big bundle of money, you don't give the appearance of having it.

Mr. WILSON. That is correct, sir. Then the third thing you do, of course, is if you have the money available to cleanse it after you have taken it out of the check or whatever you have gotten, is to find a business that needs an investment somewhere completely divorced from

where you are living and put the money in. Either put it into a bank in a different Federal Reserve district or put it into a bank overseas and have it come back as a loan or as an investment.

Senator GURNEY. Is that one reason why offshore companies and ventures are used, because it is difficult to trace?

Mr. WILSON. Yes, sir.

Senator GURNEY. By the Internal Revenue Service?

Mr. WILSON. Yes, sir.

Senator GURNEY. By the way, how did you finally get caught in this activity?

Mr. WILSON. Well, what I did, or how I got caught, is I was being pursued by the postal inspectors at length. I was also started to be looked at by the investigators from the Senate subcommittee. When I got indicted in January of 1972 in the Transcon situation, the bonds were so high that it just frustrated me.

Senator GURNEY. How much was the bond?

Mr. WILSON. Well, the bond was set originally at a half million dollars. It was reduced by the magistrate to \$25,000 and then increased on an appeal by the U.S. attorney to \$100,000.

Senator GURNEY. Was this so much, in view of your testimony that you were earning somewhere around \$200,000 a year in this business?

Mr. WILSON. If I can go on just a little further, Senator.

Two days after the indictment, two of the participants plead guilty, two of the main participants in the Transcon. About 2 weeks later another participant plead guilty and then another one fell.

By this time it was looking like it was 10 little Indians and then it was 9 and then it was 8. Through intermediaries I was approached to talk to the assistant U.S. attorneys, which I did. After spending some time talking with them and with my attorneys, and seeing that it would be much wiser for me to come in and make a deal with the Government because I was looking at 10 or 12 more indictments, I decided at that time I should just retire.

Senator GURNEY. How much did you retire with?

Mr. WILSON. I have no idea.

Senator GURNEY. You mean you don't know? Have you any money in a safe deposit box?

Mr. WILSON. No. I really can't answer that. No, I don't have any money in a safe deposit box.

Senator GURNEY. Do you have money stashed away somewhere else?

[The witness conferred with his counsel.]

Mr. WILSON. I have no money personally. In my discussions with the Fraud Section of the Department of Justice we have had no discussion over my money and that is the way it was left.

Senator GURNEY. I remember reading in your statement that you are married. Is that correct?

Mr. WILSON. Yes, sir.

Senator GURNEY. Does your wife have any money that you have given to her?

Mr. WILSON. No.

Senator GURNEY. When you say you have no money personally, what do you mean?

Mr. WILSON. The only thing that I have is receivables of insurance premiums from previous business activity.

Senator GURNEY. In other words, your testimony is that you do not have any cash.

Mr. WILSON. No, sir, that is correct.

Senator GURNEY. What receivables do you own?

Mr. WILSON. Insurance receivables.

Senator GURNEY. How much?

Mr. WILSON. They are all in litigation but they are probably in excess of a half million dollars.

Senator GURNEY. Do you own any real property?

Mr. WILSON. No.

Senator GURNEY. Do you own any personal property other than the receivables you talked about?

[The witness conferred with his counsel.]

Mr. WILSON. No.

Senator GURNEY. I am talking about valuable things, such as diamonds and gems.

Mr. WILSON. No, sir.

[The witness conferred with his counsel.]

Senator GURNEY. I am curious, did you receive tax immunity for those years that you paid no income tax?

Mr. WILSON. Criminal immunity, yes, sir.

Senator GURNEY. So the Federal Government can't collect any taxes for those years that you did not pay taxes, is that correct?

Mr. WILSON. No; I have no civil immunity. I have criminal immunity.

Senator GURNEY. Has the Government inquired as to your assets?

Mr. WILSON. No, sir. I talked to the IRS intelligence agents, but it is all in reference to people that I did business with in other corporations.

Senator GURNEY. Where do you keep your receivables?

Mr. WILSON. I don't understand what you mean.

Senator GURNEY. Well, you say that the only property you now have are insurance company receivables.

Mr. WILSON. Right.

Senator GURNEY. Where do you keep those?

Mr. WILSON. The Government has a copy of all those. The fraud section has a copy of all the receivables.

Senator GURNEY. By "a copy," you mean documents that show what they are?

Mr. WILSON. Yes, sir.

Senator GURNEY. Where do you keep them?

Mr. WILSON. The fraud section of the Department of Justice has them in their possession.

Senator GURNEY. Those are copies. I am talking about the originals.

Mr. WILSON. They have the original documents related to the receivables. Let me clarify that.

Senator GURNEY. In other words, the Justice Department has the tangible pieces of ownership?

Mr. WILSON. They don't have the corporate entities. They have a list of who the receivables are from and documentation bearing them out, but they don't own the corporations that own the receivables.

Senator GURNEY. I understand that. But I am talking about the receivables themselves.

Mr. WILSON. That is right.

Senator GURNEY. The Justice Department has possession of the original receivables.

Mr. WILSON. They have the documentation to show who owes the receivables.

Senator GURNEY. Perhaps I should ask this: Describe one of these receivables. What is it?

Mr. WILSON. Well, the receivables in an account due from an insurance broker or an insurance agent and all the correspondence to back it up.

Senator GURNEY. I see.

You mentioned the Transcontinental Casualty swindle. How was that conceived?

Mr. WILSON. I came into the Transcontinental Casualty Insurance Co. sometime in late 1968, I would say, and the company was already formed. The original certified statement was already there.

I was introduced to Transcontinental Casualty Insurance Co. by Bob Ostrander of Chicago and Samuel Wilkinson, the CPA of Nassau. I came to Florida. I met Frank Blosser and James Owens, who was in charge of the reinsurance and insurance department of Transcontinental.

At that time I had asked them about doing business with them because I was looking for another reinsurance company. I knew that they were questionable by the Sam Wilkinson certified statement.

Senator GURNEY. In other words, when Wilkinson certified a statement it was pretty well known in the trade that the statement probably wasn't any good?

Mr. WILSON. Right, yes, sir. Through my conversations and negotiations with Transcon I arranged for them to use the Bank of Sark as a bank reference, and we gave them a \$9 million bank deposit at the Bank of Sark for their statement.

I then proceeded to use the Transcontinental Casualty Insurance Co. as an insurance company and reinsurance company writing insurances. I was not directly involved in the mortgage end of Transcontinental and I know that in previous testimony and statements that have been said previously that it shows it as over a \$100 million fraud.

It is my understanding that in the Transcontinental Casualty Insurance Co. less than \$2 million in cash was taken as advance fee mortgages.

Insurance-wise, we did use Transcontinental to write insurance outside the United States. We did handle a lot of premiums. We paid a lot of claims.

Senator GURNEY. Was the principal assets of the Trans-Con the bank deposit in the Bank of Sark?

Mr. WILSON. No, sir. It had other paper assets in it. It had oil bonds and commodity contracts. It is my understanding that the list of first-class securities that are listed in the Transcon were created by William Charles Smith and Charley Meele and Frank Blosser by going to the library in Miami and pulling out the Standard and Poor's and just writing down all the stocks they wanted and taking them over to Sam in Nassau and having them listed in the statement.

Senator GURNEY. In other words, these assets didn't exist at all?

Mr. WILSON. That is correct, sir.

Senator GURNEY. Did Transcontinental have any real capital behind it?

Mr. WILSON. Not that I knew of.

Senator GURNEY. All phony?

Mr. WILSON. Yes, sir.

Senator GURNEY. How active is this Mr. Wilkinson? Does he falsify a lot of records?

Mr. WILSON. He did.

Senator GURNEY. Is he still active?

Mr. WILSON. I don't think so.

Senator GURNEY. How did you go about locating victims for your paper frauds?

Mr. WILSON. Well, there are several ways and, of course, one was advertising in newspapers around the country for people looking for loans.

This is one portion you are talking about. There was always people looking to borrow money or looking to buy commitments.

Senator GURNEY. What kind of people would these be?

Mr. WILSON. People that owned hotels or motels that were under-capitalized, people that owned cattle ranches, that wanted to build nursing homes, people that had questionable balance sheets of their own, that couldn't go to their own bank to borrow money, that had been turned down by the larger insurance companies or mortgage companies for commitments.

Senator GURNEY. Is it fair to say that almost all of these "victims," so to speak, could not have obtained loans through legitimate banking sources?

Mr. WILSON. I would say a good majority of them couldn't have.

Senator GURNEY. They would read newspaper ads and get in touch with you?

Mr. WILSON. Yes, sir.

Senator GURNEY. Any other way besides advertising?

Mr. WILSON. Well, you are talking about actual victims in relation to the people that were involved, for instance, in the First Liberty Fund. By word of mouth and being referred to people, we became known to many of the swindlers around the country as far as willing to take questionable assets, hotels that were in trouble, OTC stock that was very shaky, in trade for First Liberty Fund shares.

The main thing that you were looking for when you were looking for victims is people that had a weakness. It was either a greed weakness or a weakness in their own balance sheets or just plain weakness.

Senator GURNEY. Did you ever have any experience with legitimate banking institutions accepting at face value these phony financial statements?

Mr. WILSON. In what relation, Senator?

Senator GURNEY. I mean entering a bank with a financial statement of an individual or corporation which was fraudulent.

Would a legitimate bank accept that?

Mr. WILSON. In some instances they would. In this type of business there was another field called the renting of assets, where you would take somebody who had a weak statement and you would rent them securities, notes, debentures, stocks, and then they would go into their

bank and they would borrow against their statement and signature.

Senator GURNEY. Do you know of any instances where a legitimate banking enterprise accepted a phony statement without looking behind it?

Mr. WILSON. There are some that did, yes, sir.

Senator GURNEY. Could you elaborate on that point?

Mr. WILSON. What I am saying in the renting of assets I think is in relation to what you are saying, that there were people we dealt with that were given assets to go into their statements, that were able to go into their bank, and the statements, except for maybe a nominal amount, were worthless, and they were able to borrow money or to resecure loans.

I know of an instance, for instance, with the Bank of Sark in Texas, where the gentleman walked into the bank with over a half million dollars of Bank of Sark drafts and they were immediately cashed.

Senator GURNEY. Where was this?

Mr. WILSON. In Houston, Tex.

Senator GURNEY. What bank was involved?

Mr. WILSON. I think it was—I don't know from memory the name of the bank.

Senator GURNEY. But it was a reputable bank?

Mr. WILSON. A very reputable bank. He got immediate credit on over a half million dollars worth of drafts, took part of the money out and went to another bank and paid off his loans.

Senator GURNEY. When did this occur?

Mr. WILSON. 1969.

Senator GURNEY. Who was the person?

Mr. WILSON. William Don Shepard, Houston, Tex.

Senator GURNEY. Can you tell the subcommittee anything about the activities of Louis Mastriana?

Mr. WILSON. Louis was one of many people who was our dealers in Bank of Sark and First Liberty Fund paper. Louis secured from us drafts and checks and made his rounds around the country buying and selling and cashing.

Senator GURNEY. So you furnished him with a considerable amount of fraudulent paper from time to time?

Mr. WILSON. Yes, sir.

Senator GURNEY. How much do you recall, approximately?

Mr. WILSON. Well, the paper was blank. It was all in blank and it came from me and from Ronnie Kotler to Louis. I would say that the drafts probably were over a million dollars worth.

Senator GURNEY. Harold Audsley's name has been mentioned before this subcommittee. Do you know anything about his defrauding a Mr. B. F. Nicholson?

Mr. WILSON. If I am not mistaken, B. F. Nicholson, before he got defrauded by Harold, bought a North American Investment Co. commitment from Neil Maloney in Fort Lauderdale, which I shared in. He came back for a second round with Harold Audsley. When he came back around for a second round with Harold, it is my understanding that he was willing to give a release on the first commitment that he got.

I also understand that later on that even Harold Audsley and Byron Prugh were making refund payments to him.

Senator GURNEY. Is he one of the "pigeons" that you described?

Mr. WILSON. I didn't deal with him directly.

Senator GURNEY. How would you describe him?

Mr. WILSON. A victim.

Senator GURNEY. Can you tell the subcommittee anything about the activities of one Patsy Lepera?

Mr. WILSON. No, sir. I have only heard his name in passing several times.

Senator GURNEY. Who did your printing?

Mr. WILSON. A printer in St. Louis named Ralph Sonenshine.

Senator GURNEY. Is he still in the printing business?

Mr. WILSON. Yes, sir. He calls himself the Sunshine Press.

Senator GURNEY. Is he still engaged in this kind of "sunshine" printing that you have described to the subcommittee?

Mr. WILSON. No, but I will tell you one funny thing about it that can be funny. At one point we paid him with a Bank of Sark draft.

Senator, another point. Ralph Sonenshine, who owned the printing company, really didn't know what was going on. Since we gave him so much business, he did our printing, he didn't question me, and when I gave him the draft I think he almost fainted.

I did clear the draft for him, though, so he did get his money.

Senator GURNEY. I think I have probably used up enough of my time. I will yield the floor.

Senator HURDLESTON. Senator Percy.

Senator Percy. Thank you.

I would like to go back to this income reconciliation question, to get a little better picture. You testified this morning in response to my questions that in 1970, 1971, and 1972 you had earnings per annum of \$200,000. You have been in this business since 1964; is that correct?

Mr. WILSON. Yes, sir.

Senator Percy. Can you give us some idea, since the statute of limitations has run anyway, what sort of an income buildup did you have? How did you start out at the bottom of 1964 and what was your annual income as you moved along?

Mr. WILSON. It went from, say, about \$1,000 a month and graduated up over the years to in excess of several thousand dollars a week.

Senator Percy. Several thousand a week?

Mr. WILSON. Yes, sir.

Senator Percy. Did you pay income tax on any of that income for some years?

Mr. WILSON. Previous to 1970.

Senator Percy. Previous to 1970 you did?

Mr. WILSON. Yes, sir.

Senator Percy. You indicated that you have receivables of about a half million dollars. Do you have liabilities outstanding? Do you owe money?

[The witness conferred with his counsel.]

Mr. WILSON. I am involved in some litigation, people where they have sued me.

Senator Percy. You have contingent liabilities?

Mr. WILSON. Yes, sir, contingent liabilities.

Senator Percy. Would you want to estimate what your net worth is? Is it around a half million?

Mr. WILSON. I have no idea, Senator. With the contingent liabilities against the receivables, it would be zero.

Senator PERCY. When you indicate that you have no money, that is, no cash, as such, but you have receivables, could you clarify that for me? Do you have bank accounts anyplace in the world, where you have banked money based on the deposits that you have made?

[The witness conferred with his counsel.]

Senator PERCY. Just to clarify my question, do you have bank accounts anyplace in the world?

Mr. BRICKEL. Senator, I would just like to spend a brief moment with Mr. Feldman, if possible.

Senator PERCY. Surely. We do not want to hurry you or hasten you in a decision involving counsel and advice.

[Counsel conferred with committee counsel.]

Senator PERCY. Possibly while counsel is conferring. I have one question you may not require counsel on. What could you say, Mr. Wilson, about your life style? Did you live high on the hog? Did you spend a lot of money?

Mr. WILSON. I lived comfortably.

Senator PERCY. What do you call comfortably? Would you describe it in layman's terms, what value of the house do you own, what kind of mortgage on, what kind of car or cars do you drive, do you have lavish entertainment or travel a lot abroad?

Mr. WILSON. Are you talking about now or then?

Senator PERCY. Let's just take the last 5 years.

Mr. WILSON. I would say the house I lived in in Florida was around a \$30,000 house, four-bedroom, two-bath.

Senator PERCY. That was where?

Mr. WILSON. That was in Hollywood, Fla. I drove a Pontiac GTO convertible, an Eldorado, a dune buggy. At one time through the First Liberty Fund we owned a yacht, a 106-foot yacht built in 1923.

Senator PERCY. 106-foot?

Mr. WILSON. Right. A 135-tonner. It was an old boat. I traveled extensively all over the world, to Africa, to Europe, the Middle East, South America, the Caribbean.

Senator PERCY. Mainly on business, though?

Mr. WILSON. Mostly, yes, sir.

Senator PERCY. Now the question that I posed before counsel requested his conference with the committee.

[The witness conferred with his counsel.]

Senator PERCY. I will accept the recommendation of counsel in this case because of your fine cooperation with the subcommittee. Obviously, we are not interested particularly in any one individual. We are interested in principle, public education on how we can prevent such actions. Your assistance in this regard is, I think, certainly in the public interest. To that extent, then, we will accept in executive session such testimony as we would require or ask for in this particular area, and will try to be extremely cooperative with the Justice Department and Bureau of Internal Revenue.

I would be most interested, however, in going back to the subject of Florida, to which we have given a lot of attention. I would like to know whether there are banks, insurance companies, and individuals in the Chicago area who were among your victims and could you describe

them, name them, and give the circumstances of the transactions in which you engaged and somewhat victimized them.

Mr. WILSON. Are you talking about both victims and people I worked with?

Senator PERCY. First victims and then after that I would like the names of the people who cooperated with you in victimizing.

Mr. WILSON. Senator, as far as victims went, and I can't say absolutely, I can't really think of any victims in Illinois.

Senator PERCY. Thank you. Now from the standpoint of your colleagues, your business partners, shall we say. Would you tell me about that end of my constituency?

Mr. WILSON. I worked with several people in Illinois, including Robert Ostrander of Lansing, Ill. Tom Joyce of Chicago, Harold Walls of Chicago, Fred Pearson, who is a reinsurance broker in Chicago, Aviation and Reinsurance Corp. of America.

Senator PERCY. So there is no ambiguity or charges against someone that you don't intend to make, could you identify them just as fully as you possibly can?

Mr. WILSON. Bob Ostrander is a dealer and somewhat wholesaler in the white collar fraud. Tom Joyce was an attorney in Chicago, along with another attorney named Burton Sherry, that owned two little insurance companies, one called the Guernsey Excess Insurance Co. of Guernsey, and Global Excess of Nassau. They used, I think it was, the Cosmopolitan National Bank of Chicago as a depository to make a land trust in Illinois to show that these insurance companies had assets in the United States in excess of the half million dollars in each company.

Senator PERCY. Just to be sure about your testimony, Cosmopolitan was used as a depository but had no knowledge of the fraudulent nature of any transactions involved; is that correct?

Mr. WILSON. No, sir. There is a quirk in the Illinois law as far as creating a trust.

Senator PERCY. Yes, created by some very knowledgeable politicians that should have at the moment been in your business.

Mr. WILSON. They took Chicago real estate and real estate north of Chicago into Wisconsin and put it into a trust account in the name of the foreign insurance companies and issued a trust certificate and got a letter of confirmation from the bank so that they could pass this off to their brokers and agents around the country.

Senator PERCY. Can you give us as many of the names of the phony corporate entities that were established and were set up by them in Chicago?

Mr. WILSON. I do not have that file with me, Senator, but it could be made available to you—the corporations that they used.

Senator PERCY. If you could furnish that to the subcommittee, we would appreciate that very much indeed.

Mr. WILSON. Yes, sir.

Senator PERCY. Are there other individuals that you feel should name to give as complete a story as possible?

Mr. WILSON. Ironically, through Aviation & Reinsurance Corp. of America and Fred Pearson we wrote a lot of insurance for him on Illinois risks using Lloyds and admitted companies in Illinois to front for us in Illinois, since we didn't qualify. One of the accounts that he

wrote through us was Steinberg, Baum, Inc. I think the gentlemen were indicted for stealing about \$7 million from a bank in Chicago and one of them fled to Rhodesia. We did carry some of their insurance on their stock and their stores through Aviation Reinsurance Corp. of America.

Senator PERCY. Mr. Wilson, on page 8 of your testimony, you mention that the credibility and market for First Liberty Fund and Bank of Sark was created by using legitimate means of identification. You mentioned Rand-McNally Bankers' Directory and Polk's Directory, for instance. Would you describe these? Are they telephone directories? Do they list every and any institution, or do they somehow give a good housekeeping label of approval or credibility behind a financial institution when listed in those directories?

Mr. WILSON. First off on the Polk's Directory, this is probably a primary reference book for bankers all over the world. Apparently, if you are listed in the Polk's Directory, this gives you 99 percent credibility as far as a bank goes. So if you are listed in there, you can go to a bank from, say, Germany to anywhere in South America to Chicago, Kansas City, to Los Angeles, and then can open the book and see you listed in there with a Telex number, and they have to feel that you are a bank. It could be a merchant bank or a small bank or any type of bank.

Senator PERCY. That all refers to Polk's?

Mr. WILSON. I beg your pardon. It is Rand-McNally.

By the way also, Senator, since the Bank of Sark and Allan Lefferdink's Atlantic Trust Bank, the Rand-McNally people have now changed their rule and to be listed in the book you have to have two other bank references from recognized, reputable banks, to be listed in their directory at this time.

Senator PERCY. Could you describe the process by which an entity such as the Bank of Sark could get listed in these directories and then again amplify how you used the listing? Has it now been changed so that the device you used is no longer usable by their taking voluntary action to tighten up procedures?

Mr. WILSON. The easiest thing to do, or the way we did it, was just call up the Rand-McNally Banker's Directory people in Chicago and tell them we had an offshore bank which we wanted to get listed. They then proceeded to send a set of applications both to Guernsey and to me in St. Louis. We filled them out to the best of our ability, balance sheets and all, signed them, sent them to Guernsey, had them returned to Rand-McNally in Chicago, subscribed to a 5-year subscription and that was it; we were listed in the new directory that came out. When people were using Bank of Sark drafts and using Bank of Sark credibility, whenever they would go into a bank and there would be a question raised, all the person would have to do would be to say, "Refer to your directory or telex the Bank of Sark and check who you want to talk to looking in the directory."

At that time, by the way, in 1970, Allan Lefferdink had no idea how to get listed and it was I who taught Allan Lefferdink the simple trick to get listed. Since the Bank of Sark and Allan Lefferdink's bank have now passed into eternity, they have changed their rules voluntarily. But I think even as tight as their rule is, if somebody was smart enough it could still be done.

Senator PERCY. So certainly one thing that will come out of these hearings is for these companies to recognize how they are being used and to certainly put the kind of procedures in that would be necessary to back up the listing and representations made by that listing?

Mr. WILSON. Yes, sir.

Polk's Directory also, Senator, was worked on the same procedure. They separate their domestic book and the foreign book. They have two separate books. It is my understanding that they have changed their rules also at this time.

Senator PERCY. Did you ever do business with a Joe Stein from Chicago?

Mr. WILSON. Yes, sir.

Senator PERCY. Was he connected with organized crime or with Milwaukee Phil, who you mentioned earlier in your testimony?

Mr. WILSON. It is my understanding through Bob Ostrander that him and Joe Stein were partners and they both worked with Milwaukee Phil. Joe Stein arranged for a company in St. Louis called America, owned by a gentleman named Richard Laughlin to get several Bank of Sark drafts that were, I think, used in either Chicago or someplace in Indiana, put into a bank. I think Laughlin gave us a check for \$25,000 which never cleared. Of course, his draft never cleared neither.

Senator PERCY. Here any other business that you did with Joe Stein?

Mr. WILSON. No, sir; not that I recall.

Senator PERCY. Did you ever have dealings with David Slater, who testified yesterday?

Mr. WILSON. I had no direct dealings with Mr. Slater. I saw his name on many of the balance sheets and Dun & Bradstreet reports coming out of Panama in reference to the Shinwell transactions. If I recall, he is a banker from somewhere in upstate New York. I asked Ernest about it and they told me that he had banking experience and was working with them in Panama. That is all I know about him.

Senator PERCY. You don't know anything else about him?

Mr. WILSON. No, sir.

Senator PERCY. Did you ever have dealings with Herbert Creekmore? If so, what can you tell us about him?

Mr. WILSON. As I recall, my only dealings with Herbert Creekmore was in, I think, 1968 or 1969, when Mr. Creekmore was attempting to buy some Lockheed Electras from KLM in Amsterdam. Through a gentleman in Miami he was referred to me and he got some bonds from me, my own bonds, insurance-guaranteed bonds, to present to KLM. He gave us a check, a small check, and it didn't clear and he didn't use the bonds.

Senator PERCY. You were quite forthright in stating that you did not file income tax returns in 1970, 1971, and 1972, despite the earnings of several hundred thousand dollars a year. Was this a practice engaged in by your associates, who also were making substantial sums of money? Did they fail to file income tax returns?

Mr. WILSON. Some of them did and some of them didn't. I know from my cooperation with the IRS intelligence people, which I have worked with about 3 weeks ago, some of the people I did business with and were my associates filed income tax returns which aren't kosher. That I can tell you.



Senator PERCY. Would you care to name any of the people who you feel did not file income tax returns?

Mr. WILSON. That would be hard to say, Senator. I really can't pick out and say that this man didn't and this man did.

Senator PERCY. How much in the way of earnings by international securities swindles do you estimate goes unreported each year? Do you have any idea what size this pot is we are talking about, how big it is? You have identified about 10,000 people, with thousands of institutions involved. What does it involve in the way of millions or tens of millions or hundreds of millions of dollars?

Mr. WILSON. I would say it involves tens of millions of dollars. One thing you have to remember, sir, is that outside the United States, income tax is something that a lot of people don't even look at. In going in and out of foreign banks, taking cash out, transferring it out, getting gold and silver and diamonds and things like that, there are no questions asked. There is just millions of dollars that goes unreported, yes, sir.

Senator PERCY. Finally I would like to ask you about whatever relationship you might see between the situations that you have candidly described and the circumstances leading to the collapse of Equity Funding. Are the same principles that we are talking about today applicable to the Equity Funding collapse?

Mr. WILSON. Yes, sir. When they went through the assets of the insurance companies and discovered that many of the assets were non-existent and also discovered that they had their own printing press, if you will take that in relation to the charts and the other material that the committee has you will see that here are people who started out in a small way and just increased and increased and increased, and had their annual statements just go by the insurance department without any question of a doubt and nobody looking in the safe deposit box at the securities, and then running down to their own printer and printing up whatever they had and nobody questioned it.

Senator PERCY. Could this debacle have been prevented had there been more effective, more reliable and comprehensive reporting and validation systems for such securities?

Mr. WILSON. Absolutely, yes, sir.

Senator PERCY. Would you give us some examples of activities by other legitimate business enterprises and respectable individuals within the financial community which constitute more than unwitting assistance to fraudulent operations of organized criminal activities in this area? By perfectly honest and respectable people on the surface have practices that open up the door to these opportunities that are made available to you and your colleagues?

Mr. WILSON. Greed is one. Not understanding the securities, not really knowing how to check out the securities or where to check them out, and a lack of concern or care. This for some.

Senator PERCY. Do you really feel that so long as we must physically handle as much paper as we do—with these beautiful certificates, locked arms, scrolls, and coats-of-arms and all—that we will ever be able to get to the bottom of this thing and find ways to eliminate fraudulent use of securities?

Mr. WILSON. No, sir. I wonder also even if you get down to a computerized system that somebody won't be able to break the computers.

Senator PERCY. In other words, if we had everything on the computer, would that simply—

Mr. WILSON. Make it easier.

Senator PERCY [continuing]. Causing you to stay in college for another 6 months and take a computer course to figure out how to beat the computer? We have been trying to regulate for years with computers and there isn't a dirt farmer who can't beat out the computers as soon as they put the control program down.

Mr. WILSON. The computers can be beat. There is no question about it. It would be a challenge but it could be done.

Senator PERCY. You have now repaid society somewhat by using your obviously brilliant mind to help us devise ways to plug as many loopholes as we possibly can. Because we are deeply concerned in this subcommittee about the undermining of the economy of the United States—and certainly the financial houses are shaky as a result of some of these practices, and some widows and orphans who can be done out of savings through ignorance—we would very much appreciate anything you could do to contribute to our understanding and knowledge and try to find ways to plug these loopholes.

Mr. WILSON. Through my cooperation with the fraud section in the Department of Justice, Mr. McTiernan, Mr. Mark Richards, and Mr. Miller, I have attempted with my associates, including Jack Axelrod, Frank Blosser, and other people to give them our knowledge and know-how in the ways and wheres, and also through Mr. Phil Manuel of your investigating committee, and his people, I have been helping and cooperating and I will continue. I think this is one way I can pay the debt, and this is one thing that I am doing and will continue to do.

Senator PERCY. We appreciate that very much indeed.

I thank you for your cooperation with our very excellent staff that we do have.

Senator HUDDLESTON. You mentioned, I believe, five banks that operated in the same manner as the Bank of Sark. Can you tell us what happened to those banks?

Mr. WILSON. I would say that all those banks are out of business at this time.

Senator HUDDLESTON. They are no longer operating?

Mr. WILSON. Right.

[At this point Senator Percy withdrew from the hearing room.]

Senator HUDDLESTON. How do you maintain within your own organization the necessary security to permit you to continue to operate?

Mr. WILSON. I am sorry, sir?

Senator HUDDLESTON. How do you obtain within your own organization, among your own associates, the security necessary to continue operation?

Mr. WILSON. When you say security, what do you mean?

Senator HUDDLESTON. I mean the fact that the information is not leaked out, that information is not given to authorities?

Mr. WILSON. Senator, the information did leak out. No matter how hard we tried, it did.

Senator HUDDLESTON. Was this the weak link in your type of operation?

Mr. WILSON. Right.

Senator HUDDLESTON. Somebody is going to sell a stolen bond to the wrong person, which happened in your case, I believe?

Mr. WILSON. Well, a stolen bond or writing insurance policies here and there, or writing a commitment for somebody. Somebody always talks. Even in your own organization it happens, and it did happen in ours.

Senator HUDDLESTON. Has it happened in other organizations similar to yours?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Is this what eventually brought most of them down?

Mr. WILSON. Once you start or you become a known dealer and you become a target for an investigative agency, there is constant investigation, people coming in all the time. The people who work for you, unless they are partners, literally, become weak and just fold up.

Senator HUDDLESTON. You were aware of this possibility, I would assume, pretty shortly after you got into the operation, that it would happen?

Mr. WILSON. I was aware of it, but once I was into it, I was into it and I just continued until the day I stopped.

Senator HUDDLESTON. To what extent did you make checks on the individuals that you were dealing with to find out whether or not they were the kind that you could work with?

Mr. WILSON. We had somebody in our organization that double-checked on the people. There was people in the organization that would take a little extra money, extra expense accounts, employees, and things like that, and there were partners that got unhappy. We just quit doing business with them. We let them dry up.

Senator HUDDLESTON. But actually you fell victim to the same type of operation of so-called legitimate businesses that permitted you to operate in the first place. That is going around the barn to say that you were caught because somebody you dealt with was not thoroughly checked out, or somebody within your organization may have taken a bribe from somebody to be careless.

Mr. WILSON. That happened, too, yes, sir.

Senator HUDDLESTON. Mr. Wilson, did you ever hear of a man by the name of Leroy Kerwin?

Mr. WILSON. Yes, sir.

Senator HUDDLESTON. Do you know what happened to Mr. Kerwin?

Mr. WILSON. It is my understanding that he died mysteriously and was found in a shallow grave on a farm somewhere in Canada.

Senator HUDDLESTON. Do you know anything about his operations, why he might have come to this untimely ending?

Mr. WILSON. Not really. I was dealing with him and Harold Audsley with Bank of Sark and First Liberty Fund. After his demise I was told he was also working for syndicate people in Chicago. That is all I know about it.

Senator HUDDLESTON. Do you know what relationship he might have had with Harold Audsley?

Mr. WILSON. They were friends and were attempting to negotiate AFCA and First Liberty Fund shares in Europe.

[At this point Senator Gurney withdrew from the hearing room.]  
Senator HUDDLESTON. While we are checking the vote on the floor, would counsel proceed?

Mr. FELDMAN. This is the Allied Fund for Capital Appreciation statement, Mr. Chairman, which you questioned on this morning, which I would like to have made an exhibit.

Senator HUDDLESTON. That will be exhibit 90.

[The document referred to was marked "Exhibit No. 90" for reference and may be found in the files of the subcommittee.]

Mr. FELDMAN. You mentioned in your prepared statement that you got so perfect you were making up your own Telex responses to cables from banks for confirmation; is that correct?

Mr. WILSON. That is correct.

Mr. FELDMAN. Are these those responses?

If so, I would like to put them into the record, Mr. Chairman.

These are Telex messages confirming. You were acting as Credit Suisse, in other words?

Mr. WILSON. What we did was we took what Credit Suisse said and Chase Manhattan said and just changed it so it was good instead of bad.

Mr. FELDMAN. And it says, "Our number" and gives a number "Refers to valid letters of credit in good order. At this time we are holding funds. Credit Suisse, Zurich."

Mr. WILSON. Right.

Mr. FELDMAN. You copied that and you supplied that along with your letter of credit?

Mr. WILSON. Right.

Senator HUDDLESTON. That will be exhibit 91.

[The document referred to was marked "Exhibit No. 91" for reference and may be found in the files of the subcommittee.]

Mr. FELDMAN. We also have certain documents which appear to be copies of certain Bank of Sark checks payable to Banco Exterior. I ask you to identify these documents and explain how the originals were used in your transactions.

Could they be marked as an exhibit, Mr. Chairman?

Senator HUDDLESTON. That will be exhibit No. 92.

[The documents referred to were marked "Exhibit No. 92" for reference and may be found in the files of the subcommittee.]

[Document handed to witness.]

Mr. FELDMAN. Why don't you study those and when the members return we will finish it up.

Senator HUDDLESTON. The committee will stand in recess for about 15 minutes.

[Recess at 3:43 p.m., with the following member present: Senator Huddleston.]

Mr. FELDMAN. We have just been informed that there will be another vote. Due to the hour, we will recess at this time until 10 o'clock tomorrow morning.

[Whereupon, at 4:47 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, September 20, 1973.]

**END**