

Date:10/01/93
Page:1

JFK ASSASSINATION SYSTEM

IDENTIFICATION FORM

AGENCY INFORMATIONAGENCY : SSCIA
RECORD NUMBER : 157-10005-10225

RECORDS SERIES :

AGENCY FILE NUMBER : R891

DOCUMENT INFORMATION

ORIGINATOR : SSCIA
FROM :
TO :TITLE :
TESTIMONY/REPORT OF PROCEEDINGS WITH EXHIBITSDATE : 08/12/75
PAGES : 90SUBJECTS :
TESTIMONY OF HOUSTON, LAWRENCE RE: CIA AND CASTRO
EXHIBITS ARE INCLUDEDDOCUMENT TYPE : PAPER, TEXTUAL DOCUMENT
CLASSIFICATION : T
RESTRICTIONS : REFERRED
CURRENT STATUS : P
DATE OF LAST REVIEW : 10/01/93

OPENING CRITERIA :

COMMENTS :
BOX 248-02-----
[R] - ITEM IS RESTRICTED

Bx 36

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1 Niarchos' ship captains named Katopodes brought a libel action
2 I believe it was, against Onassis for some letter he had written
3 about some activities of Katapodes, I can't remember the
4 details now.

5 We didn't know where this was leading. So this was in
6 the Supreme Court of New York State, and so I went to a fellow
7 I knew in the U.S. Attorney's office and asked him if he
8 could keep track of how this suite was developing to see if
9 it was leading into some of the connections we had, par-
10 ticularly with Niarchos.

11 And he got some of the pleadings and some of the pre-
12 trial evidence --

13 Mr. Wides. But you don't recall any contacts between
14 the Agency and the Justice Department resulting in Mr. Yeagley
15 going up to try and halt some aspects of the grand jury
16 proceedings in New York growing out --

17 Mr. Houston. It strikes no valve.

18 Mr. Wides. Let me ask just one more question in this
19 area and then we will move on to the document I asked you to
20 look at before we started.

21 Mr. Maxwell. I have just one other question.

22 Mr. Wides

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Do you recall that incident and the eventual denouement of the affair?

Mr. Houston, I cannot remember the exact chronology. I had thought they had gotten the report on the problem a little earlier than you suggested. But I can't argue it.

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It was a confused picture. All sorts of interpersonal feelings

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1 that I recall were going on out there. And I think one of the

2 [Redacted]

3 [Redacted]

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10 And I said, there is no particular problem, because
11 there is nothing we can do about it because there is no crime
12 against the U.S. that I can find in this situation, it is a
13 crime against [Redacted]

14 And Allen said, that well may be. But I still think
15 that I want to report this to Justice.

16 [Redacted]

17
18
19
20 So, I did prepare a report and delivered it to -- I
21 can't remember-- probably to the Assistant Attorney General,
22 Criminal Division, who ever it was.

23 They said to the effect, thank you, that is it. There
24 is nothing we can do.

25 Mr. Wides. Was there any discussion of the possibility

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Mr. Wides. Did you have another question in this area?

Mr. Maxwell. I just wanted to say, if you wanted to continue, you said there were three cases that eliminated the

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1 kind of cases which CIA had with Justice, and the referrals,
2 and you had gone through one. And I wondered if you wanted
3 to go through the other two.

4 Mr. Houston. All right.

5 The second one was quite an interesting one. If I give
6 it in too much detail, excuse me.

7 Mr. Maxwell. Off the record.

8 (Discussion off the record.)

9 Mr. Maxwell. Back on therecord.

10 Mr. Houston. [redacted] all of a
11 sudden disappeared from his post, and there was indication
12 that he had with him a considerable sum of money, something
13 in the nature of \$30,000, I can't remember the exact amount.
14 This was promptly reported, and he disappeared into the blue.

15 The [redacted] started looking into it. And I believe we
16 sent people over to try and look into it, and found that
17 there had been a serious family problem between himself and his
18 wife.

19 Finally, [redacted] in Mexico we got
20 word that this fellow was near Mexico City, and he passed word
21 to the [redacted] through a lawyer that he had written all the
22 operational details of what he had been engaged in [redacted]
23 which again were very sensitive, sealed them, and put them
24 in a vault which only the lawyers could get at, with instruc-
25 tions to his lawyers that if anything happened to him, no

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1 The SEC, as a result has raised some questions with Justice
2 between our justice and our statutory problems. This is
3 before Justice now.

4 Mr. Wides. Is there a file in the OGC office generally
5 regarding, not necessarily every one, but many of your --
6 which would contain many or most of OGC contacts with
7 Administrative agencies over the years?

8 Mr. Houston. No, because they weren't -- there probably
9 is a substantial file on relations with Internal Revenue.
10 But those were to a large part either working out our own
11 tax equations on our own personnel with cover problems which
12 you probably know about, or the CAT situation, or Southern
13 Air Transport, and not interfering with IRS prosecutions,
14 although several times we were involved -- here is the type of
15 case I guess you are talking about.

16 What is the fellow out in the Philippines -- I think his
17 name is **Stonehill** -- who had one of the biggest tax assess-
18 ments made against an individual made against him, I think,
19 \$2 million? And **Stonehill** very definitely tried to involve
20 us in his defense. There was some connection with **Stonehill**
21 in the Philippines, you couldn't be in the Philippines without
22 some connection with them. And yet gave IRS the full in-
23 formation, and said, don't bother with us, we are not
24 concerned.

25 Mr. Wides. What about such things as the contacts with

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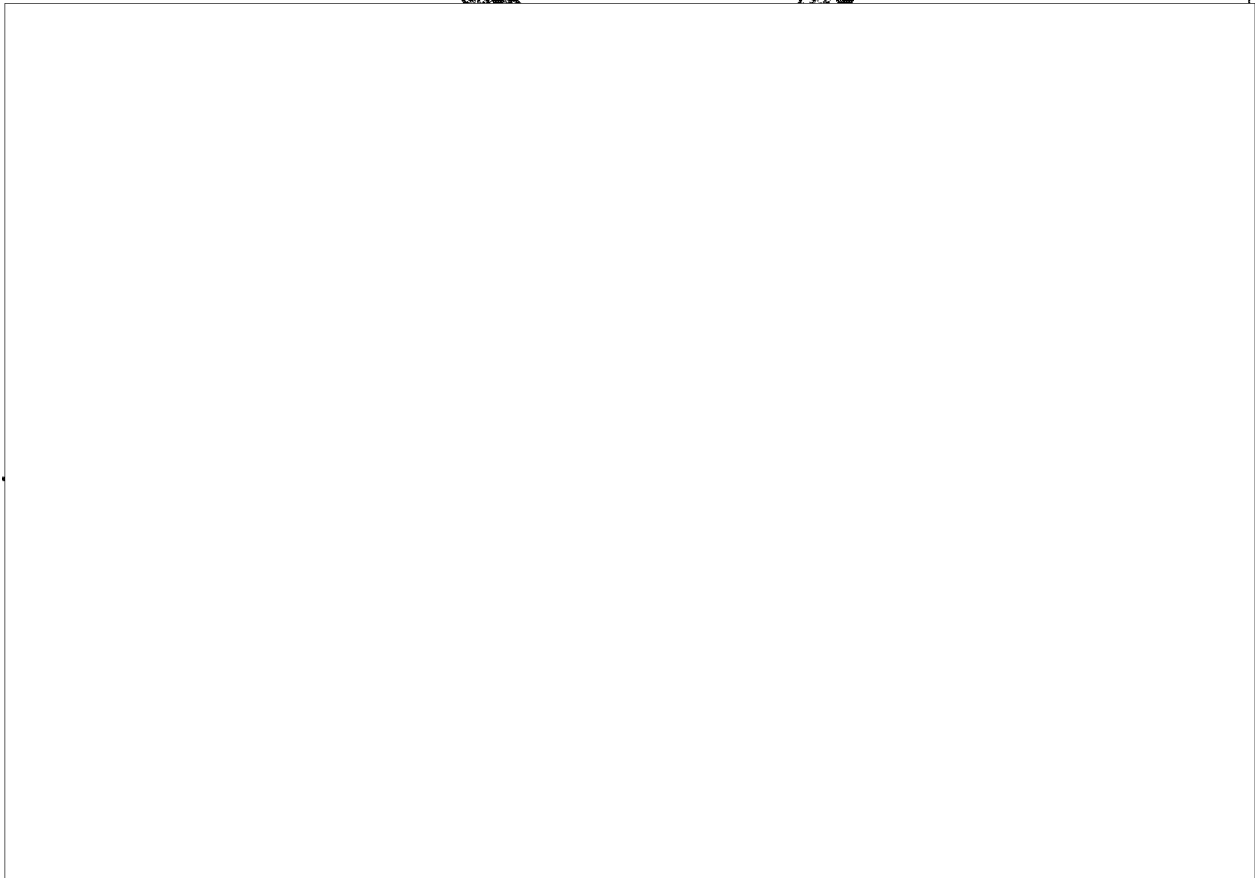
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1 Mr. Houston. It was a memo of DITEL's that I saw.
2 I think it was dated after I left. I saw it in draft after-
3 ward. It had to do, I recall, with operations in the Trust
4 Territories.

5 Mr. Wides. In other words, the first category of issue
6 that I mentioned?

7 Mr. Houston. Yes.

8 Mr. Wides. With regard to MH MUTUAL, which is a topic
9 that we obviously don't have time to discuss fully today, and
10 we have not yet seen the files, I wonder -- and Mr. Maxwell
11 was going to pursue this, and I may be back -- if you could
12 give me a rough idea during the period when it was under your
13 stewardship of the organizational chart, as it were, for the



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Mr. Houston. There were about two or maybe three recommendations from the Investment Counsel we had at the time we were turned down --

Mr. Wides. Excuse me. Was the Investment Counsel the person you were referring to?

Mr. Houston. No, this was an outside investment counsel we retained for advice for a period of time.

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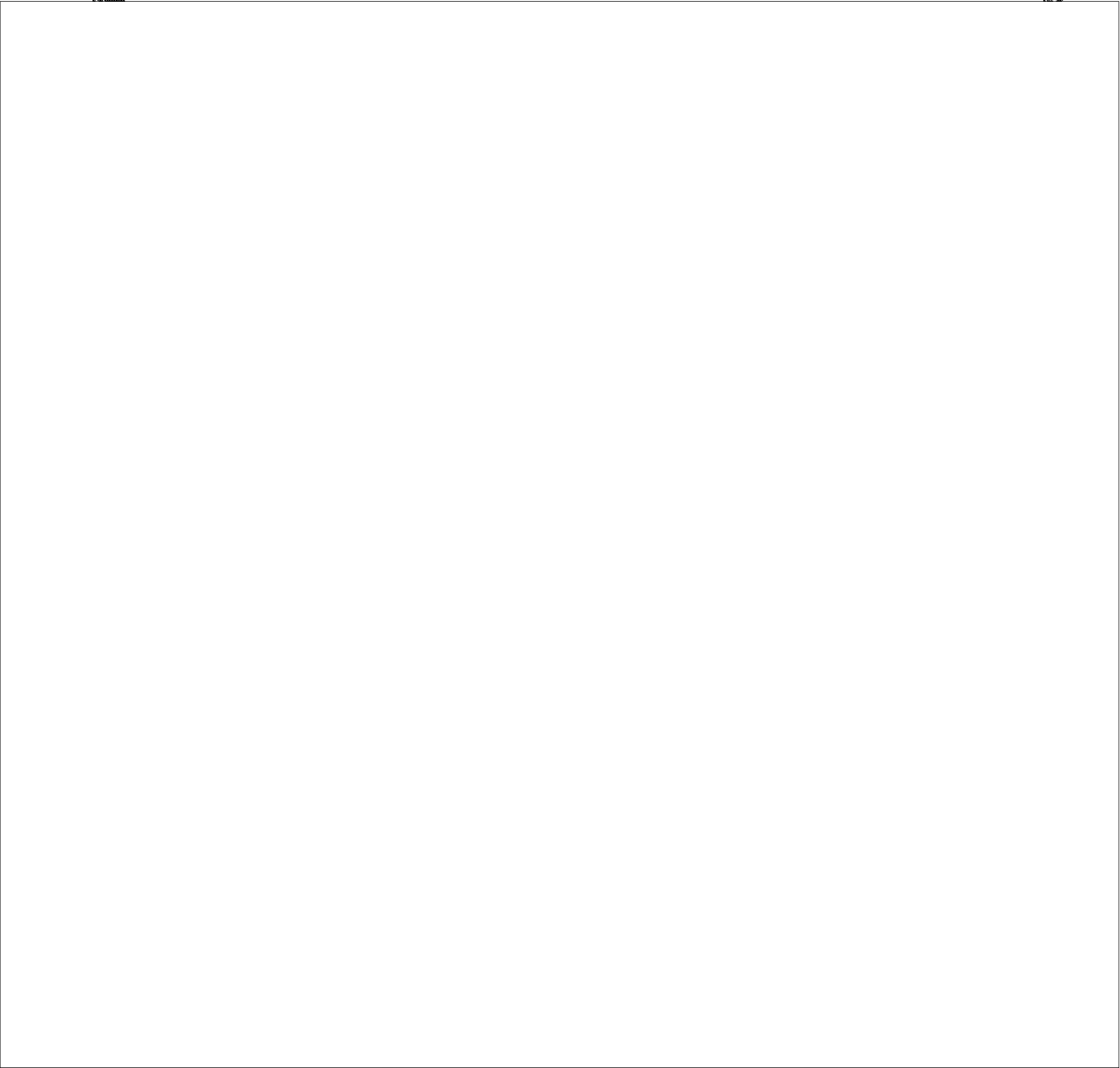
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So, finally, we decided that while we had gone to him for a good reason, that is, so we could show that we had relied on outside counsel of known stature, that it was not fair either to him or to us to be in circumstances where we were really secondguessing him through our own internal procedures and our own investment sort of Board of Directors. So we left, I hope, on friendly terms.

Mr. Wides. About when was that?

Mr. Houston. Let me guess at around 1969, something

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1 like that.

2 Mr. Wides. Up until then as far as you know there
3 was no investment of Agency funds that were made as a result
4 of any decisions or implications within the CIA which might
5 then have been run by him for his independent advice but might
6 have originated or prompted within the Agency?

7 Mr. Houston. There may have been those. You see,
8 on our Board of Directors to which we referred all basic in-
9 vestment decisions we had three of our top economists, and
10 at least one of them was a member of a couple of college
11 investment boards, so that they had the benefit of the advice
12 to those university investment counsel.

13 Mr. Wides. Was he a consulting economist or a member--

14 Mr. Houston. A member of the staff.

15 Mr. Maxwell.

16 Mr. Houston. Yes.

17 Mr. Wides. And her relationship with the university
18 board was what, as an alumni?

19 Mr. Houston. As an alumni. She was called as a
20 consultant on their investment program.

21 We also had the advice of a couple of friendly banks,
22 and at least a couple of insurance companies would freely
23 give us the benefit of their investment policies.

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(Discussion off the record.)

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2 Mr. Houston. To go back to the start -- it may have
3 already been told -- back in the last fifties we found in
4 the OGC office that the hardest thing to cope with were bene-
5 fits for death or disability insured under covert circumstan-
6 ces, particularly when, as so often happened, no prior planning
7 had been made for this. Even the prior planning is diffi-
8 cult, because if you are going to put an agent into certain
9 circumstances, and say you will get him insurance through
10 Mutual of Omaha, if the circumstances of the Department are
11 later known to Mutual of Omaha, they might say, well, that
12 is not a risky cover, and continually you wouldn't have
13 your insurance.

14 So, we came to the conclusion that we needed our own in-
15 surance business, and we started by buying two very small
16 off-shore insurance companies, and started writing death and
17 health policies. Now, the business grew quite rapidly to
18 cover all sorts of covert operations. And we went to two
19 large outside insurance companies and asked if they would
20 cooperate and take some of the policies either on a fully pro-
21 tected basis from us, or if they saw fit, for their own account.
22 And both of them did both. They would take some risks for
23 their own account, and the only thing we would ask is that
24 they protect the investigation in case it got into sensitive
25 fields.

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1 In others they would ostensibly take the risk and we
2 would stand behind them.

3 Mr. Wikes. So that was indemnification?

4 Mr. Houston. Complete indemnification. And by and
5 large this arrangement worked extremely well.

6 Mr. Wikes. So those were the kinds of insurance companies
7 were were talking about that would give us the benefit of
8 their investment?

9 Mr. Houston. Both of them had large investment portfolios
10 of their own, and feel I gave us access to their investment
11 manager, who were most cooperative in what they were invest-
12 ing.

13 Mr. Wikes. And what was the point of contact in the
14 Agency during that period for the insurance companies?

15 Mr. Houston. I went in both cases to set up the ori-
16 ginal contact, and then this project officer was the
17 primary.

18 Mr. Wikes. And he would have been the point of contact
19 for receiving their investment views?

20 Mr. Houston. He or his office.

21 Mr. Wikes. And you mentioned also a bank as an out-
22 side source.

23 Mr. Houston. There were a couple of banks, but one
24 particularly. We kept some of the money on deposit with this
25 bank.



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1 The bank at our
 2 request gave us a flat guarantee of repayment no matter what
 3 on these assets. So, we felt well protected on this. And also,
 4 when we deposited with them the certificates of deposit we
 5 got the normal prime rate on our deposits. And here again
 6 they particularly in the field of Eurobonds had some good
 7 advice, and we also went to another brokerage house in
 8 New York who had investment advisory staff that specialized in
 9 Eurobonds. So far as I know, they did not know the Agency
 10 was involved, but they gave advice on the best interest rates
 11 in Eurobonds and certificates. It was a highly specialized
 12 field.

13 Mr. Maxwell. Who was going to the investment house, the
 14 project officer?

15 Mr. Houston. The project officer.

16 Mr. Wides. Do you recall any dealings with Suydam and Com-
 17 pany?

18 Mr. Houston. No. I have been asked time and time again
 19 about Suydam Company, and the only thing I knew was from
 20 personal knowledge going back to a trust my sister has an
 21 interest in in the Guaranty Trust. They had one of these hold-
 22 ing companies which I think was called Suydam and Company. But
 23 you never heard -- who was it? I know. One of our directors
 24 of Southern Air Transport told me that he was continually
 25 being asked by contact with Suydam and Company. And he said

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1 that is the only one he knows, was the Guaranty Trust. There
2 was someone else, I don't know about it.

3 Mr. Wides. GETting back to the question I alluded
4 to while we were off the record, did any questions arise about
5 whether the people on the board, the investment board, or manag-
6 ing board of Mutual, who were from within the Agency, would
7 have access to economic intelligence or political intelli-
8 gence relevant to their own thinking on investments, and

9
10 Mr. Houston. The members of the board were always free
11 to bring up their ideas for investments, particularly in the
12 stock field, until more recent years. But mainly we were
13 consulting the economic experts for their general economic knowl-
14 edge on trends and any input they could give on basic invest-
15 ment policies.

16 Mr. Wides. That would include, I assume, economic in-
17 telligence regarding, for example, the trend of whether there
18 was likely to be a copper shortage, or the trend of
19 whether there was likely to be more nationalization of rubber
20 plantations or oil?

21 How would you differentiate that from economic intelli-
22 gence except that it would be --

23 Mr. Houston. Because our investments, except for the
24 Eurobonds, were almost entirely in U.S. investments. And
25 while these were trained economists, their main professional

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1 interest was in the foreign field. And I don't remember them
2 staying, for instance, let's get into copper, it is going to
3 be in very short supply in Peru or whatever. I don't remember
4 any discussion of that sort.

5 Mr. Wides. Do you recall any policy papers or reviews
6 generally as to the use of Agency knowledge in the broadest
7 sense of its intelligence fund in regard to the investment
8 decisions as distinct from decisions that were generated wholly
9 by outside?

10 Mr. Houston. There were various basic general policy
11 papers -- usually I would prepare them and put them before
12 the board -- in which this may have been touched on. I don't
13 recall it specifically.

14 Mr. Maxwell. The source of funds invested under the
15 auspices of the board were what?

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21 In other words, all these companies that we had in
22 this insurance complex appeared to have the substance an
23 insurance company would be expected to have. Actually, the
24 whole fund for all of them was managed as a central fund under
25 this one project officer. On the design and organizational

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1 chart it looked very complicated. In operation it was quite
2 simple. It was handled really as one entity with various faces
3 appearing. And the complications of those whereby maintaining
4 your directors, who took no part in the operation, your companies
5 directors, and things, and keeping your letterhead straight
6 for your writing for the different companies.

7 Mr. Maxwell. Were there other sources of funds,
8 profits in stock or bond transactions that
9 went back into the investment fund?

10 Mr. Houston. They would all go into the central in-
11 vestment fund, and in the initial stages, particularly where
12 there was income from funds and dividends -- until the stock
13 market broke there were some capital gains registered. Then
14 the investment policy went more and more, particularly as
15 the interest rate went up, in the Eurobonds and certificates
16 of deposit, where for a while you were getting -- I think we
17 got a weighted average of over 11 percent. And then those
18 would go back into the fund against the insurance loss account-
19 ability. The most difficult thing we had was trying to
20 decide what was enough, because there was no actuarial exper-
21 ience such as in a nominal insurance company.

22 Mr. Wides. You mean the capitalization of particular
23 companies against insurance?

24 Mr. Houston. Exactly.

25 Mr. Wides.

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Mr. Wides. With regard to the investment, in the case of certificates of deposit abroad I take it that is what you are referring to as the weighted average, when you weighted Eurodollars, Eurobonds and certificates of deposit. Whatever the form, were some of the investments in foreign countries made in any way in consultation with the operating divisions in regard to the non-investment aspects of the loan, if you will,



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Mr. Houston. No.

Let us get one thing straight. The certificate of deposit were domestic.

Mr. Wides. Were there any foreign loans?

Mr. Houston. There were no foreign loans that I recall. The Eurodollar bonds were in the case those which were guaranteed by a U.S. company.

[Redacted]

I can't even be sure of that, but my recollection is by and large of subsidiaries of U.S. companies which do not guarantee their subsidiary bonds.

Mr. Wides. Thank you.

Mr. Maxwell. I would like to go through some of the material in the Olsen case. And I have marked as Houston Exhibit 5 the excerpts from the IG's diary which I showed you before.

(The document referred to was marked Houston Exhibit No. 5 for identification.)

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