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DETAILS:

The following investigation was conducted concerning alleged irregularities, disclosed by a Federal Deposit Insurance Corporation (FDIC) examination, of Public Bank, Detroit, in regard to certain loans to the Alvin Naiman Corporation (\$50,000.00 on October 16, 1959, \$240,000.00 on October 24, 1959, and \$75,000.00 on April 7, 1960); to Niagara Crushed Stone (Humberstone), Ltd. (\$240,000.00 on October 24, 1959, and \$75,000.00 on April 7, 1960); and to Vendorama of Ohio, Inc., (\$50,000.00 on October 3, 1960):

At the request of Department Attorney WILLIAM FRENCH, this investigation has been concentrated upon the alleged irregularities in regard to the above-mentioned loans; and other alleged irregularities disclosed in the FDIC examination are to be referred to the United States Attorney for prosecutive consideration after instant investigation has developed the facts as to a possible conspiracy in regard to these loans and the involvement of the various subjects. Mr. FRENCH indicated that the other alleged irregularities reported by FDIC would be made the subject of separate cases but he does not desire that these cases be opened at this time and will advise at a later date when he considers it appropriate that these matters be discussed with the United States Attorney.

During the period of this report there were frequent contacts with Mr. FRENCH, who advised as to additional information received by the Department of Justice and who was informed of the current results of this investigation.

On September 12, 1962, a detailed discussion was had with Mr. FRENCH regarding the information developed to date. Emphasis was placed by Mr. FRENCH on the need for determining what information was available at Public Bank regarding the financial condition of the Alvin Naiman Corporation, Niagara Crushed Stone (Humberstone), Ltd. and Vendorama of Ohio at the time loans were made to those companies by Public Bank in 1959 and 1960. Such information is considered essential by Mr. FRENCH in determining whether the granting of these loans constituted misapplications of bank funds in violation of Section 656, Title 18, United States Code. Mr. FRENCH desired that this phase of the investigation be given early attention, together with interviewing PAUL P. YODER, Jr., as to his knowledge concerning financial data made available to Public Bank preliminary to granting these loans. Mr. FRENCH indicated that upon completion

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of the above inquiries and review of material accumulated from various sources, he expected to have a further detailed discussion as to the other phases of investigation which he desires to be gone into. (Beginning in October, 1962, and continuing to the present time, Mr. FRENCH has been engaged in the preparation and trial of another involved matter in United States District Court, Detroit.)

On August 29, 1962, Mr. FRENCH advised that the Department of Justice had received information indicating that HERBERT L. GROSBERG of Detroit probably was in Chicago, Illinois, on June 14, 15 and 16, 1959, and stayed at the Shoreland Hotel, Chicago.

On September 17, 1962, Mr. FRENCH was advised that investigation at Chicago had disclosed that on June 14 and 16, 1959, telephone calls were reportedly made from the Shoreland Hotel by GROSBERG to the following numbers in the Detroit area:

WO 5-4900
WO 5-8329
LI 7-7237

Mr. FRENCH advised that he had received information that LI 7-7237 was GROSBERG's home telephone number in 1959, that WO 5-4900 was his office telephone number in Detroit, and that WO 5-8329 was the telephone number of his broker, Manley Bennett and Company, Detroit.

On September 20, 1962, Mr. FRENCH requested that contact be made with Department Attorney JAMES CANAVAN or FRANK KIERNAN in care of the United States Attorney's Office in Chicago in regard to obtaining access to a voluminous tabulation of toll calls of the International Brotherhood of Teamsters, Washington, D.C. According to Mr. FRENCH, this tabulation was in the possession of the Department of Justice staff members in Chicago; he requested that it be reviewed regarding toll calls to or from individuals and telephone numbers known to be of possible interest in this investigation, for the period April 1, 1959, to July 31, 1961.

On October 3, 1962, Mr. FRENCH advised that the Department of Justice had received information that in July, 1959, a trip was made to Chicago by HERBERT L. ~~GROSBERG~~ of Detroit which may relate to a telephone call reportedly made to Public Bank by GROSBERG from Chicago in behalf of ALVIN NAIMAN or may be about the time NAIMAN's request for a loan was considered by the Teamsters Pension Fund in Chicago.

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GROSBURG reportedly stayed at the Palmer House, Chicago, on the night of July 20, 1959, and was charged ninety-nine cents for a long-distance telephone call.

On October 3, 1962, Mr. FRENCH requested that contact be made with CHARLES Z. SMITH, Special Attorney, Department of Justice, Chicago, to arrange for a review of minutes of the Teamsters Central States Southeast-Southwest Areas Pension Fund for any references to an application for a loan in 1959 in approximate amount of \$300,000.00, which may have been in the name of ALVIN A. NAIMAN, Alvin Naiman Corporation, Niagara Crushed Stone (Humberstone), Ltd., Akros Dynamics Corporation or DOMINICK E. BARTONE. He advised that possibly this loan application was considered on the same date as the loan for the Ogelthorpe Hotel, Savannah, Georgia.

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He also requested that it be ascertained whether CHARLES Z. SMITH has records in his possession concerning conference calls made by attorney STANFORD CLINTON concerning votes on loans being considered by the Pension Fund and also whether he has records of the Real Estate Research Corporation of Chicago in his possession. Mr. FRENCH requested if such records were in the possession of Mr. SMITH that they be reviewed for any available information concerning the above-mentioned loan application.

WILLIAM P. FRENCH, Department Attorney, Detroit, made available for review a copy of a report of examination of Public Bank (PB), Detroit, as of the close of business December 26, 1961, by Federal Deposit Insurance Corporation (FDIC) examiners, with WILLIAM D. ALLEN as examiner-in-charge. ALLEN was in charge of previous FDIC examinations of PB on May 8, 1961 and January 11, 1958; other FDIC examinations were conducted May 2, 1959 and March 7, 1960. Following is a summary of pertinent information from the report of the December 26, 1961 examination:

PB is located in FDIC District 7 and has Certificate #17848. The president, executive vice president, senior vice president, and all senior lending officers are quartered at PB's Michigan-Shelby Office, 201 Michigan Avenue, Detroit, which is a branch office established January 19, 1958. All loan activity of PB funnels through this branch, at which are kept industrial and commercial loan notes, along with their supporting data and security, as well as commercial deposit ledgers for all offices. Branch operations of all PB branches on the west side of Detroit were supervised by Assistant Vice President ROBERT E. MC CARTHY, JR., and the operations of the Michigan-Shelby Office were supervised by Senior Vice President JEROME J. ZIELINSKI.

Under the heading of "Loan Policies" it was reported that as a matter of practice President JOSEPH F. VERHELLE exercised unlimited authority in the granting of credit, although the larger applications were generally presented to the Board of Directors or the Executive Committee for consideration before the loans were granted. In other cases it appeared that larger loans were granted and later approved by the Executive Committee or Board of Directors. Other senior loan officers exercised limited loaning responsibility under the supervision of VERHELLE. Other than demand loans, past-due loans in excess of \$2,500.00 were reviewed by the Executive Committee weekly; demand loans were considered to have monthly interest due, and if unpaid as such they were past due; no review was made of important maturing loans except by the officer handling the account. The Collateral Department appraised marketable collateral periodically, and nonnegotiable collateral was reviewed at the inception of the loans and at renewal dates.

It was reported that credit information for many of the large lines and concentrations of credit was lacking or too old. Balance sheets and operating statements for full accounting periods were deficient, and supporting credit data for collateralized lines were very inadequate. PB did not as a practice advance maturity of notes upon payment of interest without requiring a formal renewal note or extension agreement; but demand notes were regarded as being renewed by the payment of interest monthly. PB had a general policy of requiring amortization on real estate and term loans, but there were many lines of credit of large amounts which have no visible terms of repayment and the servicing of the credits would indicate that there is no program. With regard to loans secured by real estate and chattels, collateral real estate and chattel mortgage security was deficient as to supporting papers in numerous instances.

At each FDIC examination following the entrance examination of January 11, 1958, liquidity of PB was found to be disproportionately low and total loans excessively high. The failure of management to respond to recommendations to improve liquidity and curtail loan totals to more satisfactory levels was considered a serious indictment of management's desire and intent to operate PB in an accepted sound and conservative manner. VERHELLE was considered responsible for this recalcitrance.

PB's loan portfolio at December 26, 1961 equaled 79.9% of total deposits as compared with 66.7% at May 8, 1961. The consolidated loan-deposit ratio of all insured commercial banks in Michigan as of December 30, 1961, was 49.6%.

Overdue loans totaled 12.3% of the loan account at PB as of December 26, 1961; and unfavorable delinquency conditions included the inability or lack of desire of the borrower to meet his commitment, and weaknesses and ineffectiveness in the loan administration of PB, particularly in its collection procedures. The credit quality of the loan account, as measured by adverse classifications, has declined at each FDIC examination since PB was organized. The percentage of total loans which were adversely classified was 2.7% at May 2, 1959; 6.9% at March 7, 1960; 12.7% at

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May 8, 1961; and 27.7% at December 26, 1961. The consistent and progressive deterioration of the credit quality of the loan portfolio had reached such extremely serious proportions that corrective action was considered imperative and essential to the future of PB.

Ex-president VERHELLE, who completely dominated both loan policy and loan administration and personally directed the administration of the larger and more important lines of credit, was reportedly responsible for the unsatisfactory condition of the loan account and for the lack of remedial action.

The FDIC report recommended that management give early attention to the adoption of a comprehensive, formal loaning policy in writing which would provide adequate control and supervision by the Board of Directors; establish the loaning authority and responsibility of all loan officers; permit adequate analysis and understanding of applications for loans by appropriate elements of management, including directors; and require systematic review and analysis of total obligations of individual borrowers by the directors, loan committees, and active management. It was also recommended that total loans be curtailed to satisfactory proportions; and that the Credit, Collateral and Loan Discount Departments be revamped to provide adequate support to loan administration, full analytical information, and suitable controls of borrower relationships and internal operations. Present credit data were very much deficient on a number of borrowers; and there was need for credit files to contain complete and current data, including financial statements and earnings data for full fiscal years, adequate appraisals of security taken, and all needed supporting papers. Existing record and control of collateral were considered very inadequate, and there was need to audit and control interest received on loans.

It was also reported that debit and credit tickets for general ledger entries lack adequate detail and explanation, and should be cross referenced to show corresponding credit or debit. Numerous general ledger debit and credit tickets bore little or no description of the transactions which they represent.

It was reported that the operations of PB had been and still were inefficient, stemming principally from poor internal operating organization. Many of PB's staff were not being utilized to obtain maximum benefits from the qualifications for which they were being paid. Ex-president VERHELLE so centered and concentrated bank administration in his personal hands that even the most minor operating procedures were decided and dominated by him. The responsibilities he reserved unto himself were so extensive that he could not give them all due attention and consideration. PB's operating procedures and staff grew in a topsy-turvy fashion without proper guidance and direction.

The FDIC report as of December 26, 1961, under the heading "Overdue Loans" contained a schedule of loans of which any portion was subject to a substandard, doubtful or loss classification, as well as all overdue loans. This schedule includes two notes totaling \$800,000.00 from Port Colborne Quarries, Ltd.; \$224,375.00 of the balance of these notes was classified as substandard and \$400,000.00 was classified as doubtful. Both notes (one in the amount of \$100,000.00 and one in the amount of \$700,000.00) were dated October 19, 1961, and were placed on PB books on November 9, 1961. The larger note is secured by a real estate mortgage covering the stone quarry property on which PB had held mortgage liens in connection with loans to Niagara Crushed Stone (Humberstone), Ltd. No written appraisal of the quarry property was found at this or at prior examinations, although it was previously reported that an appraisal had been made but could not be located. The FDIC report also contained the following data regarding the quarry:

On May 8, 1962, the bank obtained a written appraisal of the quarry land showing the 116½ acres of land not quarried being valued at \$116,500.00 and the 25 acres already quarried or being quarried being valued at \$250.00 per acre or \$6,250.00 making a total appraised value of \$122,750.00. Appraisal is the market value of the land and is not as a going business venture. Appraiser is S. O. Mason Agency with Mr. D. R. MASON doing the appraising. Firm is considered competent real estate appraisers. The basis of the appraisal is the highest market price which the land will bring if sold on the open market and such value is for quarrying purposes only since the land otherwise

has no market value. Approximately 41 acres of the land cost \$41,500.00 in April, 1956, and the 100 acres was acquired for \$75,000.00 in 1959. It is stated the sellers had full knowledge of the stone reserve and the purpose of the buyers to develop the quarry. Also appraiser stated that there is considerable additional land of this type in the immediate vicinity and thus the value of quarry land is not enhanced by its short supply.

Public Bank first extended credit to the quarry operation when on October 24, 1959, a loan of \$240,000.00 was granted to Niagara Crushed Stone (Humberstone), Ltd., and a companion loan of \$240,000.00 was made to The Alvin Naiman Corporation (later Niagara Crushed Stone Sales of Ohio, Inc.). These obligations were secured by the quarry real estate, chattels, assignment of accounts receivable, stocks of the two borrowers, guaranties of several of the principals, subordination agreements, etc. On April 7, 1960, additional loans of \$75,000.00 each were granted to the two concerns on the same basis, and participations in the lines were sold to Bantam Industries, Inc., of \$150,000.00.

Balances had been reduced to \$205,698.40 each on the portions of the lines owned by PB and to \$40,698.36 each on the participations sold Bantam Industries, Inc., at the time Niagara Crushed Stone (Humberstone), Ltd., was delivered to the trustee in bankruptcy. In the intervening time, however, PB had incurred considerable out-of-pocket expense in servicing the lines, including an apparent operation of the business immediately prior to the bankruptcy action. Also during this period, PB disbursed the proceeds of a substantial amount (believed to be approximately \$232,000.00 or more) of the proceeds of loans given to PB by ELIOT JANEWAY, his associates and their interests. While the circumstances of this arrangement are clouded, it appears that the JANEWAY group borrowed money from PB to be fed into the operations stream of Niagara-Naiman concerns and that bank disbursed these funds to the Niagara-Naiman concerns. Evidence in files of PB indicates that the JANEWAY group expected PB to serve in a trustee capacity to see that the proceeds of the borrowings of the JANEWAY group were properly expended and accounted for.

At the time Port Colborne Quarries, Ltd., purchased the quarry lands and the chattels needed to operate the quarry business from Niagara Crushed Stone (Humberstone), Ltd., bankrupt estate, the trustee in bankruptcy received a release of the claims of PB and other secured creditors against the bankrupt estate and \$50,000.00 in cash from Port Colborne Quarries, Ltd. PB then obtained the two notes for \$700,000.00 and \$100,000.00 from Port Colborne Quarries, Ltd., because of the bank's claim against the bankrupt estate. It is believed that the bank's supplemental claim filed with the trustee in bankruptcy included the advances of the funds of the JANEWAY group and interest thereon and that bank thus has accountability to this group for the proceeds received in the settlement of claims.

Although the appraised value of the only security to line is \$122,750.00, such appraisal gives no consideration to increment in values as a going business. Such going value, however, is based upon the ability of the business to produce satisfactory profits from its operations and such has yet to be established.

Only President VERHELLE possesses an accurate and composite understanding of the ramifications and intricacies of the Port Colborne Quarries, Ltd., line and the predecessor lines of Niagara Crushed Stone (Humberstone), Ltd., and The Alvin Naiman Corporation (Niagara Crushed Stone Sales of Ohio, Inc.). Also only he has first hand knowledge of the relationships between and among these borrowers and ELIOT JANEWAY and his associated group of borrowers at PB. President VERHELLE, however, successfully avoided any discussion of those interlaced lines until he no longer was president of PB. Accurate analysis and classification of the lines and in particular the line to Port Colborne Quarries, Ltd., were of necessity made without the benefit of information customarily obtained from active management and the loan officer servicing. Credit data are lacking in essentials and classifications have been made on the basis of information available to examiners.

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A review of exhibits compiled during the FDIC examination of Public Bank as of the close of business December 26, 1961, disclosed that various labor unions had deposit accounts at Public Bank, with total balances on December 26, 1961, as follows:

Commercial accounts	\$ 353,482.91
Savings accounts and time certificates of deposit	<u>5,657,243.76</u>
Total	<u>\$6,010,726.67</u>

Included in the above totals were the balances of various accounts of Teamsters Union organizations, as shown below:

Commercial accounts	\$ 127,914.65
Savings accounts and time certificates of deposit	<u>1,660,192.68</u>
Total	<u>\$1,788,107.33</u>

Following is a chronological listing of deposits of \$20,000.00 more which were made to the above-mentioned accounts of Teamsters organizations from February 26, 1958 through July 23, 1961:

<u>Date</u>	<u>Account</u>	<u>Amount of Deposit</u>
2/26/58	Savings account #377, Food and Beverage Drivers, Warehousemen and Helpers, Local #337	\$50,000.00
10/31/58	Savings account #2644, Michigan Conference of Teamsters	30,000.00
12/3/58	Teamsters, Chauffeurs, Warehousemen and Helpers, Local #247, Savings account #2702	50,000.00

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<u>Date</u>	<u>Account</u>	<u>Amount of Deposit</u>
3/16/59	Food and Beverage Drivers, Warehousemen and Helpers, Local #337, Savings account #377	\$20,000.00
5/7/59	Savings account #2383, Michigan Conference of Teamsters - Welfare	50,000.00
8/12/59	Teamsters Truck Drivers Local #299, Savings account #55001	525,000.00**
9/9/59	Teamsters, Chauffeurs, Warehousemen and Helpers, Local #247	
	Savings account #55190	70,404.53*
	Commercial account	100,000.00
9/16/59	Teamsters Truck Drivers, Local #299, Savings account #55001	140,156.32
10/3/59	Teamsters Truck Drivers Local #299, Savings account #55001	37,547.89
10/16/59	Food and Beverage Drivers, Warehousemen and Helpers, Local #337, Savings account #377	20,000.00
11/12/59	Teamsters, Chauffeurs, Warehousemen and Helpers, Local #247, Savings account #55190	59,457.43
6/27/60	Teamsters Truck Drivers, Local #299, Savings account #55001	400,000.00**
2/23/61	Central States Southeast and Southwest Area Pension Fund #7000 - Time Certificate of Deposit #37	500,000.00
5/12/61	Food and Beverage Drivers, Warehousemen and Helpers, Local #337, Savings account #56900	50,000.00
6/20/61	Savings account #55190, Teamsters, Chauffeurs, Warehousemen and Helpers, Local #247	65,814.92

<u>Date</u>	<u>Account</u>	<u>Amount of Deposit</u>
6/21/61	Commercial account, Teamsters, Chauffeurs Warehousemen and Helpers, Local #247	\$65,000.00
7/23/61	Michigan Conference of Teamsters - Welfare Savings account #2383	100,000.00

It is noted that all of the above-mentioned Teamsters Union locals were located at 2741 Trumbull, Detroit (where JAMES RIDDLE HOFFA's Detroit Office also was located); and the Michigan Conference of Teamsters welfare fund was located at 2801 Trumbull, adjacent to the building at 2741 Trumbull.

*The above-listed deposit of \$70,404.53 on September 9, 1959, to savings account #55190 of Local 247 included \$50,876.88 transferred from savings account #2702 of Local 247 at Public Bank, and \$19,527.65 in the form of a cashier's check drawn on the Bank of the Commonwealth, Detroit.

Florida

**In regard to the above-listed \$525,000.00 deposit on August 12, 1959, to savings account #55001 of Local 299, it consisted of a \$125,000.00 check dated August 11, 1959, drawn on Fidelity Bank and Trust Company of Indianapolis, Indiana; and a \$400,000.00 check #2, dated August 11, 1959, of Truck Drivers Local Union No. 299, drawn on The Florida National Bank at Orlando, Florida. The latter check was payable to Public Bank; was signed FRANK COLLINS, Secretary-Treasurer; and was counter-signed JAMES R. HOFFA. This check, sent by Public Bank for collection from The Florida National Bank three times in August, 1959, was returned unpaid each time for the reasons that the signature JAMES R. HOFFA was a mechanical or facsimile signature and that "withdrawal these funds not in accord with agreement at time funds deposited." As of August 28, 1959, there was recorded a withdrawal of \$400,000.00 from savings account #55001, representing a "charge back" to the account for the \$400,000.00 check drawn on The Florida National Bank at Orlando, deposited with Public Bank August 12, 1959, and later returned unpaid. The deposit on June 27, 1960, of \$400,000.00 to savings account #55001 represented the proceeds of collection item OG #1606 (Public Bank), \$400,000.00 check on The Florida National Bank at Orlando, apparently paid through wire transfer to Hanover Bank, New York, New York, and City National Bank and Trust Company of Chicago, Illinois.