

The CHAIRMAN. All right, sir. Proceed.

Mr. RUTH. Loan sharking is a prime source of revenue for organized crime.

You will hear in the next few days from the expert law enforcement practitioners about the organization and operation of loan sharking. I would just cite a few things I believe to be important.

In Chicago, various reports reveal that small businesses, such as restaurants and bars, are utilized as a base of operations for loan sharks. One recent example of the scale of activity was the borrowing of \$150,000 by three brothers for a business deal. Having paid back \$165,000 during the first year, the brothers found they still had a remaining indebtedness of \$124,000. When two brothers were kidnapped, a note was signed for an additional \$200,000. All this on an original loan of \$150,000.

In Philadelphia, loan sharks will loan amounts ranging from \$5 to over \$100,000 at one time at interest rates varying from 100 percent per year to over 1,000 percent per annum. Businessmen and salesmen with an erratic flow of income resort to the loan shark to carry them past lean times. In a recent prosecution, records seized from the defendant revealed over \$250,000 in outstanding loans to over 300 individual debtors. Many of these debtors were automobile salesmen.

Another practice has been uncovered by law enforcement authorities in Philadelphia. An individual seeking a business loan may be turned away by legitimate credit channels as an undue risk. He then goes to a loan shark working illegally with a bank employee. The deal is consummated so that the individual will borrow, for example, \$12,500 from the bank by posting some form of worthless collateral. The customer then must pay \$2,500 to the loan shark who in turn gives a fee to the bank employee. The customer makes his payments to the bank on a \$12,500 loan and the loan shark acts as secret guarantor on the loan in order to protect the bank employee. It is impossible to say how widespread a practice this has become; but police and prosecutors are quite concerned about it.

Philadelphia law enforcement officials agree that in almost every large factory or other industrial establishment in the city, any employee can easily find a loan shark who will make small loans at interest rates up to 1,000 percent per year. An acute observer along the waterfront piers in Philadelphia will see the sharks operating in the open alongside persons taking numbers bets and others taking horse bets.

Also in Philadelphia, loan sharks have succeeded in taking control of some small businesses. The original owner, unable to pay his debt, finds himself operating a front for racket operations at a nominal salary. These owners also find that they must now buy products from other businesses controlled by organized crime. He may also find that his business is suddenly increased as organized crime forces clientele to switch their patronage and purchases to the defaulting owner's business. Such events occur in grocery stores, luncheonettes, tailor shops, television repair stores, appliance stores, restaurants, bars, and others.

Through such control, organized crime figures acquire a so-called legitimate source of income; or they may base gambling and loan sharking operations from these legitimate businesses; or they may