The mechanics of the syndicates' loan-shark operations is simplicity itself. Typically the syndicate Boss, with millions at his disposal for loan sharking, allots large sums to each of his chief underlings. They pay the "Boss" 1% "vigorish" weekly, and in turn distribute the money to various low-echelon criminals, charging them 1½%–2½% weekly. These are the loan sharks who make contact with the borrowing public; rates are generally not less than 5% weekly.

So with a $1-million investment, the overall return to the syndicate can easily reach $2.6 million annually. When loan sharks are convinced that a debtor is scraping the bottom of the barrel, a "sit-down" is arranged. This is the underworld's equivalent of commercial arbitration, whereby a final payment is negotiated—also known as "stopping the clock."

Occasionally, loan sharks engage the cooperation of established banks. This cooperation may be unwitting, or it may result from a bit of corruption. Take the case of Mr. X, who needs $6,000 to tide his business over a slack period. He gives a loan shark a promissory note of $8,000. The loan shark discounts the note at the local bank and remits $6,000 to the borrower. The difference is retained by the loan shark as vigorish, while the borrower is obligated to the bank in the amount of $8,000. A finder's fee for the loan shark may also be involved.

In several rarer cases, loan sharks have received *direct loans* from banks. Thanks to a corrupt loan officer, about $1.5 million was lent to a loan-shark operation in one instance. There has even been one arrangement whereby bank officials allowed loan sharks to make their initial contacts near the "immediate credit department" on the bank's premises.

A relatively new scheme making the rounds is a cross between a loan-shark and scam operation: the *mortgage advance-fee swindle*. Racketeers establish a phony company with a name similar to that of a reputable mortgage-money firm. Ads spread the word that mortgage funds can be obtained. When a prospective borrower—businessman or whoever—expresses interest, the company's representatives guarantee that the money is available but require payment of an advance fee, good-faith money. Upon payment, the swindlers are not to be heard from or found again.

*RIA observation:* The whole matter of avoiding the loan shark trap is one facet of the larger question of ridding your community of mob-dominated enterprises. Elimination of this menace alone would warrant cooperative steps as outlined in the action section.

## Appendix IV

### Correspondence From John J. Wholey, Attorney at Law, re Loan Sharking

Portsmouth, N.H., *May 31, 1968.*

Hon. George A. Smathers,
*Chairman, Select Committee on Small Business,*
*Senate Office Building, Washington, D.C.*

Dear Senator Smathers: Thank you for your reply of May 24th concerning my letter of May 16th together with a copy of the Truth-In-Lending bill.

You have my approval to include my letter of May 16, 1968 in the record of your hearing.

Sincerely,

John J. Wholey,
*Attorney at Law.*

Portsmouth, N.H., *May 16, 1968.*

Hon. George A. Smathers,
*Chairman, Senate Small Business Committee,*
*Senate Office Building, Washington, D.C.*

Dear Senator Smathers: In reading about your hearing on loan sharking, I felt that I should drop a note setting forth a perfectly legal operation here in New Hampshire, which in my opinion is as bad as any of the things you are hearing about now before your committee.

I am representing a couple who are being foreclosed by a company in New Hampshire—not a banking institution. In November, 1964, my clients borrowed $30,000, over my objections, from a so-called investment company, giving a first mortgage on a downtown piece of real estate that they had purchased for the