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IMPACT OF CRIME ON SMALL BUSINESS—1968

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HEARINGS

BEFORE THE

SELECT COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

NINETIETH CONGRESS

SECOND SESSION

ON

A REVIEW AND ANALYSIS OF THE IMPACT OF CRIME ON
SMALL BUSINESS

MAY 14, 15, AND 16, 1968



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90th Congress, second session

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IMPACT OF CRIME ON SMALL BUSINESS—1968

TUESDAY, MAY 14, 1968

U.S. SENATE,
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to call, at 10 a.m., in room 1202, New Senate Office Building, Senator George A. Smathers (chairman) presiding.

Present: Senators Smathers, Nelson, Hatfield, Javits, and Cotton.

Also present: William T. McInarnay, staff director and general counsel; and Ernest P. Evans, professional staff member.

The CHAIRMAN. The committee will come to order.

The Senate Small Business Committee today resumes its continuing investigation of the impact of crime on small business. This inquiry commenced last year with a series of hearings which demonstrated that small businessmen in the poverty-stricken neighborhoods of our major cities are the prime targets of the nonprofessional criminal who would rather rob and commit burglary than work for a living.¹

The purpose of the present hearings is to build a factual record on the impact of organized crime on the Nation's smaller business enterprises. More specifically, we are seeking information on the extent to which owners and managers of smaller companies are victimized by the highly organized and vicious practitioners of the loan-shark racket.

The hearings will continue tomorrow, Wednesday the 15th and on Thursday, the 16th.

Law-enforcement agencies have estimated that as a source of underworld revenue, loan sharking may be second only to the proceeds of illegal gambling. There seems to be little doubt that the illicit profits of loan sharks have an annual total running into hundreds of millions of dollars.

The infiltration of legitimate businesses by loan sharks is a relatively recent chapter in the sordid story of organized crime in the United States. To the gangster, the prospect of investing his surplus cash in a legitimate business firm has definite attractions.

In the first place, it almost guarantees control of the company.

Secondly, for a racketeer to associate with respectable enterprises gains for him a desired measure of respectability.

Thirdly, loan sharking requires little skill or brains; the necessary ingredients for a loan shark operation being only money and the muscle required for the collection of usurious interest rates.

¹ See hearings, "Impact of Crime on Small Business," April 24, 25, and 26, 1967.

Fourthly, once control of a company is achieved by a loan shark, the way is clear for milking that company and forcing it into fraudulent bankruptcy.

In the course of these hearings, the committee will receive testimony from those who have been victimized by loan sharks.

No other committee of the Congress, to the best of my knowledge, has thus far attempted to study the effect upon the national small business community of loan sharking.

The committee has initiated these hearings pursuant to the authority granted to it by the standing order of the Senate, "to study and survey by means of research and investigation all problems of American small business enterprises, and to obtain all facts possible in relation thereto which would not only be of public interest, but which would aid the Congress in enacting remedial legislation" (see Senate Manual, S. Doc. No. 1, 90th Cong., first sess., p. 110). Specific authorization to hold the hearings was granted, pursuant to the rules of the Select Committee, at an executive session of the committee, held on March 26, 1968, and notice of which was announced on April 19, 1968, by me.

In accordance with rule 6 of the standing rules of this select committee, any witness summoned to a public or executive hearing may be accompanied by counsel of his own choosing, who shall be permitted while the witness is testifying to advise him of his legal rights.

The first witness this morning will be Mr. Ralph Salerno of the National Council on Crime and Delinquency.

Is Mr. Salerno here, and if so, would you take that seat, sir?

All right, sir; you may proceed.

STATEMENT OF RALPH F. SALERNO, CONSULTANT, NATIONAL COUNCIL ON CRIME AND DELINQUENCY, NEW YORK, N.Y.; ACCOMPANIED BY J. BARRY BROKAW, DIRECTOR, NATIONAL COUNCIL ON CRIME AND DELINQUENCY, WASHINGTON, D.C.

Mr. SALERNO. All right, Senator.

I served for 20 years with the New York City Police Department as a supervisor of detectives in their intelligence unit. Almost all of this period of service was given to the investigation of major racketeers and organized crime. At the present time I am working as a consultant with the National Council on Crime and Delinquency, the Joint Legislative Committee on Crime in New York State, and several other governmental and nongovernmental agencies. In 1964 I was assigned to the State Commission of Investigation in New York State which conducted extensive public hearings into the area of loan sharking, which did result in new legislation in New York State. I believe that an awareness of the size, scope, and importance of loan sharking as a criminal enterprise is comparatively new even to the professional law-enforcement community of the United States. In 1961 when the Congress widened the authority of the Federal Bureau of Investigation in the area of interstate crimes, loan sharking was not included. In 1963, just over 4 years ago, the Senate Permanent Subcommittee on Investigations heard testimony from police representatives from nine different jurisdictions and they listed the spheres of criminal activity which were of greatest concern to them. Only two mentioned loan sharking.

It is of significance that New York City and Chicago were the two jurisdictions concerned, and that 4 years later the States of New York and Illinois have new legislation to deal with usury.

If I can just refer to this chart—these were the nine jurisdictions which discussed organized crime: Boston, Mass.; Buffalo; Chicago; the State of Connecticut; Detroit, Mich.; the State of Florida; New Jersey; New York; and Rhode Island. Just the two that were mentioned listed loan sharking as a problem that they were aware of in the area of organized crime. You will also note that gambling was universally mentioned by all of them; they all recognized that. Some had a narcotics problem, others not. Some had a problem with prostitution or other categories. But only these two—and I do believe it was this early awareness which has led to the fact that these two States have since that time treated with the subject through legislation.

For the most part——

The CHAIRMAN. When you speak of gambling, you are talking about gambling that is illegal. For example, in Florida and of course New York, there is horse racing, and things of that character—which are legal gambling.

Mr. SALERNO. Yes, sir. These were listed by the police authorities as illegal activities, which they considered problems in their jurisdiction.

At that time—I recall those of us participating with the Senate committee—raised the same question which must be in the minds of this committee. “Is loan sharking a Federal problem in the sense of affecting the interests of the entire Nation, or is it primarily a problem of a few of the larger industrial States of the East and Midwest?”

My opinion is it is a Federal problem in this sense.

A poll of these nine jurisdictions referred to would indicate that the police in every area would agree that loan sharking is now a recognized major criminal activity. It will be found by the educated eye of the trained observer in any part of the country that is enjoying economic growth through spirited business competition. The criminal intelligence analyst now recognizes that when the business pages of our daily newspapers reflect an increase in the interest rate or any other set of circumstances that will bring about a “tight money market,” that the loan shark market will widen, there will be additional customers, and that the usurious interest rate may very well rise too.

It is a simple fact that the loan shark’s customer is a person or businessman who cannot meet his needs by using the services of a regular lending institution, and this for various reasons.

During the course of these hearings this committee will hear from a number of experts. And yet the ultimate experts are the loan sharks themselves. There is growing evidence that many people who have engaged in illegal gambling operations for many years have lately made the evaluation that loan sharking is much more lucrative, particularly when measuring the gain to be realized as against the risk involved in possible apprehension, conviction and penalty.

In many parts of the country we witness a withdrawal from some gambling operations by principals who would prefer to place their funds, their time and their interest into the profits which are to be made from usury, and all of these profits tax-free.

I would like to give you an indication of why this is so, Senator, by using this chart here.

You have indicated in your opening statement that it does not really take any special business acumen to go into the loan business. On the other hand, that is not true of gambling. In gambling, for example, one of the requirements is a steady stream of information in order to establish odds, point spreads, on different sporting contests. So this is one of the things that is required—information is a necessity to a successful gambling operation. We find to a considerable degree that the bookmaking operations, for example, are not conducted on the street. So you need premises, off-the-street locations. Telephones—very widely employed. And trained personnel to man those phones. I do not think just anyone would sit at the other end of a telephone in a bookmaker's office and be what we call a sheet writer. A man has to have certain capabilities.

There must be alternates to all three of these. An alternate premise, alternate telephone locations and alternate personnel. If police attention is directed to one location, you must have an alternate ready to move to. If the telephones are seized in a gambling raid, there must be alternates in order to continue in business the very next day. If personnel have come to police attention, the gambler feels he has to cool off one employee, he must have alternates.

There is other operating overhead. Having been a law enforcement man I choose to use this very charitable term. Some people call that graft and payoff. But we know this is a cost of being in the gambling business.

There are arrests, any number of them. There are convictions. And from time to time there is more than just a fine, there can be a jail sentence.

If you make a comparison to loan sharking, you will find you do not really need any particular steady stream of information. No premises are necessary. You can operate from your wallet in your inside coat pocket. Telephones are not a big necessity. You do not need trained personnel. Some people might say what about the strong-arm man? If you have established a reputation of being a part of organized crime, you really do not have to use the strong-arm men that frequently. The fear is usually sufficient. You do not need the alternatives. I have never heard of there being any kind of payoff of any nature to anyone in the criminal justice system in order to run a loan shark operation. That does not exist to my knowledge.

Arrests, convictions, and jails almost never happen in the area of loan sharks. This is the judgment that has been made by many people—that in comparing the two, loan sharking is the best business that organized crime has. It may not equal gambling in dollar volume, but on the bottom line net profit, as to risk, loan sharking is a much better business than is gambling.

The CHAIRMAN. Mr. Salerno, do you want us to ask questions as they occur to us?

For example, you mention the necessity of alternate personnel in illegal gambling operations. I do not want to anticipate what you may be saying in your statement.

Senator NELSON. Perhaps it might be better if he finished his statement before entertaining questions.

The CHAIRMAN. Go ahead, Mr. Salerno. We will withhold questions until you have finished your statement.

Mr. SALERNO. Analyzing how the client and the loan shark come to meet each other reveals an interesting pattern. At first there is a dependency on "word-of-mouth advertising," with the loan shark making it known through this medium that money is available. But then there is progress. Business cards are printed and distributed. Business offices are established and advertised as enterprises involved in something close to business factoring.

Finally there is discovered the use of agents to whom "finders fees" are paid for the promulgation of new business. Here there is a parallel to methods of operation which are employed in the illegal drug market. A person once addicted and "hooked," and now facing difficulty in paying for his supply of drugs is encouraged to find (or make) new clients, the benefit being that his purchases will become sizable and his own supply will be paid for by the "profit" he will make as a distributor. And so the addict-pusher is born.

This very same thing happens in loan sharking. A borrower who has difficulty in meeting the exorbitant interest rates (that is, 5 percent per week), will be offered a credit allowance of 1 percent per week for each new customer he can provide. If he can develop five new borrowers, each borrowing a sum equal to his own loan, he will get credit for all of his own interest, and the loan shark will have increased his interest income by 400 percent.

There was a documented case in New York where a bank loan officer was corrupted through the payment of a finders fee in the form of a single payment Christmas present of comparatively modest proportions. At the very same time that this official would deny credit to an applicant he would point out the loan shark (who operated within the four walls of the bank) as a person who might be able to help the desperate borrower.

Another line of progress that can be traced would show that loan sharks definitely parallel the functions of banks and other lending institutions. There have been evidences of money being borrowed from banks at regular rates of interest by people who then introduce the funds into the loan shark market. The ultimate step is arrived at (and it has arrived) when a proprietary interest or control of a bank is effected. There has been testimony before congressional committees of at least one bank failure which was contributed to by sizable loans made to persons connected with organized crime.

It is difficult to understand all of the ramifications of loan sharking by lifting it out of context and studying it in the abstract. A better understanding can be arrived at through consideration of its actual role as one of many illegal activities being operated by organized criminal groups. There is a flow of benefits from loan sharking to these other activities and a reverse flow back to loan sharking.

Loan sharking and gambling cannot be separated. Gambling is very often the medium by which the successful businessman (but unsuccessful gambler) is introduced to loan sharking. Case histories reveal that it was through loan sharking that a salesman was forced to take employment in a "bucket shop" operation in the securities field. Loan shark indebtedness forced an employee of a brokerage firm to attempt to sell stolen securities. A personality from the entertainment field is induced to steer affluent acquaintances into a "rigged" high-stakes dice game. There has even been an arrest of a drug pusher who had possession of loan shark records.

I would like to use another chart at this time, Senator. In an attempt to show that loan shark indebtedness induces other types of crime, this is an actual page taken from the records of a man arrested in New York City. He was arrested for being in possession of stolen property. Actually, his normal function was that of operating a restaurant. Through the indebtedness to all of these people, he was then offered an opportunity by some of them, who were loan sharks, in organized crime, to meet his payments to them by engaging in some illegal activity. One gentleman offered him an opportunity to take gambling bets for him, and he took both numbers and sports betting. Another gentleman offered him an opportunity of selling pornography, and becoming part of that operation, and he took that. And then of course he was handling the stolen property for which he was arrested.

This record—

The CHAIRMAN. Let me ask you a question. This record—is this the man who was lending the money?

Mr. SALERNO. No, this is the borrower. This is a borrower's record.

The CHAIRMAN. This man is referred to as "DD."

Mr. SALERNO. These are the identities of the people from whom he borrowed money. This date is the date the loan began, or was last renegotiated. The first column indicates the amount of weekly payments—these are weekly payments, with two exceptions, which are monthly, and this is the week-by-week record which runs from September to January of the following year.

At the very beginning of this chart, his weekly payment is \$880 per week. I have eliminated the monthlies—they are not included. The balance that he owes is \$18,595.

The weekly payment does increase slightly to \$920, and he is making this payment for 17 weeks. Although he is paying close to \$900, or \$1,000 each week, in the 17 weeks his indebtedness rises from \$18,000—he owes \$25,000—17 weeks later—although he has been paying \$900 per week.

This is one example on this top line of a special phrase you might be interested in, what they call "stopping the clock." This is one version of "stopping the clock." He has been paying \$250 per week. At this point, he evidently is running into some difficulty, and he will stop his payments for a little while. He is purchasing time at this point. And the purchase of time costs him \$1,250. That is added to \$8,750. The amount of the loan is made \$10,000, and that will remain constant for some time, until he can pick up payment. So they are kind of holding off the actual payments, they charge him an additional \$1,250 interest, and they have held back the clock for him temporarily.

The point that I did want to show here is that this is a man who had been pushed into three different forms of illegal activity—selling pornography, becoming a man who would take—is taking gambling bets in two different areas, and he was involving himself in receiving and selling stolen property for which he was arrested. And this was not his normal function. His basic problem was that he was a gambler himself, and he had been pushed into these three areas of illegal activity, only because of the need to meet some of these payments.

The CHAIRMAN. Did "DD" reveal to you the names of the loan sharks who lent him the money, and if so, did each of them have a criminal record?

Mr. SALERNO. He did discuss this chart with us comparatively freely. He would not reveal the identity of the loan sharks. Independently, we were able to identify about one-third of the loan sharks. Almost all of them are people that we consider to be a part of organized crime, who do have criminal records going back quite some time; yes, sir.

Senator COTTON. These loan sharks whom you identify, did they have regular offices or places of business?

Mr. SALERNO. These gentlemen did not, sir. No; they did not.

Senator COTTON. They conducted their lending and their manipulations through the back door, privately.

Mr. SALERNO. Yes, sir.

Senator COTTON. They did not maintain any place of business.

Mr. SALERNO. None of these gentlemen did; no, sir, although I have been aware of loan sharks that do.

The CHAIRMAN. How did this loan shark get in touch with these men? Did he tell you how he got in touch with "DD," or "AL"?

Mr. SALERNO. On a regular basis or his first contact?

Some of them he met because he was an inveterate gambler himself. He would meet them at high stakes games. Some of his first indebtedness to some of them came from gambling losses. Some of them were patrons of his restaurant. He came to know them through that medium. Some he met through some of the others. He met some—when one of them might have thought he extended all the credit he would like to lend him, might have introduced him to another, as a person who could accommodate him.

The CHAIRMAN. All right, sir.

Go ahead.

Mr. SALERNO. The point that is offered for the consideration of this committee is that Federal agents now enforcing existing legislative acts are daily dealing with loan sharks and their activities. They are placed in the position of not having a direct jurisdiction, and at the same time being forced to withhold a referral of information to local authorities because a pursuit of the loan shark leads might prejudice the current Federal investigation of the Federal violation.

Internal Revenue agents trying to develop a tax case are working on someone engaged in loan sharking. If FBI agents are trying to establish an interstate gambling case, there is a good likelihood the man they are working with, if he is part of organized crime, is also engaged in loan sharking. It might very well be that the leads that they are picking up would be just as helpful in establishing a loan shark case if that were a Federal violation as it is with one that they are now trying to devote their attention to. It is difficult for them to make an immediate referral of this kind of information to local authorities where there might be a statutory act, because this might prejudice their investigation—if too many were working on the same person from different angles, it might prejudice the case. So that I do feel if loan sharking were made a Federal statute, this would not bring about the

need for any tremendous increase in agents. Federal agents now working in different agencies are treating with people who are playing an important role in loan sharking.

The CHAIRMAN. On that point—is it your judgment that much of this money which these loan sharks use travels on an interstate basis—could it be considered in interstate commerce, so there would be some basis for a Federal statute?

Mr. SALERNO. Oh, yes. I do not believe we have any difficulty whatsoever in establishing a Federal jurisdiction—from the actual flow of the money across State lines, or being loaned to people who are engaged in interstate commerce at the present time.

I believe that a Federal loan shark statute would be a welcome weapon which lends itself to the strike force effort against organized crime and the coordinated program of Federal law enforcement.

One of the questions that often arises with regard to loan sharking is the one concerning collateral. The basic collateral is the physical and economic welfare of the borrower. Not all loan sharks are members of criminal organizations, but the fact that those who are can better employ fear is the factor which makes their operation so successful.

Other illegal competitors cannot duplicate this important factor to the same degree. The element of fear is what enables the loan shark to collect interest ranging from 85 percent per annum to several hundred percent per annum, and this from borrowers who have been classified as poor business risks by regular lending agencies. The fear of physical harm when the borrower knows that the money borrowed came from "the mob" is so successfully employed that the actual physical violence is seldom necessary. The fear has proven to be more than sufficient in most cases.

The very same fear affords an additional advantage. It prevents the borrower from being a complainant who will report the threat or the violence when it does happen. If law enforcers had to rely upon the number of people who have voluntarily come forward to report, it would be difficult to prove that loan sharking even exists as a major problem at any level of law enforcement. Most times the discovery arises as the result of some other related investigation.

Therefore it is recommended that some consideration be given to including in a statute a violation of law which can be established on the basis of written records alone, if they can be established to be loan shark records. A proper seizure of such records may not be accompanied by the identification of borrowers, or the testimony of the borrower may not be obtainable.

I have submitted to the committee for its files these two pages which are actual records kept by a loan shark himself. From the point of view of letting you see that the records can be very detailed and very extensive. These records were seized in a case which was prosecuted in the Commonwealth of Pennsylvania, successfully, I might add.

A cursory analysis of these records would indicate that the average balance maintained by the borrower was \$1,600—during a period of 3 years and 3 months. During that period of 3 years and 3 months, the borrower has made payments totaling more than \$33,000. At the end of the 3 years and 3 months, he still has reduced the principal only \$400. He borrowed \$1,600—\$1,600 an average balance. He still owes \$1,200, although he has made various payments totaling more than

\$33,000. Of these payments, \$7,000 was interest and penalty charges in the period of 3 years and 3 months. The record is interrupted at the final point only because of the arrest of the loan shark.

Approximately halfway during this period of 3 years and 3 months, the loan shark has his own money totally out of the picture. All of the money that is being borrowed and paid back and forth for the remaining year and a half or more is now entirely the borrower's money and his interest, being borrowed back and forth. The point I am trying to make is that if a loan shark started with a loan of \$1,000, a year and half later he has totally recovered his out-of-pocket expenses. He is still earning interest rates of 100, 120, and 135 percent per annum. At the same time that this indebtedness is continuing, the original \$1,000 has been loaned somewhere else, and is earning an additional 135 percent. So that you can see why it is such a lucrative business.

At one point, on the first page, the upper right-hand box, alongside of the date of December 5, you will see a sum of \$1,000 borrowed, and the loan shark has written, "Due December 9." This in the vernacular is called a "shortie." It is a short-term loan put into the long-term running one of 3 years. This will only be for 4 days—from December 5 to December 9. The charge for the "shortie" is 2 percent for 4 days. Two percent for 4 days comes to 182 percent interest on that amount—he is charging \$20 on a thousand for 4 days' use of the money.

The CHAIRMAN. Being the devil's advocate for a moment, we do not know what the fellow borrowed the money for, for the 4 days, but could it be possible that if he ran a restaurant, and he could not borrow money—

Mr. SALERNO. I can enlighten you on that, Senator. The gentleman who was the borrower in this case did testify in this prosecution. He was a businessman. He was involved in the business of selling antiques. He is pretty good at elementary mathematics, and he was quite aware of the percentages that I have cited to you. He testified in court that he was aware he was paying a very high rate, but that his particular type of business, dealing in antiques, did not lend itself to obtaining loans of money for purchases and sales that he had to make in very short order from regular lending institutions. He felt that this was the only medium through which he could obtain moneys; he needed them immediately, on a short-term basis usually, and that he was willing to pay the rates of interest that I have indicated. He even agreed that this in a sense made the loan shark his partner, because sometimes the loan shark was enjoying as much profit from the transaction as the dealer was from dealing in antiques. But he took the feeling that 50 percent of something was better than a hundred percent of nothing. So he was a businessman, and that was the use that he described he was making of the money.

The CHAIRMAN. Did he know, for example, the man from whom he borrowed the money—he was not interested, of course, in how that man got the money. These fellows do not care, I presume, whether or not they deal with racketeers or gamblers, as long as they have the money.

Mr. SALERNO. It goes just one step beyond that. It is not only they do not care. Sometimes they have an awareness—they prefer not to be officially aware of it. They don't like to feel that they are borrowing

money from an area that they would be prejudiced against, some type of criminal activity about which they might have a strong feeling. And it takes a little bit of effort in their dialog to get them to admit they actually had such an awareness. They prefer not to know some of the "dirty areas," this is how he would describe it, that some of the money is coming from.

The CHAIRMAN. What finally happened to the antique dealer? Did he have to go out of business, was he able to survive because of this kind of operation?

Mr. SALERNO. Well, he was in business at the time of the arrest, and the prosecution did not come about until 1 year later. He was still in business. I don't know what other mediums he employed. But he was still in business, even though the loan shark had been arrested and was convicted.

The CHAIRMAN. The loan shark was arrested for a violation of a State statute?

Mr. SALERNO. Yes.

The CHAIRMAN. Charging usurious rates of interest.

Mr. SALERNO. Yes, sir. This was in the Commonwealth of Pennsylvania. There is some discussion about revising their laws. They have two statutes which might apply under the Small Loans Act of that State. One of them is a very, very difficult one for which to bring about a successful prosecution. One of the two statutes could not be utilized in this case, because that particular statute requires that it must be proven, not only that the amount charged was in excess of that allowed by law, but that the funds were needed for daily family needs, which would not have been the case in that of a businessman. There were other witnesses who were able to testify that they had borrowed the sums of money to pay their rent, pay for their groceries, pay for medical bills. And this is an actual requirement in one of the statutes in the Commonwealth of Pennsylvania, which makes it very difficult. It could not be applied in the case of this businessman who was using it in his business, rather than in his personal needs.

One further very important area which may be of interest to this committee. The use of electronic surveillance as a legal weapon in the evidence gathering process must be considered. It points to the single greatest need in law enforcement in the United States today. The greatest burden carried by law enforcers is the ability to obtain evidence in a form which can be presented in court in accordance with recognized rules of evidence.

Legislation permitting such electronic surveillance is perhaps the single greatest weapon which can be employed. It is my opinion that legislation now before the Senate would afford this legal weapon and at the same time afford sufficient safeguards to the right of privacy well within guidelines established by the Supreme Court. The National Council on Crime and Delinquency endorses the use of carefully controlled electronic surveillance.

The CHAIRMAN. Just as a matter of information, could you tell us what type of electronic surveillance you are talking about?

Mr. SALERNO. I mean primarily bugs and wiretapping.

The CHAIRMAN. The bill which we now have on the floor, the safe streets and crime bill—do you believe that it is necessary insofar as law enforcement is concerned—that it is a necessary adjunct to law enforcement?

Mr. SALERNO. Yes; I do, Senator. I feel very strongly that way. Before we proceed, I would like to introduce Mr. Barry Brokaw, who is the National Capital Director of the National Council on Crime and Delinquency. He might be able to help us with questions.

The CHAIRMAN. Thank you, Mr. Salerno.

Senator NELSON, do you have any questions?

Senator NELSON. No questions.

The CHAIRMAN. Senator Hatfield?

Senator HATFIELD. No questions.

The CHAIRMAN. Senator Cotton.

Senator COTTON. This antique dealer to whom you refer, he was not one of those who was forced into some illegal activity himself?

Mr. SALERNO. No, sir; he was not.

Senator COTTON. Could you say approximately what percentage of these people who are dealing with this type of loan shark are eventually forced by the loan shark to break the law themselves?

Mr. SALERNO. It would be very difficult for me to try to arrive at a percentage, sir. I do believe percentagewise it would be small, comparatively small. It would depend on what there is about the borrower that might possibly lend itself to this type of thing.

You see, I am familiar with a gentleman who had a warehouse. Now, that had apparent immediate benefit to people involved in other criminal activities. When he had difficulty meeting the payments of his loans, it was suggested to him that he could allow the use of his warehouse as a drop for stolen property—a highjacked truck would be moved into his warehouse, and the property deposited there. They would in effect offer him a payment, which was not given to him in cash, but merely as a credit on his payment.

I have seen where a hairdresser—you might not think that a hairdresser had very much to offer. That hairdresser was employed as a man who would be what we call a fingerman for a jewel robbery. He was located in a very affluent part of New York City. Most of the ladies who went into the salon for cosmetology and beauty treatment were people who had jewelry. As women do sometimes, they would discuss the maid's day off, when their husband was out of town, the value of their jewelry, and where it was kept. That hairdresser was being used as what we call a fingerman in a jewel theft, by burglars, or stickup men. He would be given a part of the proceeds, again, not in actual cash, but only as a credit against his indebtedness.

So it would depend. I think percentagewise the number would be comparatively small.

Senator COTTON. Thank you.

The CHAIRMAN. Mr. Salerno, one more question, and we will go to our next witness.

Are these loan sharks usually independent operators, or are they usually members of an organized criminal syndicate?

Mr. SALERNO. Most successful ones—and the majority of loan sharks I have known, if I can put it that way—are part of a criminal syndicate. There is just one other little thought I would like to leave with you, from the point of view of how much do they keep in the way of records and so on.

Some people have a mistaken idea that loan sharking is something conducted entirely as a cash business. Not at all. The most successful loan shark that I ever came across ran his business entirely with

checks. He would—if he gave out, for example, \$1,000, he would take 12 checks for \$100 each, dated 1 week apart. This had the benefit of there never having to be contact between him and the borrower again. The borrower would simply put \$100 each week into the checking account, and each week the loan shark knew that that one check was good, so they never had to meet each other again. This reduces any risk that he might have to run of constant contact. A good loan shark does not look like a milkman making the rounds each week—not at all. He seeks to minimize contact. And this is one of the ways he can do it.

He would then take a check, which might be made out to cash, for a hundred dollars—the next borrower—if he came along, and all those 12 checks were good, if he wanted to borrow \$2,000, the loan shark would add \$800 in cash, and give the next borrower the first borrower's \$1,200.

It has the name of the maker of the check on it. It may have the name of the second borrower. But the loan shark's name never appears on that check. So he has minimized any clear and immediate identification of himself.

Now, the question arises—

The CHAIRMAN. When he went in to cash the check, did the bank not require some identification at that point; did he not have to sign it?

Mr. SALERNO. No. Eventually he would try to pass the checks from one borrower to another. Of course he would be taking checks from the second borrower. Eventually he ends up with a great many checks which he now wants to convert to cash. He would use the medium of a check-cashing concern—one that goes to the bank every day with tremendous sums of checks, and gets tremendous sums in cash from a regular lending institution. He would have the checks endorsed in just about any old name. The check casher would put an identifying mark on the back of the check to know that these came from loan shark A let us say. If any of them should bounce, he would have to know who gave it to him. And he had a little identification mark up in the corner. This particular check casher was serving several loan sharks in this way. But that was their ultimate medium of depositing huge sums of checks, getting huge sums of cash out of regular lending institutions without drawing any unusual attention to them.

The CHAIRMAN. All right, sir.

Senator Nelson?

Senator NELSON. Is this a check-cashing service business of some kind?

Mr. SALERNO. Yes. There is usually a modest fee charged, 25 or 35 cents, to cash checks for different people who may be paid in check form.

Senator NELSON. Is this a legitimate business?

Mr. SALERNO. Yes, sir, it is.

Senator NELSON. But some of them also have associations with loan sharks?

Mr. SALERNO. Some of them do, yes.

Senator NELSON. Is the check-cashing organization the guarantor to the bank that the check is good?

Mr. SALERNO. Yes.

Senator NELSON. In other words, instead of the owner of the check endorsing it, the check-cashing agency itself stands behind the check,

and the bank, relying upon their reputation, would go to the check-cashing agency to collect in the event there were not sufficient funds to pay that check. Is that the way it works?

Mr. SALERNO. That is right. And that is why the check casher himself would have to have a little identification code on the back of the check to remember which loan shark he had gotten it from, so he could go back to him if the check should be without sufficient funds.

Senator NELSON. When you say identification on the back of the check, are you referring to a pencilled note?

Mr. SALERNO. Yes. It might be a little "c" in a circle. It might be two little "xx's" in a specific part of the check. It is a little code of his own.

Senator NELSON. If a businessman had borrowed from a loan shark, and if the businessman's records were confiscated, could you then trace it back to the loan shark by going through the cashing agency, and the identification on the back of the check?

Mr. SALERNO. Yes, you could. If you could establish which code related to which loan shark. You would have to establish a relationship between the two. If you had the testimony of the man who uttered the check, you really would not need very much of anything else—if you had his testimony.

Senator NELSON. Thank you.

The CHAIRMAN. Thank you very much, Mr. Salerno.

Senator Hatfield?

Senator HATFIELD. Mr. Salerno, in the first part of your testimony you indicate that there has been new legislation in two States, New York and Illinois. Could you give us an evaluation of what kind of results have occurred following the passing of this State legislation? How effective it has been?

Mr. SALERNO. Yes. In my own opinion, it has not been as effective as I had hoped it would be.

I do believe that there are some understandable reasons for this. I think it kind of serves to point out that you just cannot pass a law, and all by itself gain the full effectiveness of that law. For example, one of my feelings is that the new statutes, and how they could be enforced, have never been properly introduced into police training widely enough. I find any number of people in law enforcement, in the State of New York, for example who are not aware. I have actually known of searches being conducted pursuant to a search warrant where someone may be intent on looking for narcotics, let us say, and they are throwing away all these worthless papers, getting them out of the way to look for that narcotic, and they do not realize they are looking at loan shark records. If they were aware of that, they could go back to the court and obtain a search warrant for loan shark records, and come back and effect a case.

One of the reasons I believe that the statute has not been effective is that one—I do not think it has been introduced into the police training sufficiently, so that you have a new law and not enough awareness about how to develop such a case. The operations of a loan shark, as I have described them to you so very briefly this morning, may very well give you gentlemen of this committee a better idea of how loan sharking operates than some people in law enforcement may have.

Senator HATFIELD. Are you saying to us it is not the inadequacy of the State legislation, but rather the inadequacy of the professional training program of law enforcement agencies?

Mr. SALERNO. Yes. I believe this would be a necessary part of implementing the legislation as it exists.

Senator HATFIELD. Do you feel that the legislation, then, if it had this adjunct of professional training, adequate professional training, would be sufficient, or would be adequate without Federal legislation?

Mr. SALERNO. I do not know—I do not know. I do know that to a very considerable degree, there are loan sharking matters which do transcend State lines. I think then in the area of loan sharking you would have the same thing as you have in other areas of law enforcement.

At the present time, for example, most of the States that I know of have some kind of legislation against narcotics, trafficking and sale. That does not preclude the very necessary need for Federal agencies to be in this field. The same thing is true of gambling as compared to interstate gambling. I think this would be in addition to those something that could best serve the Nation if it were enforced on both levels of government.

Senator HATFIELD. Has the national council you represent drafted a model State law and distributed it to the various States for their action?

Mr. SALERNO. Relating to loan sharking?

Senator HATFIELD. Yes.

Mr. SALERNO. No, sir; we have not.

Senator HATFIELD. Would this be helpful, do you feel?

Mr. SALERNO. I think it might be, yes. I think it might be, because I do know that a number of States are giving some consideration to revising their statutes. Pennsylvania is one that I know of. Massachusetts is another.

Senator HATFIELD. Do you know if the Council of State Governments or the Council on Uniform Laws has done any work in drafting a model State law on loan sharking?

Mr. SALERNO. I do not know, sir.

Senator HATFIELD. What about some of the smaller States? How widespread would you say this is—beyond the nine jurisdictions to which you referred in your testimony?

Mr. SALERNO. I believe that it is rather widely spread. I do believe, as I said in my statement, if you have a booming economy, if you have a great deal of competition, if you have a tight money market existing anywhere, you have those elements which are necessary to make loan sharking an attractive business.

I could not say on the basis of an actual survey of any kind that I have taken—but I do know I have been to jurisdictions other than the nine I have mentioned. When I have sat down with law enforcement people or others in the criminal justice system, and described loan sharking, they begin to tell me that they are taking on a growing awareness of this possibility, that they have seen signs of it growing.

Senator HATFIELD. So it would exist, then, in those States where there might not be any great element of the so-called Mafia or the mob operating—that it could exist independently of that?

Mr. SALERNO. Yes, sir. I take the position that Mafia and organized crime are not synonymous—are not synonymous—that organized crime is a much broader term which includes the other within it. But they are not necessarily synonymous, one and the same.

Senator HATFIELD. Thank you.

The CHAIRMAN. All right, sir.

Our next witness will be Mr. Henry Ruth, Jr.

I might say for the record that Mr. Ruth is the former Deputy Director of the President's Task Force Against Crime. He is now an associate professor at the University of Pennsylvania Law School.

Mr. Ruth, you may proceed any way you prefer.

STATEMENT OF HENRY S. RUTH, JR., PROFESSOR, THE LAW SCHOOL, UNIVERSITY OF PENNSYLVANIA, PHILADELPHIA, PA.

Mr. RUTH. I do have a statement, Mr. Chairman, which maybe I could briefly read. I understand from your request, sir, that you are interested in receiving from me a brief description of the general outlines of organized crime, and then some specifics about loan sharking.

Senator JAVITS. Mr. Chairman, may I say a word before this witness starts.

I notice a good deal of this information relates to situations in New York. I would simply like to say to the Chair that I will make it my business to cooperate with the committee and the Chair in pursuing any leads which are developed here with respect to New York and that may be pursued in the courts or by the investigating agencies of the State police, or by any of our district attorneys, or by the attorney general. I believe our authorities are very alert to this situation in New York, and are, of course, aware of loan sharking on the docks, and many other scandals which have been unearthed. But crime has a way of creeping up on you, and you are sometimes very surprised when you learn where it is happening or occurring.

But I wish to assure the Chair, whether or not I am here on particular days, that I will have the hearings very closely observed and cooperate fully with the Chair in respect to this.

The CHAIRMAN. I thank the distinguished Senator from New York. I appreciate that statement. Of course, we knew that he would do that. Having himself been a distinguished attorney general of the State of New York, he is fully aware of many of these matters which we will have under discussion these next few days.

Senator JAVITS. Thank you, Mr. Chairman.

The CHAIRMAN. As has been stated already by our first witness, although many of the illegal activities which we have discussed here are experiences that have occurred primarily in the larger States, nonetheless loan sharking activity goes on in all the States to a greater or lesser degree.

All right, Mr. Ruth, you may proceed.

Mr. RUTH. Sir, I would just comment on that by saying that I think most of the data in the statements will be about New York State, because New York State has done the most from a law enforcement standpoint to try to do something about organized crime. And that is why we know something about New York that we do not know in other jurisdictions.

Generally, about organized crime, in recent years studies by the President's Commission on Law Enforcement and Administration of Justice and testimony by FBI Director, J. Edgar Hoover, have established authoritatively that the core of organized crime is the criminal fraternity, La Cosa Nostra. The broad outline of La Cosa Nostra's structure has been detailed so many times recently that only a few highlights need be mentioned here:

La Cosa Nostra is an organization that possesses the attributes of fraternalism, diversified corporate business and a moral fascism.

The organization enters upon any illegal activity that promises greatest economic gain at least risk of detection. The activities are pursued concurrently all the time by every Cosa Nostra family. Of these multifold illegal operations, gambling and loan sharking are believed to produce the largest income.

La Cosa Nostra is known to have 24 groups, or "families," operating in almost all sectors of the Nation. Each family is semiautonomous. But a board of directors comprised of the most powerful family leaders acts as a final arbitration board for otherwise unresolved interfamily problems.

The general hierarchical structure of each family includes a boss, underboss, counselor, captains, and so-called soldiers, or button men.

Membership in the organization is limited to persons of Italian extraction. Of the more than 20 million American Italians in the United States, probably less than 6,000 are members of La Cosa Nostra.

Each family utilizes thousands of nonmember individual affiliates, of every ethnic derivation, at the street level of illegal activity.

Untold millions of Americans are satisfied customers of La Cosa Nostra and its affiliates.

Directly, and through intermediaries, the organization cultivates and achieves friendship and favor from individuals in the executive, legislative, and judicial branches of government at the local, State, and Federal level.

In many localities, the organization has acquired control of several legitimate businesses and of several union locals. To my knowledge, no such business or labor union so controlled has been free thereafter from one or more forms of illegal operation.

Fear, favor, secrecy, insulation, and cohesion have achieved for La Cosa Nostra a unique position in our society. Organized opposition is pitifully small and vacillating. Law-enforcement activities, inadequate as they are in this field across the country, stand as an island surrounded by political opposition or nonsupport.

To my knowledge, no law-enforcement officer has ever been able to infiltrate La Cosa Nostra, become a member thereof, and report on its day-to-day method of operation. In the Federal enforcement effort of the past 7 years, fewer than 6 percent of the organization's members have been convicted of a crime.

Massive amounts of intelligence, that serve to prove the specifics of the above, will lie forever fallow in Federal files because the data were secured by illegal electronic surveillance. Unseen by a disbelieving public and unused by frustrated law-enforcement officers, this data, though rightfully suppressed from public ventilation, serves to further the 'tis-t'aint dichotomy in the public debate as to whether or not organized crime is a serious problem that deserves a place on our

national list of action priorities. As long as that debate proceeds upon levels of mere generality, there will be no unified counterthrust by our society against organized crime. No solution to this dilemma has yet appeared on the horizon.

Again, these are only highlights of the panorama of organized crime. Each Cosa Nostra family contains various elements of a social structure, a business structure, a governmental structure, a military structure. When one believes, as the leaders of organized crime believe, that man has no inherent worth greater than that of any other animal, the possibilities for achieving wealth and power are unlimited. When the strictures of law and morality play no part in thought or action, as is the case with La Cosa Nostra, who indeed dare stand in the way? And all this is wrapped around an ethos that carries man's basest instincts and desires down unrestricted paths to fruition. Recognizing and exploiting man's faults, organized crime has formed a quiet alliance with many respectable elements in our society. This core of power represents an, at present, unbeatable combination.

It is impossible to measure the annual gross income of the various Cosa Nostra families and their affiliates. Most estimates exceed \$20 billion, or something over 2 percent of the figure for the Nation's gross national product. The National Crime Commission stated that income accruing to organized crime is twice that of all other criminal activity combined. No one has yet devised a measure for the public corruption induced by organized crime, for the inhibiting and debilitating effects organized crime brings to the ghettos, or for the effect of organized crime's activities upon the national economy. Nor can one estimate what an example of successful, businesslike lawlessness can induce in the average citizen's sense of values and morality, or in his faith in government processes.

Slightly over one-hundredth of 1 percent of the Federal budget is devoted to combating organized crime. This is an amount approximately equivalent to the annual Federal expenditure for public assistance purposes in the State of Rhode Island. In the U.S. Department of Justice alone, only about 2½ percent of their budget is expended upon organized crime enforcement.

The CHAIRMAN. Mr. Ruth, before you go to the second section on loan sharking, may we ask you a few questions about your opening statement?

I notice on page 3:

Again, these are only highlights of the panorama of organized crime. Each Cosa Nostra family contains various elements of a social structure, a business structure, governmental structure, and military structure.

Would you mind elaborating on that as to what is meant by military structure, governmental structure, and so forth?

Mr. RUTH. Well, I think organized crime, Senator—each family in organized crime is a private government. They have their own rules and regulations, they have their own way of legislating, they have their own way of administering their regulations, and they have their own law, their own judiciary to make decisions about those who violate their rules and their regulations.

Since they pay no heed to society's organization or laws, they have had to replace that with their own structure. I think from a social structure standpoint, the fact that these are cohesive groups of Italian

extraction in the tradition of the Sicilian Mafia, binds them together much more than if they were just groups of people from all parts of society. From the military aspect, I think their table of organization parallels the military. The boss in effect is a general. His orders go, whether they are reasonable or unreasonable. They must be obeyed.

From a business standpoint, I would compare a lot of families to diversified corporations that are producing and selling many products, but the income is flowing into the one central business. That is what I mean by elements of each of these four.

One of the problems, Senator, is that sociologists have only just begun to become interested in this problem, and I think until they have done more studying from the available information, we are not going to have a completely comprehensive description from a sociological standpoint of what this entity of organized crime really represents in our society.

The CHAIRMAN. What is the relationship, if any, between the Cosa Nostra and the Mafia?

Mr. RUTH. Well, I think the Cosa Nostra is the name that grew up maybe 4 or 5 years ago really as a replacement for what used to be called the Mafia. The Mafia really is the Sicilian organization, and the Cosa Nostra is what grew up as the American counterpart to the Mafia in Sicily.

The CHAIRMAN. All right.

Mr. EVANS?

Mr. EVANS. Mr. Ruth, this estimate on page 3—most estimates exceed \$20 billion. How was this derived, where did you get the information?

Mr. RUTH. I would not give it much credence. That is why I say it is an estimate. And it is a conservative estimate. Most of the \$20 billion estimates have to do with gambling alone. It is a figure built up by law enforcement officers—really a projection from records seized in gambling cases, as to how much gambling must be going on in the United States reduced by a certain percentage that would not be connected with organized crime.

My personal view—and I would have no way of charting this or backing it up actually—would be this may be a conservative figure, because we know so little about the revenue from loan sharking and we know so little about the revenue organized crime obtains from legitimate business.

The CHAIRMAN. In those areas where—and I assume this is the case—where some of these groups you talk about have interest in what we would call legalized gambling, you know about how much they make from that. Do they have interest in legalized gambling—for example we have in our own State, they have in New York, several types of gambling which are legal. Are those operations—they are at that point scrutinized by the State authorities. When you talk about gambling, you have reference actually to illegal gambling.

Mr. RUTH. That is right, sir. As I recall the annual gross from the horse and dog tracks is somewhere around \$5 billion, which would be the figure for that kind of legal gambling. I am referring to the illegal gambling. Again, I do not think it is unrealistic to say the illegal gambling is four times that of legal gambling. I think it is conservative.

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

use the business to dispose of stolen property, such as a truckload of vacuum cleaners or toasters; or they may use restaurants as purchasers of stolen or tainted meat. Once in control of a business, an organized crime leader can, through fear, force others to buy his products.

In one section of Philadelphia, all the restaurant owners buy a certain brand of food product. When one owner was asked recently why he continued to purchase this particular brand, he stated succinctly; "If I bought another brand, my restaurant would be a parking lot tomorrow morning."

This statement is even more significant when one realizes that organized crime in Philadelphia does not resort to violence very often. And yet, the aura of unexercised power was sufficiently severe to deter free economic choice by this restaurant owner.

Other examples can be cited. In New England, loan sharks have taken taxi medallions as security for usurious loans. Factory owners have reported a fear of union trouble as their reason for not discouraging loan shark activities among employees in the plants. A Louisiana organized crime leader loans money every year to restaurants and tavern owners who in turn must accept jukeboxes, cigarette machines, and pinball machines from distributors controlled by the crime czar.

Investigations in New York revealed that loan sharks had taken over businesses ranging from optical stores to nightclubs to brick companies. Sometimes, the new owner loots the business and then files a bankruptcy petition. On other occasions, either the new owner or the original debtor will arrange for a successful fire, so that insurance proceeds will be available to help pay back the debt.

Licensed loan institutions can loan money at usurious rates by falsifying their records. If a customer procures a \$10,000 loan, he may have to pay back \$3,000 instantly. The official records and the payments thereon will show interest at 6 percent on \$10,000.

The above examples afford some indication of the relationship between loan sharking and other forms of criminal activity. Arson, disposal of stolen goods, sale of adulterated products, bankruptcy fraud, gambling, economic coercion and extortion are only part of the picture. Loan sharking is also one of the important ways in which organized crime services the ad hoc criminal operations of professional criminals.

Finally, the loan shark victim can easily be forced into a role of regular participant in one or another form of illegality. In Chicago, a delinquent borrower began passing bad checks to obtain repayment funds. Later, he was told to commit robbery in order to obtain money. Another borrower robbed two stores of \$21,800 to satisfy a usurious debt. The conniving bank employee accepts stolen securities as collateral on money loaned to sharks as a source of capital. The debtor who is in the trucking business finds himself "fingering" shipments for organized crime's hijacking activities. A waterfront employee needing funds to pay the loan shark turns to thefts of cargo. A debtor who was vice president of a sportswear firm turned to embezzlement as his source of funds. A trucker was forced to ship and store stolen property.

No one knows the full extent of loan sharking activities in the United States. Many law enforcement officials estimate that gross revenue from this source runs into the multibillion dollar range. Neither is there any way to allocate exact proportions to the amount of loan

shark business that is part of, or affiliated with La Cosa Nostra. Certainly in the large cities of the New England, Middle Atlantic and Midwest States, law enforcement personnel believe that high percentage of this business is controlled by organized crime. In Philadelphia, many of those who lend money at grossly usurious rates are not directly connected with the Cosa Nostra family operating in the city. However, law enforcement personnel have found that whenever a serious dispute arises with a nonpaying debtor, a Cosa Nostra representative appears at the settlement conference and usually dictates the final settlement terms. Violence is employed only occasionally and its results appear in the media just often enough to frighten any existing or potential borrower about the consequences of nonpayment.

A description of the implication of loan shark transactions reveals in part why I believe organized crime presents a serious threat in this country. If all loan sharks were independent entrepreneurs, perhaps the degree of concern would be much less. However, with organized crime involved in so many different kinds of crime and acquiring so much power, the activity in each kind of crime bolsters the success of other criminal enterprises. Organized crime uses loan sharking in tandem with its gambling and other operations. In addition, the debtor-victim becomes a pawn in furthering other criminal activity of the organization and in broadening the legitimate business base of organized crime's holdings.

But as with much of our knowledge about organized crime, there is much yet to be learned here. Why do people continue patronizing such a vicious racket? Are there any suitable alternatives that government or business could provide? How much revenue is really involved? What percentage of borrowers successfully repay their obligation to the loan shark? Is most of the fear inspired in debtors a matter of reputation or a matter of actual threats conveyed person-to-person? To what extent are bank employees involved in loan shark operations? These are only some of the unanswered questions, and answers to these and other unknowns are vital in the building of a positive program to counteract the evils of loan sharking.

Specific statutes directed at loan shark operations will no doubt be of some assistance. As you know, the Senate-House Conference Committee of the Banking and Currency Committees is considering a loan shark amendment to the truth-in-lending bill. This will afford Federal jurisdiction somewhat broader than that now available under sections 1951 and 1952 of title 18. In addition, many State legislatures have pending criminal usury statutes similar to that passed in New York State.

But the ever-present problem of evidence gathering in organized crime cases sometimes nullifies any potential effect of a substantive criminal provision. For example, in New York County there are only about 12 prosecutions per year under the New York criminal usury statute. The extremely competent office of District Attorney Hogan reports that, as a result of fear and other reasons for lack of victim cooperation, the debtors simply will not testify. And even when they talk with enforcement officers, many times fear compels the telling of a story that fails to portray accurately the true nature of the transactions.

As to the organized crime problem generally, I cannot voice any great optimism about the future. Certainly organized crime will have to deal with the black power movement. Negroes now will not long tolerate the exploitation inflicted upon them by La Cosa Nostra. And perhaps organized crime will endure the equivalent of the student revolution; this equivalent could be termed "solider power," as the younger generation in the ranks of organized crime may lose the respect that now binds them to Cosa Nostra leaders and demand more power and more of the revenue. It is too early to forecast what such developments might bring to the present structure and cohesion of La Cosa Nostra.

As a nation, we are merely picking and scratching at the corporate structure of organized crime. We prosecute certain individuals for individual crimes and the organization continues. And this prosecutive activity is apparent in some regularity only at the Federal level and in a very few States and cities. We have been unable to devise a national strategy to attack the foundations of the structure itself. Individuals are not indispensable to a strong organization. Such a structure can easily survive change of personnel and law enforcement alone cannot dismantle it. Lasting progress will result only when the politicians, the regulatory agencies, the business world, the labor unions, the scholars and other professional disciplines join the battle. Can you think of any mayor in any large city who has told his citizenry about the true nature of organized crime, or who has even listed organized crime as a serious problem deserving action priority in the program of city government? I cannot. Perhaps with recent disclosures in the mass media, some meaningful counteraction by these joint forces will erupt. As the National Crime Commission concluded: "The extraordinary thing about organized crime is that America has tolerated it for so long."

The CHAIRMAN. Thank you, Mr. Ruth.

Senator Nelson, do you have any questions?

Senator NELSON. I am sure, Mr. Chairman, that the vast majority of the people of the country are not prepared to tolerate organized crime.

What specific suggestions do you have to combat organized crime?

Mr. RUTH. Well, I disagree with you, Senator. I think the vast majority of Americans are perfectly happy to tolerate organized crime for one or more reasons. We put together a program in the National Crime Commission with about 26 or 27 recommendations as to what the Commission thought the Nation ought to do about organized crime. I think as a starter—

Senator NELSON. Let me interrupt for a moment. That may be a matter of semantics. I have been around for a good many years. I have yet to run into a single person who is willing to tolerate organized crime. Certainly one of the problems is a lack of knowledge about its existence and what it does, as you have testified. I think as far as the general public is concerned, you could not find more than a fraction of 1 percent who are willing to accept organized crime. I do not think there is any doubt about that. So one of the problems, then, is to educate the public that it in fact exists, as you say in your own testimony.

The public's toleration of crime is like its toleration of poverty. Most of the public do not wish to tolerate poverty, but most of the public

is not aware of the breadth and existence of poverty in our midst, because they do not get into the ghettos, and they do not get into Appalachia, and into poor rural areas.

I think part of it is a matter of education. Until you show that this type of activity exists, and it is a serious matter, then you do not get action. So that is the first step.

Now, recognizing the need for education as a part of the support for any program, what do you specifically recommend to combat organized crime?

Mr. RUTH. Senator, I agree partially with you on the education point. But I use the word "tolerate" rather than "welcome" because so many millions of Americans patronize the services of organized crime, others are willing victims of organized crime, others, such as business and labor, cooperate with organized crime. And when I say so many people are willing to tolerate it, I am speaking of people in a position of power, either from the standpoint of being in the business or labor world, or from the standpoint of being a customer who, if he went to law enforcement, could successfully participate in a prosecution having organized crime implications. This just does not happen. If law enforcement just were to sit back and wait for complaints about the activities of organized crime which involve so many diversified kinds of crime, there would never be a prosecution. And that is why I use the word "tolerate," Senator. I do not mean to indict all of America. But I use that word because I think people in power that have some connection with it or know about it in one way or another, could do something about it. Others with a certain degree of naivete still must have read of the organized crime problem and yet remain passive about pursuing its possible presence in one's own sphere of activity. I think that is where I would start. I would start with the business world, and the labor world. I would try to get them concerned. There is no reason in loan sharking, for instance, why the president of a company, or every large industrial establishment in Philadelphia, should want loan sharks operating in his plant, so that any employee can obtain a loan.

I think he could cut that off almost immediately.

I think the unions could help along the waterfront in Philadelphia, and shut off the gambling and loan sharking, if they wanted to. And that is conducted in the open every morning between 6 and 6:30 on the waterfront—you just have to go down there to see it.

From a law enforcement standpoint, I think the Federal Government has done the most of any level of government. I think their effort is inadequate, however. I cited the low percentage of the Department of Justice budget devoted to that.

On a city level, I think there are only two or three large cities that have any law enforcement program which is directed exclusively to organized crime—rather than being a part of the general enforcement activities of the police.

On the State level, there is no great history in a lot of States of attorneys general becoming interested or having power in crime jurisdiction at all. I think there is some hope, at least in the New England area, where the six attorneys general have pooled their interests and their personnel to try to develop a joint regional organized crime enforcement program.

Senator NELSON. Well, what you are really saying is that if the people wanted to stop the loan sharking, they could stop it. That is the conclusion I would draw from your statement. You say if all the businessmen would chase everybody off their property, and everybody would chase them off their docks, and all the people who were victims of loan sharks would testify, if all these happened, loan sharking would disappear. That does not help us very much. We do not control what business does on their own property.

What would you specifically suggest that the Congress do, since there are some things that are within our jurisdiction, and most of what you have cited is not.

Mr. RUTH. Well, from a statutory standpoint, Senator, I think a loan sharking bill would help. I am not totally enamored of the current version in the conference committee which is being considered as an amendment to the Truth in Lending bill.

If I were to propose a Federal loan sharking bill, I would say simply that anyone who charges over, say, 75 percent on a loan of money is guilty of loan sharking, or gross criminal usury, whatever you call it—a Federal crime. I think that would be constitutional. One of the objections received to that is that some people feel that that makes it look as though the Federal Government is giving a blessing to loans under 75 percent. I do not agree that that is what such a statute would imply, because I think such a statute implies that these loans, that is loans at an interest rate per annum of over 75 percent, are the loans that we have a Federal concern about, because we think these are the loans that are connected with organized crime.

I would also just add—I think we need a general immunity statute. It is hard to get immunity statutes out of the House Judiciary Committee. But I think we need such a statute which can be used in conjunction with an electronic surveillance statute, which is being considered under title III of the Safe Streets Act, now on the floor.

I think if we had those three things it would be a great help.

We also need a Federal gambling statute to replace the one recently declared unconstitutional by the U.S. Supreme Court under the Internal Revenue laws. Again, I see no problem in a general jurisdiction Federal gambling statute. You might want to set a certain limit—you would not want to prosecute unless the take from the gambling was over a certain amount a week. I think such a statute would be constitutional and would be helpful on the Federal level.

Senator NELSON. But would it be. I do not see that your suggestions really strike at the very heart of getting rid of organized crime, do you?

Mr. RUTH. No, sir. I would think we would be able to do better if we had such statutes from a law-enforcement standpoint. I do not know how to change businessmen or change labor leaders. But I agree that you cannot do it by statute. But I also state that until you do that, organized crime continues to be really a social problem—not just a crime problem. I think until our social leaders and our Government leaders become excited about it, we are not going to begin to move.

You cited the poverty program, sir. It seems to me that we started to move on that when our leaders became excited about it, and really pushed the country into it. I think that is what has to happen in connection with organized crime.

Senator NELSON. That is the point I was making when I first raised my question—that unless there is understanding by the public of the existence, importance and significance of a certain problem, you cannot get public support. When I said I did not think the majority of the general public is willing to tolerate organized crime I meant to imply that the apparent apathy of the public is simply a result of ignorance.

We know very little about the Cosa Nostra. And yet it only takes, according to your estimates, about 6,000 members of the Cosa Nostra to form the basis of the heart of organized crime in this country. We do not know who they are or where they are, and nobody has given us any suggestions on how to strike right at the heart of this organization.

Mr. RUTH. I do think, though, Senator, in the last few years the media have done a lot to publicize what organized crime is—national magazines and some of the newspapers in larger cities. I think they have been rather explicit and specific about some of the implications of organized crime. So I think maybe in the last few years there is more public education than there has been previously.

I might add about a Federal recommendation—I think a joint permanent congressional investigating committee as to organized crime would be helpful in keeping this matter before the public. I cite the problem of Federal intelligence just sitting there over in the files with specifics to back up our general assessment of organized crime—these never come out, because in a prosecution you do not prosecute someone for organized crime, you prosecute him for a specific crime. So you do not really know what that person is, even though it might come to court on a specific case. But I think a permanent joint congressional committee would bring the specifics, just as this hearing is bringing some specifics to the attention of the American people.

Senator NELSON. How good a job is the Attorney General of the United States, and various other organizations doing in educating, for example, the district attorneys and the State attorney generals in this country? The fact is when you say that the State attorney generals around the country have not done very much about organized crime, it is not surprising—except for a few of the major States, since there is no continuing organization within the attorney general's office that is aimed at the question of organized crime. The attorney general who is elected is frequently an able lawyer who has had no exposure to the fact that organized crime even exists. He is in office for 2 or 3 years and then leaves it. I have known the attorney generals in my State—we have had some very fine ones, Republicans and Democrats—who knew very little about organized crime.

Mr. RUTH. I think the present attorney general from Wisconsin knows a great deal about organized crime, and has tried to do something about it.

Senator NELSON. I think in the last 4 years there has been some activity and attention directed to the problem.

Mr. RUTH. He has run into a lot of problems.

Senator NELSON. The point is that most attorney generals come to office with no preparation in this field, and in the modest and smaller sized States their offices are not properly equipped, either. So again it seems to me that the problem is an educational one.

What are you doing about it, and what is being done about educating the attorney generals of the United States whom you criticized for lack of activity in this field?

Mr. RUTH. I have talked to a lot of police officials about this problem and raised the same question you have—why don't you tell your mayor what is going on in your city? I get a lot of responses. But I think the most frequent response is "When I walk in to tell him about it he says 'Don't tell me, I don't want to know who is involved, I don't want to know who is doing what.'" And he sends the police chief back to the police department, tells them—I don't want to be embarrassed by any Federal raids in this city, so keep the lid on as much as you can, but there again there is no push to request appropriations to set up a specific organized crime unit.

I think the attorneys general on a national level are trying to acquaint themselves with the problem of organized crime. But again there is a somewhat typical pattern in the States. An attorney general who comes in new and fresh and eager and young and wants to do something about organized crime, he may even set up an organized crime unit in the State police or in the attorney general's office. Then they go out and make their first series of raids, probably in ten to fifteen small towns. That night the telephone starts ringing and practically half the State legislature is on the phone. And they tell the attorney general "What you are trying to do, you are trying to kill me. You are not going to get that increased appropriation for the State police," et cetera, et cetera, et cetera. And it takes a very courageous attorney general, and a very courageous governor to resist these measures which appear whenever a local program or a state program is started in organized crime, because one of the problems is if you go deep enough, you are always going to turn up either a city government employee or an elected public official at one level or another. And this does not do anybody any good from a political standpoint, and people make enemies this way, through organized crime programs. I do not think very many political figures have made friends through a positive organized crime enforcement program. This is one of the practical realities.

The CHAIRMAN. All right.

May I just say, Mr. Ruth—I cannot help but agree with my distinguished colleague from Wisconsin. I think that your testimony has been very helpful. I do not personally like the implications that the mayors or State legislators or public officials are too frequently indifferent to this problem. The reason we are having this hearing today is to do something about the problem. I might say the reason I got started in public life as a prosecutor was because I prosecuted certain public officials, and because of that successful prosecution, I became known in my State, and therefore was able to run for public office. So it has always been of great concern to me to see if we could not eliminate what I think is a very small percentage of public officials who may have some connection or some desire to protect any criminal elements. I do not believe your contention that the mayors of the major cities, if told there is crime in their cities, would say "Don't tell me about it, because I do not want to hear about it." I do not agree with that at all. I think most of the mayors that I know are very much interested in eliminating whatever crime they can find going on in their cities, and certainly within their own departments.

So to that extent I do not agree with you at all. I do not think there is apathy on the part of State officials. I think what the problem is, as suggested by Senator Nelson, and also by you, that the incidence of crime is greater than we really know. Because of its method of operating in secret, it is very difficult to detect. That in many respects we do not really have sufficient statutes on the books to enable us to do the things that we would like to do.

For example, maybe the very fact that we cannot use electronic eavesdropping devices is a real handicap in this question of trying to control crime. As you say, we do not have sufficient laws on the books with respect to loan sharking. That is the purpose of this hearing today—to find out if we cannot get one on the books which would make it possible for us to combat more effectively what is now surfacing for the first time; that loan sharking, operated by criminal elements, is a very big business, an illegal business, and it should be stopped.

I think it would be most helpful to us if you would be willing to submit to us specific statutes that you think the Congress should adopt which would help the Congress in its efforts to eliminate these conditions which we all abhor so much. I would appreciate it if you would come in at your convenience, and submit to us some specific recommendations which you think we should adopt.

Mr. RUTH. I do have a loan sharking statute that I did submit to the House of Representatives, sir. I would be happy to share that—I am not saying these public officials are directly connected with organized crime on that mass basis, sir. What I am saying is that as a matter of practical reality, a public figure assesses what is to be gained and what is to be lost, before he injects resources in a priority program—and I say that any realist in a public official position must acknowledge that he has got more to lose from his career standpoint from beginning an organized crime program than he has to gain. That is really what I am saying.

The CHAIRMAN. I completely disagree with that conclusion, one hundred percent. I appoint myself as Exhibit A. I had much more to gain as a public official by prosecuting crime, and that is the reason I am here in the United States Senate.

Mr. RUTH. I am not referring to crime generally. I am referring to the Cosa Nostra and organized crime.

The CHAIRMAN. Senator Hatfield?

Senator HATFIELD. Mr. Chairman—I would like to comment on Mr. Ruth's testimony. It is very eloquent testimony.

Mr. Ruth, I have to respectfully and politely disagree with my colleagues, because I think I must identify myself with your viewpoint that you have expressed here. And I speak as a former governor, as a former legislator, as a former secretary of state of a State in which there is not a great deal of crime in comparison to States and cities to which you refer, because we are relatively a small State. We are one which is not necessarily dominated by any great metropolitan center. And yet I must tell you that I had pressures exerted upon me somewhat like those that you refer to. I must say to you that I had legislators coming to me and saying "Why, this is penny ante, that you are wanting your State police to stop at our particular fraternal club or patriotic organization, because the one-armed bandits we are operating there illegally is for a worthy cause, it is for a charitable

cause, it is for the Children's Home, or it is for some orphanage. Besides it gives the fellows just a little fun once in a while. You are being sort of hard-nosed by wanting your State police to raid the local groups." These were highly reputable groups, formed for fraternalism, for promoting patriotism, and yet at the same time engaging in activities which were by State statute illegal.

I had State senators, I had State representatives, I had mayors calling me, visiting my office, men who were themselves not connected with any kind of organized crime. These were just some illegal operators who happened to operate within or outside of the State who would bring in a few one-armed bandits for a special occasion now and then, for a charitable cause.

So I merely indicate to you that I think your point is well established, that apathy on the part of public leaders is one of the problems that we face today.

And let me go one step further. I think it is within the general attitude of many in the public today, both in political leadership roles and citizenship roles, that small crime is all right—it is only when we get into the big league that we want to avoid it. In other words, they are trying to put a certain stamp of approval on little activities—bingo, penny ante, one-armed bandits and thing that may not be related to any national syndicate—but which under local statutes are still illegal, are still outlawed. They want to wink at that type of thing. I am not saying this is true with all. I am saying there are enough instances where your testimony I think has support. I can give it support by my own experiences. The overwhelming majority of legislators, the overwhelming number of mayors, I agree with the chairman, are upright people who want to make sure law is enforced, and crime is run out. But I think it comes down to a question of definition—what is crime. Have we restricted our general national attitude toward crime as the big operation, the national syndicate, as, say, distinguished from the little poker game that is going on in the next door neighbor's house, or down at the local club, or the distinguished country club that paid off its mortgage with illegal one-armed bandits? Would you say there has been unconscious or conscious effort to deliberate between big and little crime, and accept little crime and reject big crime?

Mr. RUTH. Well, I think there may be that tendency, Senator, because people think that little crime has no connection with big crime. I think one of the problems as to vice enforcement in the big cities is that the enforcement has its greatest effect in the ghettos. I mean the old analogy that gambling—the poker game at the country club is legal, and not to be touched by the police, but the poker game in the alley and the ghetto, because they do not have a country club to go to, is suddenly a source of danger to which a vice squad might put 10 men, and make a big raid which appears in the papers the next day.

I do not see any reason to have vice squads on a police department and raid these penny ante games in ghettos, unless it can be proven that such games lead to personal violence. I would put those men to work on an organized crime squad, or recruit other men, and try to get at this large business of crime.

One of the problems with loansharking is that traditional police departments have not thought of their jurisdiction as extending to commercial crimes, so that the consumer fraud business and the loansharking becomes a job—well, we will give that to the district attorney, who is too busy to go out and ferret out crime as well as prosecute it. So it is kind of a vacuum as far as law enforcement is concerned, as far as loansharking and other commercial crimes—which are participated in by people that wear white shirts rather than people who live in the ghettos and try to make a nickel once in a while in a poker game.

Senator HATFIELD. Would you indicate whether or not you feel that there is something to be accomplished here by having a model State statute in which—relating now specifically to loan sharking—in which States could have a stronger law enforcement role to play in this—not as opposed to a Federal statute, but perhaps supplemental to and coordinated with a Federal statute.

Mr. RUTH. I think it would be very helpful, sir. I worked on the loan sharking statute for the State of New Jersey, and I would be happy to share that proposal with this committee.

Senator HATFIELD. Are you acquainted with the widespread activity in loan sharking beyond the large cities to which we have had most of our testimony addressed to today? How prevalent would you estimate or know this to be?

Mr. RUTH. I do not think I could really be honest and give an estimate of that sort, sir. When we get out of the large cities, I expect that there are people who are available, again in plants, and in the smaller communities, to lend money. But I would not know how they would connect themselves with organized crime.

I know in Pennsylvania there are crime czars in the small cities, and that these crime czars obtain services from New York or Philadelphia, and pay tribute to these groups. But I would not know whether or not an individual operation such as loan sharking which is part of this small town's total crime picture would have direct connection with New York or Philadelphia.

Senator HATFIELD. I am grateful for your testimony.

The CHAIRMAN. Senator Nelson?

Senator NELSON. I understood Senator Hatfield to say he disagreed with his colleagues but then I could not find where he disagreed with anything I had said. I have not said there are not corrupt public officials. Everybody would have to be naive not to recognize that. My main point was that I think there is a lack of education and knowledge and understanding among the public about how important and how extensive organized crime is. I further said that the attorney generals except in the modest sized States—I think those are exactly the words I used—come to office with no experience, background, or knowledge about organized crime, no built-in institution within the attorney general's office that is aimed specifically at organized crime. And therefore part of the problem is to educate them as well as the public. And I was wondering what more we could do to educate the public about this problem.

Mr. Salerno testified that many of the police officials do not really understand the loan sharking business. If the police officials do not

understand it, how can the public understand it unless it is explained. I myself have never known the explanation of how loan sharking operates, or what elements are involved, until this morning.

Everybody recognizes that organized crime is an important problem, and that there are corrupt officials. But my concern is there is only a small group of people who have some knowledge about it, and I want to know how we can more effectively educate the public and the State attorney generals and the law enforcement people in those places where there is not very much knowledge about it. You have testified that one State which has done a good job in trying to solve this problem is New York. How many others have done that kind of job?

Mr. RUTH. Well, I think Illinois and California, sir. As I cited, I think the New England States are beginning to do this. I think Michigan and Pennsylvania are starting State programs. New Jersey will shortly begin a more extensive State program. I think the State of Florida has started an organized crime program. I think it is too early to state whether it will become institutionalized or not. These are the problems—getting over that initial hump of 2, 3, or 4 years, to find out whether a program has become institutionalized, or whether it is a personal thing about the incumbent in office, and will fade away when the next person comes in.

Senator NELSON. You are saying that only 10, 12, 13 or 15 States in the Nation are moving to do something about organized crime, and that the other 35 are not doing much. Isn't that what you are saying?

Mr. RUTH. I think so, yes, sir. I am not sure it is a problem in all the rest of the 35, but certainly in some of them.

Senator NELSON. Thank you.

The CHAIRMAN. All right.

I would like to say I offered myself as exhibit "A" a moment ago, as the fact that some public officials have not sued me when they knew something about organized crime and did nothing about it. But then my distinguished colleague, Senator Hatfield, said that he disagreed with me, and that when he was Governor, the legislators pressured him to be permissive about small crime. But I assume from the fact he is here today as a U.S. Senator, he did not accede to those requests, he did enforce the law, and that is why he is here today.

Senator HATFIELD. Thank you, Mr. Chairman.

The CHAIRMAN. I offer him as exhibit "B."

Mr. RUTH. I think what we need is about a million of those exhibits. I am happy there are two of them.

The CHAIRMAN. Thank you very much, Mr. Ruth, for your testimony.

Our next witness is the Chief of the Organized Crime and Racketeering Section, Criminal Division, U.S. Department of Justice, Mr. Petersen.

STATEMENT OF HENRY E. PETERSEN, CHIEF, ORGANIZED CRIME AND RACKETEERING SECTION, DEPARTMENT OF JUSTICE, WASHINGTON, D.C.

Mr. PETERSEN. I have a statement, Senator. It is very brief.

My name is Henry Petersen. I am the Chief of the Organized Crime and Racketeering Section, Criminal Division, of the U.S. Department of Justice. I appreciate the opportunity of being able to testify before

this committee regarding a serious problem with which we are confronted today, the steadily increasing activity of loan sharks throughout the United States.

Loan sharking, which is the lending of money at a usurious rate of interest, is not now a violation of Federal law. The Federal Government's interest in this activity stems from the significant role loan sharking plays in organized crime. By organized crime, I am referring to criminal syndicates which have national and international ties and which conduct their illegal activities on a daily basis over an extended period of time, in an atmosphere of relative safety.

For the most part, when I refer to organized crime, I am referring to the largest criminal organization in the United States, Cosa Nostra, which in order to put its illgotten gains to work engages in substantial loan-sharking activity.

There are no Federal usury laws; and thus, there is no direct jurisdictional basis on which to predicate a Federal investigation into loan sharking. We have, however, looked into loan-sharking activities particularly as they relate to the activities of Cosa Nostra, but only for intelligence use, but to uncover possible violations of the Federal income tax laws and the interstate extortion statutes.

It has not been a very profitable venture. In terms of extortion, if the facilities of commerce are used, and if there are threats of force and violence employed in the collection of money, we perhaps have a violation of the several Federal extortion statutes. I regret to say, while there have been some few successes, this has not been a very profitable venture. Our intelligence information indicates that the loan shark has gained a foothold in the legitimate business community. Those businessmen whose credit ratings are unsatisfactory or who are without adequate collateral are easy prey for the loan sharks who are only too willing and too able to make loans to substandard risks. The loan shark is quite ready to take over the debtor's business upon his default in his payments of either the principal or the outrageous interest charged.

It is difficult to estimate the total amount of money placed out on loan by loan sharks. One individual apprehended had notes on his person which reflected he had several hundred thousand dollars out on loan at a given period of time. But, by and large, I think the estimates are largely guesses, based upon insufficient data.

I do not know any way that we can correct this.

Whether or not there ought to be a Federal usury statute is a problem with which I have a great deal of difficulty.

The scope of a Federal usury statute would take Federal Government investigative processes far and wide. I think, at least from my own point of view, that that responsibility should be left to the States.

On the other hand, I am vitally interested in additional jurisdictional predicates that will enable us to move into the money-lending activities of organized criminal syndicates.

In New York City alone—and when we refer to New York, it is only because they have been very helpful to all of us—we have identified over 120 individuals in Cosa Nostra who are engaged in loan-sharking activities. For all practical purposes, however, our efforts stop there. We have had some surveillance of loan sharks that I must just describe for you. After we identified the loan sharks, we would place them under surveillance, we would observe everyone they come in contact

with, and as you might guess, a number of their contacts are people who have no connection with crime at all. Then, we have to interview those people they come in contact with. We have to overcome the fear of those who have in fact done business with the loan sharks, and if we are successful in doing that, we have to elicit from them their testimony under oath. And, then on top of that, we have to establish that the facilities of commerce are used. As I said before, these surveillances have not been very productive.

As a consequence—and I think our experience is shared by law enforcement generally—more and more of the individuals engaged in organized crime are moving into loan sharking—it is just so much safer—just so much safer than even gambling, for which the penalties are generally slight, or the more heinous offenses—hijacking, narcotics, extortion, or what have you. So, they move into loan sharking, and they are relatively safe from prosecution on either a Federal or State level.

Lately, there has been some suggestion with respect to legislation. One bill has been introduced that follows the antiracketeering statute, which is 18 U.S.C. 1952, which, generally speaking, would make it a violation of Federal law to use the facilities of interstate commerce to violate usury statutes of the several States.

I have some problem with that.

The difficulty, as I see it, is that there is absolutely no uniformity in the usury statutes of the States. The interest rates, just on a very preliminary survey, run from 6 to 48 percent. Some States—at least two States, I believe, have no usury statutes at all. Many States exempt corporations from the jurisdiction of their usury statutes. So to predicate Federal jurisdiction on the variable pattern of State law I think would present a real morass.

Professor Ruth has suggested a statute which would fix the interest rate at 75 percent. In terms of dealing with organized crime, I think that would be adequate—for the most part the interest rates do run beyond that. I do not think that there is any implication that Congress or the Federal Government would be approving interest rates at less than 75 percent if such a statute were to be enacted. I think legislation of that form I would leave to the States, where perhaps it has traditionally been, and may even belong, the regulation of small loan legislation as it relates to those who are engaged in legitimate business and who may from time to time vary their business practices and come close to violating a State law.

I think the two problems are somewhat distinct. On the one hand, we are dealing with people who are operating legitimately, and who may be forced because of a tight money market to vary their interest rates and at times come into conflict with the State interest provisions applicable under the law. And, on the other hand, we are dealing with a group of people who are committed to illegality on a daily basis, who are not concerned with the interest rates that may exist in a given State, but who are simply concerned with putting money on the street which they have earned illegally, in return for a high rate of interest.

Now, the present status of the legislation—I understand there is a bill in Congress called the Truth in Lending bill, which incorporates the first provision of which I spoke—that is, the bill that makes the

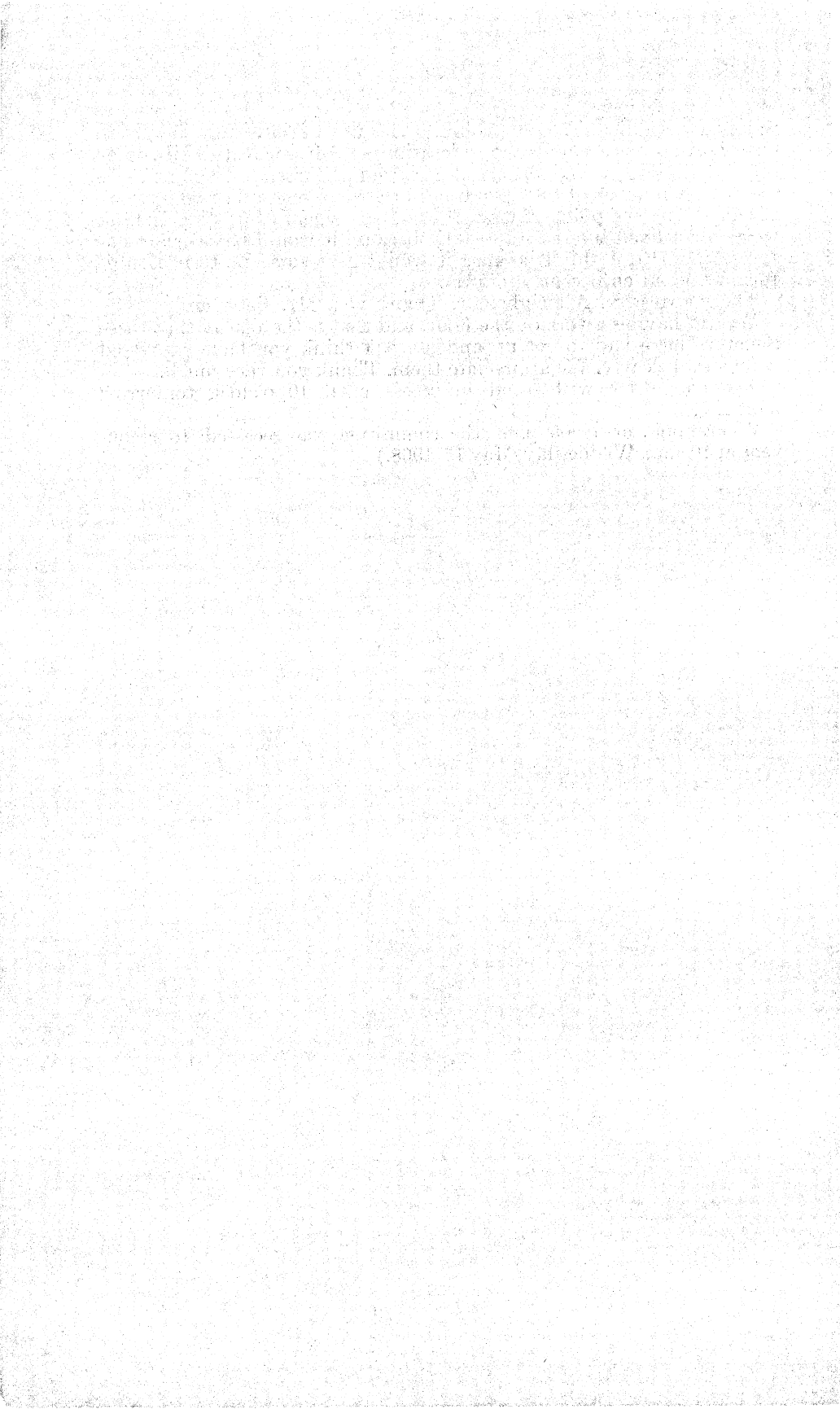
State law applicable, and prohibits the use of interstate facilities. Other provisions are under consideration—Professor Ruth's bill, other bills by the House and Senate Banking and Currency Committees—there are a number of bills pending in the Congress, all of which look to this. From the point of view of the Department of Justice, I think we favor a fixed interest rate—(1), because it would be easier to enforce, and (2), I think because it would give some pattern of uniformity to our enforcement efforts.

The CHAIRMAN. All right, sir. Thank you, Mr. Petersen.

We are having a vote on the floor, and that is the reason that these Senators have had to get up and leave. I think you have expressed your views clearly. We appreciate them. Thank you very much.

The committee will stand in recess until 10 o'clock tomorrow morning.

Whereupon, at 12:05 p.m., the committee was recessed, to reconvene at 10 a.m., Wednesday, May 15, 1968.)



IMPACT OF CRIME ON SMALL BUSINESS—1968

WEDNESDAY, MAY 15, 1968

U.S. SENATE,
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m. in room 1202, New Senate Office Building, Senator George A. Smathers (chairman) presiding.

Present: Senators Smathers, Javits, Baker, and Dominick.

Also present: William T. McNarnay, staff director and general counsel; and Ernest P. Evans, professional staff member.

The CHAIRMAN. The meeting will come to order.

Before we continue with our witnesses on loan sharking, I hope you will pardon the chairman for his pride in the fact that a year ago in April this committee started hearings here in Washington on how small businessmen were losing their insurance coverage as a result of the vandalism, the riots, and particularly the burglaries which were so common in this particular area, as well as in the Detroit area, New York areas, and others.

I am reminded of this as I look on the front page of this morning's Washington Post and see the headline which says "Firms in riot area losing insurance." I will just read the first paragraph:

The insurance policies of at least 100 firms doing business in riot affected areas of the city have been canceled, District superintendent of insurance said yesterday. The superintendent, Albert F. Jordan, said his office is receiving five and 10 complaints of cancellation a day, and that more than 100 cancellations have been verified.

A year ago in April we had witnesses who testified that they could no longer get insurance because they had been burglarized or vandalized at least one or more times. After that, the President appointed a commission, headed by Governor Hughes of New Jersey, who made a further study into this matter, and when they came to the same conclusion, the President and his commission finally sent to the Congress a proposal. But that was after we had developed a bill in this committee and had introduced it into the Congress, and it had been sent to the Banking and Currency Committee of the Senate, and the subcommittee, headed, I believe, by the distinguished Senator from New Jersey, Senator Williams, had reported favorably on the bill—after making certain amendments in it.

Obviously we are proud of the fact that we initiated that bill with the same type and character of hearings as we have today.

We think there will be a solution to the problems of the small businessman who loses his insurance because he is either within or on the borders of the zone where the riots and vandalism occurred.

We likewise have a feeling that as a result of these current hearings there will be some useful legislation which will be put on the books and will make it less possible for organized crime to take hold of small businesses.

I wanted to make that statement, because I am very proud of what we did.

Now, today the committee continues its investigation into the impact of loan sharks on legitimate small business enterprises. Yesterday the committee heard testimony largely devoted to a description of the mechanics of the loan shark operation which pervades the business community. Today we have scheduled witnesses who are in a position to tell the committee in some detail about actual cases of borrowers falling into the clutches of loan sharks. In addition, we will take testimony on the efforts of law enforcement agencies to control loan sharking. We will also hear from a victim of the loan shark racket. Subpenas have been issued for the appearance of two alleged members of a loan shark operation. I should like to repeat that the committee has initiated these hearings pursuant to the authority granted to it by the standing order of the Senate "to study and survey by means of research and investigation all problems of American small business enterprises and to obtain all facts possible in relation thereto which would not only be of public interest but which would aid the Congress in enacting remedial legislation."

Specific authorization to hold the hearings was granted pursuant to the rules of the select committee in executive session of the committee held March 26, 1968, notice of which was announced on April 19, 1968, by me. In accordance with rule 6, any witness summoned to public or executive hearings may be accompanied by counsel of his own choosing who shall be permitted while the witness is testifying to advise the witness of his rights.

The first witness this morning will be Mr. Michael Metzger, the assistant district attorney of New York County.

Mr. Metzger, we are very pleased to have you, and you may proceed as you like.

STATEMENT OF MICHAEL H. METZGER, ASSISTANT DISTRICT ATTORNEY, NEW YORK CITY, N.Y.; ACCOMPANIED BY NORMAN ARCHER, ASSISTANT DISTRICT ATTORNEY, QUEENS COUNTY

Mr. METZGER. Mr. Chairman and members of the committee, I would like first to extend greetings to you from District Attorney Frank Hogan, and Chief Assistant District Attorney Alfred J. Scotti. We appreciate your according our office the honor of participating in your hearings. We consider it a privilege to have this opportunity to appear.

I would like to introduce to you, Senator, and Senator Dominick, Inspector Louis Cottell of the New York City Police Department, and assistant district attorney, Mr. Norman Archer, of the Queens district attorney's office.

The CHAIRMAN. We are pleased to have you.

Mr. METZGER. At the outset I would like to make some reference to the terms that we have used here. I know there has been prior testimony before this committee on definitions. However, I would like to say one or two words with respect to organized crime.

As to the structure and details, I will defer to Inspector Cottell, who is unparalleled in his knowledge of the intimate details of the organized underworld.

As a general statement, however, let me say that there is no legal distinction between organized crime and any other criminal conduct. Because there is no legal distinction, and for other reasons, the expression "organized crime" is not subject to easy definition. In fact, it is almost impossible to define in a coherent sentence. We know very much what it is not, but it is very difficult to define what it is, although we can all recognize it when we see it.

As you know, any group of individuals who organize or join together for the purpose of committing an unlawful act are—by definition—conspirators, and they are accomplices of each other in any completed crime that they commit.

We do not, however, classify all conspiracies as organized crime. This would be a far too broad-based definition, and would of necessity include groups of criminals who are clearly not members of the organized underworld.

Organized crime, as the expression is employed by law enforcement agencies, does not, for example, embrace burglary rings or groups of car thieves or gangs of muggers. Nor does the expression contemplate those conspiracies involving subversive activities, although certainly those conspiracies are highly organized.

Organized crime refers to that confederation of underworld elements who utilize a distinctive mode of operation in the pursuit of criminal activities, and whose operations are conducted within the framework of a recognized hierarchy—the structure of which and existence of which is extremely durable.

The organized underworld—unlike other criminal conspiracies—does not depend for its existence on any particular individual or individuals. It has, indeed, a continuity which exists despite its periodic and sometimes violent changes of leadership.

Now, as to the activities of the organized underworld—it cannot be said blanketly that individual members of the underworld never commit crimes such as robbery or burglary, what is commonly referred to as street crimes. This is not true—they do from time to time. But this is not generally considered as part of their underworld activities. When we refer to organized crime, we generally have in mind crimes dealing with four areas—gambling operations, labor racketeering, narcotic traffic, and loan sharking.

The underworld, it may be said, exists by supplying illegal services which are sought after by willing victims—at least in the beginning—until they become the victims.

The principal feature of the organized underworld is its authoritarian nature. I think yesterday one witness referred to it as fascistic. I think the words are synonymous in this case. It is quite true. This feature is evident in both the external and internal activities. Internal authority is ruthlessly enforced, and loyalty and fealty are guaranteed by the ever-present threat of very serious violence and murder.

External activities of the organized underworld are similarly marked by rigid control.

The organized underworld does not limit itself in its interest to one side or the other side of any particular area. It will try to invade, infiltrate, and control both sides. I think labor racketeering is a good

example. They would not just want to infiltrate and dominate a particular union. They would be as interested to get into the business side of it as well. And this is a monopolistic nature of the underworld which makes it quite distinctive.

Profit is of course the dominant motive of all underworld activity. The underlying advantage enjoyed by organized crime, and which makes their activities possible, is the ability and willingness to employ fear based on the expressed or implied threat of violence, and whenever it becomes necessary the use of their ample revenues for the corruption of public officials.

Inspector Cottell will go into more details regarding our knowledge of the structure of the underworld.

With respect to loan sharking, this committee is quite correct in pointing out that loan sharking is becoming increasingly an important area for the organized underworld.

Speaking with reference to New York State, the maximum legal interest rate in New York State was 6 percent until fairly recently. Penal law prohibited rates in excess of that percentage to individuals on loans not exceeding \$800. The loopholes there are obvious. One could create a corporation, and be taken completely beyond the penal statute. Moreover a loan of an amount in excess of \$800 was not subject to this legislation. Moreover, there were multiple exemptions for loan companies and other institutions.

As a result of that rather poor legislation, it was virtually impossible to do anything about loan sharking in New York State, unless and until the usury developed into some more serious crime, such as extortion.

In 1966, the penal law, amended section of the penal law, went into effect, and now gives us a very simple and highly effective statute. It prohibits any loan, under any conditions, by anyone to anyone, with true annual percentage interest rate in excess of 25 percent. It is called criminal usury in New York, and the crime is now denominated and described as a felony. Moreover, possession of records of loan-shark transactions is also proscribed by the statute.

Depite the fact that 25 percent would appear to be an extremely high interest rate, I think this committee has already heard testimony, and I would repeat that the typical loan-shark transaction involves interest rates that are never less than 100 percent, often in excess of 350 percent, and average 260 to 262 percent. Now, that figure comes from the typical 6 for 5 transaction. That is a transaction that not everyone is clear about. That means you borrow \$5 and you pay back \$1 for 6 weeks, \$1 each week for 6 weeks. Now, you do not have the \$5 for the period of time, so that the interest, the true interest, as it is with loan companies whose loans actually show their true interest—because of the discount feature, becomes astronomical. In this case 262 percent. That is the average loan-shark transaction. Five percent a week.

The organized underworld, as I mentioned, is increasingly active in the area of loan sharking. And the reason for this, and the reason why loan sharking is attractive—there are three principal reasons.

No. 1—loan sharking provides an outlet for the use of illegally acquired cash obtained from gambling and narcotics operations. Two,

¹ See p. 64, *infra*.

it obviously has the capacity for supplying enormous profits with little or any risk, and believe me, Senator, there is no risk involved here, because the underworld will collect one way or another.

The third reason is that loan sharking provides a convenient vehicle for the penetration into legitimate business.

Now, it is clear from those three reasons why the underworld finds loan sharking attractive. The question naturally arises as to why someone would be willing to pay those sort of interest rates, and possibly subject themselves to the difficulties that are inextricably intertwined with such a transaction. The simple answer is that very frequently the loan shark is the only available source of a needed loan. Like his ocean-dwelling namesake, the loan shark feeds upon weak victims. A business in financial trouble is the natural prey of the loan shark.

Now, I want to make it clear that not all loan sharks are affiliated with the organized underworld. These are private loan sharks, just as there are private bookmakers, whose association with the organized underworld is extremely tenuous, if it exists at all.

Private loan sharks rarely survive. They do not have the facilities for collecting on the bad risks, and bad risks are indeed the only people that would be turning to a loan shark.

Obligations incurred by borrowers dealing with unaffiliated loan sharks, as I say, are not collected by extortive methods in most instances, and therefore they are not made as freely. If you could back up your collection efforts with physical violence—then you are going to be much more reluctant to loan out money.

The underworld, on the other hand, has the edge. They are ready, willing and able to use violence to collect delinquent debts.

It is generally agreed that most loan-shark transactions are amicably conducted with both parties being satisfied. These transactions never come to the attention of the authorities in any way, and there are many that look at the local loan shark as a desirable, even necessary institution. However, there are enough situations where the borrower becomes so enmeshed with the shark that he cannot get out from under. Where the shark is affiliated with the organized underworld the consequences of such delinquency are always serious.

In the case where a borrower is a businessman and cannot repay a loan to an underworld shark, the underworld will in most cases take over at least a part if not all of the borrower's business—that is to say, require the businessman whose business is substantial enough to do business with some other firm that may be dominated by underworld interests. And this may be the vehicle by which he can repay the loan.

In any case, the delinquent borrower will wind up aiding and abetting the organized underworld in its various criminal pursuits.

It is almost impossible to be involved in a transaction with a loan shark affiliated with the organized underworld and not yourself become involved in some criminal activity, even if it is as seemingly innocuous as this situation. The businessman will say "Well, I would like to pay you the money now, but Mr. Jones owes me money, and he has not paid me. As soon as Mr. Jones pays me, I will pay you. Why don't you go see him?"

And this businessman is in effect aiding and abetting and is an accomplice in the strong arm collector now going to Mr. Jones and col-

lecting the debt in an extortive fashion. So he has committed a crime—in the event that extortion is committed with respect to Mr. Jones, or as a result, the original businessman is a principal to that crime—whether he viewed it that way or not.

Resistance, of course, to the organized underworld is never tolerated. The use of physical force will be resorted to if all other persuasions fail. Where the borrower has no tangible business, the underworld will compel him to become a tool in some other criminal venture. An illustrative example of this is the case of Jerry Wolff. This is the man's real name. However, he is no longer in this part of the country, and we believe he is safe from any further retribution.

I would like to briefly describe to you the story of Mr. Wolff, and play a tape that might be helpful to this committee.

Mr. Nathan Sackin, who has been subpoenaed here as a witness, is the owner of a number of drycleaning establishments in the city of New York. Sackin became indebted to an underworld figure by the name of John Sonny Franzese. I submitted a copy of Mr. Franzese's criminal record to the committee for its files. You will notice among other brushes with the law that he was convicted in April of 1966 on numerous counts of bank robbery—this was a Federal trial—and he was sentenced to a term in prison of 50 years.

Franzese, according to the information developed by the bureau city police department, is a member of the Joseph Colombo unit of the organized underworld.

The CHAIRMAN. Is that part of the Cosa Nostra? Or do you know?

Mr. METZGER. We have never taken a position as to that particular expression, Senator. I personally have not heard that expression used by anyone in the underworld. But from what you mean, I would say yes. It is the organized underworld that is referred to by some people as the Cosa Nostra. Whether it is referred to by the underworld as the Cosa Nostra remains to be seen.

Now, Sackin had difficulty in repaying moneys owed to Franzese, and agreed to act as a frontman for Franzese money. And he, amongst other customers, cultivated, while running his drycleaning business, I might add, one Gerald Wolff, who was then employed in a major stock brokerage house in Manhattan. Wolff became more and more enmeshed in the transactions with the shark Sackin, and soon found that he was unable to meet his payments and became delinquent.

At this point he was informed, for the first time, that he had been borrowing underworld money. He was threatened on numerous occasions—he was told he would be mutilated and eventually murdered if he continued to be delinquent in his payments. During the course of these conversations, in his relationship with Sackin and Sackin's associates, Green and Bishansky—that is Sackin's overassociates—Wolff was pushed from a moving automobile and sustained injury.

However, it was not the intention of the underworld to let Wolff off with merely a beating. He was first induced to produce new loan shark customers for the shark Sackin, and did so. He provided three or four other customers, who, by the way, eventually became similarly enmeshed.

As I understand it, one of those victims eventually committed suicide. There is no direct proof that this was related to the loan shark-ing transaction, but the fact is duly noted.

In any event, not satisfied with Wolff's recruiting abilities in providing new victims, they then induced Wolff, because of his intimate knowledge of the workings of Wall Street, to aid the underworld in the disposition of stolen stock certificates that had been acquired through other aspects of underworld activity. It so happens, however, unfortunately for Mr. Sackin and his associates, but fortunately for the law enforcement agencies, that Mr. Wolff had some good advice. He came to the district attorney's office to complain about the extortion that was being committed on him.

He was then supplied with a concealable tape recorder, and, of course, was put under surveillance by detectives from the district attorney's office squad.

One of the very first occasions that he had to talk with Sackin, when he was wearing this recorder, Sackin and his associates, Green and Bishansky, first proposed the idea that Wolff should aid them in the sale of stolen stock certificates. You will hear a tape now where the very genesis of this idea—this is when it is first proposed to Wolff. I might add we had no idea whatsoever that this proposition would be made. In retrospect, however, it appears clear that the shark Sackin intended to obtain a victim such as Wolff that could be utilized in this fashion.

I would like at this time to play the tape recording that I referred to between Wolff and Sackin. This recording was made on November 13, 1964. I might add that this case has been tried, and convictions were obtained of all parties, and it has been through the appellate processes, and has been completed.

Again, this is a concealable recorder. In the beginning of this conversation, there is some delay and pause—if you will follow on the transcript—

The CHAIRMAN. I might say for the benefit of the committee and the members of the press who are here, we have, at the table, transcripts of this testimony. Anybody who wants to read it, must read it at their own risk. It is replete with four-letter words, and I understand, typical of this type of conversation. So it is available to those who might want to use it.

Who has the recorder on him now?

Mr. METZGER. Let me identify these individuals.

Wolff is wearing this concealable recorder, which is about the size of a cigarette package. It is worn in a little carrying case underneath the shirt, in the vicinity of his armpit. The microphone is pinned behind his shirt underneath his tie at this point.

Now, the participants in this conversation are Wolff, the victim, William Green, who is Mr. Sackin's—who was Mr. Sackin's associate, and Mr. Sackin himself. There is a reference here to an "Al." That is Albert Bishansky, who is presently in Sing Sing Prison in New York, as a result of this case. Al Bishansky was the liaison man between Nathan Sackin and John Sonny Franzese.

The CHAIRMAN. All right, sir.

(At this point in the hearing the tape referred to was played.)

Mr. METZGER. When he makes reference to George—George is one of the victims brought in by Wolff as another loan shark victim. I might add this makes Wolff an accomplice of Sackin in respect to that loan shark transaction. So you see here they are in the process of commit-

ting two crimes—Wolff, who originally had no intention to commit any crime whatsoever, but wanted to borrow some money.

The CHAIRMAN. Can you stop just a minute?

It is not very clear.

You have the transcript there. Why don't you tell us where we are, and who is saying what.

Mr. METZGER. I can hear it. Maybe we have listened to it so much, we have learned how to listen to them.

We are at the point here where Green has just said "You ain't going to see them. When it happens to you you won't even know when it is all over." I would not give this the dignity of saying it is a thinly veiled threat. It is a direct threat of physical violence. That is on page 2, toward the bottom—Green is saying that.

He says, "There is nothing I can do to stop it."

The CHAIRMAN. I am going to make a suggestion. Why don't you just read this yourself, and we will accept the fact that it is recorded as you have it on that recording. When you get to those words you do not think should be read, just say "blank." I think that would be much more edifying to the committee.

Mr. METZGER. Senator, would you mind if I just try it a little bit longer? They may become more clear.

The CHAIRMAN. All right.

(The tape was played.)

The CHAIRMAN. Mr. Metzger. I think you better just read it to us. We will accept the fact that it is on that recording.

Mr. METZGER. All right, fine.

The CHAIRMAN. Why don't we start at about page 2.

Mr. METZGER. All right.

The CHAIRMAN. Give us the setting, and tell us what it is all about.

Mr. METZGER. All right. Wolff is mentioning Donna. Donna is his wife. He was attempting to get some money to pay this shark from his wife's uncle, who is from Wisconsin. And he is saying he got a negative answer.

The CHAIRMAN. How much money is involved in this?

Mr. METZGER. At this point, I believe the outstanding loan was in the amount of \$5,000—or had accumulated with the interest—what is known in the trade as vigorish.

Green says "You ain't going to see them. When it happens to you, you won't even know it until it's all over." I think that is pretty clear.

The CHAIRMAN. I think, Mr. Metzger, if you just read it—what Green said, what Wolff said, and so on—then we will understand it.

Mr. METZGER (reading):

WOLFF. Oh huh.

GREEN. But, err, there's nothing I can do to stop it.

WOLFF. That's all I can say Bill.

GREEN. And that's all I can say, whatever happens, happens that's all.

WOLFF. I'll speak to you Monday, I guess. What are we going to do with George's other? Because I spoke to George today.

He is making reference here to George's delinquent payments. George in this case is the man who committed suicide—also a member of a stock brokerage firm.

Wolff then continues—

Senator DOMINICK. May I interrupt you.

Back at the very start of this, Wolff says he went down to George's office, and he sat there, and he did not have the money. Then he says "I got George's." What does he mean there?

MR. METZGER. He got part of George's payment that was due. But George is considerably delinquent. He was responsible for collecting this loan shark victim's payments. They are referring actually to a payment that is 4 or 5 weeks old.

Senator DOMINICK. Wolff just above that said George did not have the money.

MR. METZGER. I think he is making reference to—you see, they are referring to a number of different payments that are delinquent. He may have a payment of 1 week, but not the payment of another week, at this point.

Senator DOMINICK. O.K.

MR. METZGER. Now, then—

The CHAIRMAN. Tell us where you are.

MR. METZGER. The top of page 3.

WOLFF. And, err, oh, by the way, he doesn't want you to call him up out there this weekend, because his wife is all upset as it is. So the less she knows, the better she'll like it.

GREEN. If I call, I'll ask for him. If he's not there, that's it. I'll say, "Mr. Green called." That's all.

WOLFF. All right, so you speak to him. Do whatever you have to do with him and that's it.

GREEN. Is he going to be in on Monday? Do you know?

WOLFF. I don't have the faintest idea.

Senator DOMINICK. Who is "he"?

MR. METZGER. He is referring to George—whether George will be in the stock broker's office on Monday.

GREEN. Oh, boy, I'll speak, I'll call the office Monday and see what I can arrange. And maybe I'll give him a call at home.

WOLFF. All right, I'll call you Monday anyway, after I speak to her uncle, and see what happens.

GREEN. Where is her uncle supposed to be coming from?

WOLFF. Her uncle is coming in from the Island, he works on the Island, but err, we'll see what happens, that's all I can do. Either that, or like I told you.

This is conversation—it tends to be disjointed.

No, I didn't tell you once before, but I know my wife can get it, but she won't do it for me, maybe you can bust her head a little bit.

GREEN. I got nothing to do with your wife.

He is apparently talking to Sackin at this point. He says "He brought me George's." Then Sackin comes on—

SACKIN. What did George pay?

WOLFF. George isn't in the office.

SACKIN. But his friend.

WOLFF. 105—80.

The CHAIRMAN. What does that mean?

MR. METZGER. I believe in this case the payment of \$80 in principle, and the balance of back vigorish.

SACKIN. What about you?

WOLFF. I haven't got it and there's nothing I can do, until I speak to her uncle on Monday, which is what I told him.

GREEN. Which doesn't guarantee.

SACKIN. All you're doing is speaking to somebody, your uncle.

WOLFF. Her uncle.

SACKIN. You're in big trouble with these guys Jerry. You are in big trouble. Well, err, what can I tell you? Trouble.

GREEN. Listen, there's a big amount involved.

SACKIN. Al is—(Refers to Albert Vishansky—liaison man for John "Sonny" Franzese.)

GREEN. They're not err.

SACKIN. He is calling here or coming down. Hey, by the way, a thought occurs to me.

Now, this is the point where they are first going to bring Wolff into this scheme of disposing of stolen securities. He is acting here, Sackin, in this innocent way saying "Oh, a thought just occurred to me." Of course this is a thought he has had a long time. They are making their first overture here. If there was such a thing as stocks,

WOLFF. Yeah.

SACKIN. That they have in their possession. "They" referring to boys uptown, the underworld.

Say, for argument's sake, say this stock is in Al's possession.

WOLFF. Right.

SACKIN. And Al wants you to sell the stock.

WOLFF. Right.

SACKIN. Can you handle this?

WOLFF. Sure.

SACKIN. Without his authority?

WOLFF. Without his authority—no.

SACKIN. Let's say that Al stole it from him.

They are trying to give him a hypothetical situation, without saying just where this stock came from. "M" doesn't refer to anybody.

Wolff says that he would need—he wants to know whose name is on the certificate. Sackin says:

SACKIN. Say his name.

WOLFF. His name?

SACKIN. Yes.

WOLFF. Aah.

SACKIN. Remember it's stolen stock.

WOLFF. As long as it's signed on the back, I don't care.

He means as long as the stock is endorsed over, he can deal in it.

SACKIN. What if he, somebody signed it on the back?

WOLFF. I don't know who signed it.

SACKIN. Can you sell the stock?

WOLFF. Sure.

SACKIN. Maybe there's a shot of you getting out of this, after all.

Now that they are finished with their threats of physical violence, they say "Here is a chance for you to get clean."

And Green describes that the stock would be signed.

Wolff says "I do not know who signed it." Of course you realize this is given in the nature of a proposed explanation—"I don't know who signed this."

GREEN. After it is given to you, what happens to it them?

WOLFF. I sell the stock and I make a delivery.

GREEN. Wait a minute. You sell the stock to somebody and you deliver the stock to them?

WOLFF. Right.

GREEN. Do they investigate this? Do they call on me to find out if it's a legitimate sale or not?

WOLFF. Not until maybe 6 months later.

GREEN. And then what happens?

WOLFF. After the clearing house looks at the signature.

GREEN. Then, then somebody calls me up and says, "We have such and such there."

WOLFF. Go on; go prove you didn't sign it. It goes on every day.

SACKIN. Now, wait awhile, that's why. Let me understand.

GREEN. They come back to the guy who bought the stock.

SACKIN. They trace it backwards.

GREEN. He goes back to you. You come back from, to the one you brought it from.

SACKIN. Here, let me do it this way. Let me say that I stole some stock.

WOLFF. All right, prove it.

SACKIN. From X, Mr. X, Mr. Smith, who you don't know. You don't know and I don't know it was stolen.

WOLFF. Right.

SACKIN. Now I want to sell that stock.

Sackin is representing here—suppose I have stock, and no one can prove I know it is stolen, can I get rid of it and can I say later "Oh, I didn't know this was stolen." This is what he is asking Wolff. "Am I in a position to deny knowledge this stock was stolen."

Sackin says:

How can I do it and still avoid being picked up. Is there any way?

WOLFF. I have the rules and regulations from the transfer agent at home in a book. I'll read it.

SACKIN. Would you, all right, here's what you do for me. There's a possibility if you can work this out to everybody's satisfaction, you can come out of this clean.

WOLFF. Oh huh.

SACKIN. Smelling rosebuds, owing nothing.

WOLFF. All right.

SACKIN. Understand, when they spoke about it, somebody spoke about it, I know somebody who may be able to do it. He needs the job. He needs a score.

Score is underworld expression for commission of a criminal act that produces money.

SACKIN. I don't know if, but, it's got to be done Jerry. Understand this, anything slips, you're the one who gets the beating.

WOLFF. Right I know this.

SACKIN. It can't be otherwise.

WOLFF. I know this.

SACKIN. You are D-E-A-D, dead.

WOLFF. I understand this.

SACKIN. Understand it? In other words, as far as anybody else is concerned they look at you. "Me?"

WOLFF. Me. I never say you before in my life.

He is assuring Sackin in the event there was a slip-up here, he would not refer back to Sackin as—in the chain of possession.

SACKIN. Exactly, you got the stock from somebody. You got the stock from a guy who stole it from Smith. You stole it yourself.

WOLFF. Hmm, humm.

SACKIN. What you did with the money nobody knows.

He is instructing Wolff what to do in the event he gets caught.

SACKIN. Understand, because if you open your yap, they'll kill you.

Sackin is making reference to his covert associates in the underworld, and specifically to John Franzese. He is known to Wolff. So his comments are in a contexts known to Wolff.

SACKIN. I mean kill you, so don't you think I'm giving you an easy way out of this deal. If anything happens they'll leave you for dead, Jerry. There's a lot involved.

The CHAIRMAN. That last is sort of an understatement.

Go ahead.

Mr. METZGER (continuing to read).

SACKIN. I can't do anything over the weekend; but Jerry you've got—

GREEN. To come up with something over the weekend.

SACKIN. Al is coming down today and he's set to work. You know what I mean? I will tell him.

That means Sackin is ready—that is Bishansky is ready to get the stuff—as soon as Jerry is ready to move the certificates.

GREEN. You are going to, whatever you say is going to have to get me off the hook. Because they're expecting me up there tonight.

Now, this is a very typical thing. The typical loan shark, when he brings into play the threat of the underworld, always manages to make himself look like some sort of an intermediary, a bit of a victim himself. He says, "Gee, I am sorry, they are going to kill you, and that puts me in an awful spot, and I have to report back to them, I have to tell them this and that, I don't know what I can do for you." This is very, very typical, Senator.

SACKIN. In other words, money. What's the shot? What's the chance of your coming up with some money?

Now he is still referring—they are now going back to the loan shark transaction itself. In the event the stock thing does not work, he wants to know when the next payment is coming. Wolff says "Some money? Good."

SACKIN. What do you mean by some?

WOLFF. Maybe 150, 200 bucks.

GREEN. Never mind some. What do you mean by good?

WOLFF. Well, her uncle doesn't walk around with 400 in cash. Whatever I get from him I figure, but I figure 100.

SACKIN. Check is good.

WOLFF. His check is good.

SACKIN. So, we'll cash.

WOLFF. All right, that's what I mean, 100, 150 I'd say good. Very good.

SACKIN. So then what? What are you going to do after that?

WOLFF. Then it's up to her uncle. Not up to me.

GREEN. Up to who?

WOLFF. Up to her uncle.

SACKIN. Her uncle? Remember, they're not interested in her uncle or any — stories. They're out of patience.

Again, this reference to the fellows in the backroom—"they are out of patience." And then Green again crying crocodile tears—"They're out of patience with me, too." And then Sackin and Green have this little tete-a-tete for Wolff's benefit, where they are discussing what is going on.

Sackin says, "I thought they were unhappy the other night."

And Green said, "I let it go too far"—meaning he is telling Wolff the fellows uptown said "You have let Wolff go too far, and you have been too easy with them."

And Green is saying the fellows are right about that.

Then they go back to discussing about the stock, and Wolff promises to look into the regulations, and they make an appointment for a meeting on Monday. Sackin says, on the last page, "All right. If you say it can't be done there is no sense in coming down."

What he is saying to him is if you can't do this stock deal, you better come up with the money you owe us. "We will see you on Monday," and so on.

That is the end of that conversation.

I am sorry you could not hear this.

What happened, to make a long story short, is that Wolff did come up with a customer, by the name of Vogel, and negotiations were had as to how much money would be involved, and so forth and so on. And eventually, some months later, about 2 months later, a transaction was had in an automobile on Sixth Avenue and Eighth Street in the city of New York, between Vogel and Sackin, sitting in a car, during which time Sackin handed Vogel \$100,000 worth of stolen stock certificates, all blue chip certificates, I might add—whereupon Vogel identified himself as Detective Carl Bogen of New York County district attorney's office squad, New York City Police Department; Sackin was surrounded by four or five other officers stationed in the vicinity. Green and Bishansky were in the vicinity acting as lookouts, and both tried to run for it, and were apprehended.

All have subsequently been convicted in—and the stock was returned to its rightful owner.

This is an example of the danger of a citizen becoming involved with an underworld affiliated loan shark.

If Wolff had not had the good fortune to be referred to the district attorney's office he would have been in the following predicament. He would have been aiding and abetting in criminal usury. In any assault or extortion that took place in connection with any of those loans in which he brought in the customers, he would have been aiding and abetting an extortion and assault. Moreover, he would have undoubtedly aided and abetted in the transaction of this stock business, and would have then also committed the felony of criminally receiving and possessing stolen property. Undoubtedly that would have led to other crimes—a man who but for his need to borrow this money had no intention whatsoever of ever becoming a criminal, or engaging in criminal activities.

I think there is every reason to believe in this case that this is one of those instances where the underworld actively sought a victim who could be utilized as a tool in the pursuance of other criminal activities. And this points up the real dangerous nature of the underworld. It is the insidious interconnection of ordinarily unrelated criminal activities which is the hallmark of the underworld. You do not just have a burglar who does nothing but burgle, or a stock thief who steals stocks, or a loan shark who is just a loan shark. You have a tremendous interconnection of criminal activity here, and they all exist upon each other. In other words, the stealing of stock would not be done if there were not an outlet. Outlets are provided by loan sharks in some cases. You can see that many different crimes here can depend on the commission of other crimes, and are interwoven with each other, so that a loan shark transaction cannot only breed new crimes, but facilitate the successful perpetration of other crimes.

It is not a simple isolated transaction. And this is the beauty, if I may use that word, of the underworld, because they can make use

of an organization. They do not have to be stuck with stolen stock and just be novices in handling it. They can develop outlets like this.

I would respectfully suggest that at some point in these proceedings, perhaps after Inspector Cottell has had a chance to make some remarks, that Nathan Sackin be called as a witness, because if he were to give truthful testimony to this committee, he would be able to expose the operations of John "Sonny" Franzese in the County of New York and in Long Island, with respect to loan sharking activities.

Now, I would like to give you one more example perhaps of the interconnection here of organized crime.

Not long ago in the city of New York, the owner of a prosperous restaurant ran into financial problems requiring a substantial quantity of cash. The owner found that regular lending institutions were extremely reluctant to make loans to businesses whose existences depended on licenses, especially liquor licenses. The owner facing the possible loss of his business turned in desperation to a loan shark, and a loan was arranged under the following conditions:

No. 1, the borrower had to pay a finder's fee. There is nothing mysterious about this word, Senator. I notice it was in one of the committee's questions. It is just another piece of extortion, that is all—it is like points, a little extra.

The interest rate was the typical 5 percent a week—referred to as "vig," and the borrower had to agree to retain a labor relations firm of SGS Associates. I signed a contract and paid \$1,000 a month for their labor services. He had no labor problems at that time.

SGS Associates, by the way, stands for Saltonstein, Gambino & Schiller. This was a front for Carlo Gambino, a major figure in organized crime, whose criminal record goes back to the prohibition era. Gambino and his associates used this firm for conducting labor racketeering activities, and principally as a conduit for the collection of payments made by various businesses for sweetheart contracts and other forms of what is euphemistically referred to as "labor peace."

As time progressed, this restaurant owner was unable to keep up his schedule of payments. The loan shark, bighearted man that he was, made—this is typical—various concessions, such as extending the time for payment, and occasionally suspending the interest for a week or 2 weeks. The borrower, however, in return was expected to show good faith in various ways. This, of course, is the moment of penetration—this is where the borrower is sucked into the ways of the underworld.

At the suggestion of the shark, he stopped buying, for instance, the meat products from his regular supplier, and began giving his business to a distributor who had been recommended by the shark. Of course the distributor was associated with the underworld. It is worthy of note that a large percentage of the meat industry in New York has been infiltrated by the underworld. This distributor—his prices in the beginning were competitive, they were pretty much equal to the prices he had been paying. But pretty soon they increased to the extent that this borrower never would have purchased meat from this man, but for the fact that he was in the vulnerable position of meeting extensions on his loans and so forth.

As I said, the meat industry, to a large extent, in New York has been infiltrated by the underworld, particularly through the person of John Dioguardi—Johnny Dio.

In addition to excessive prices, the restaurant owner became the unwilling outlet for stolen meat, which is the product of systematic and selective hijacking operations. I would add parenthetically here—the underworld does engage in a considerable amount of hijacking activities, but not on a random basis. The products that are hijacked, whatever they are, are usually sold in advance before the hijacking takes place. You order it, they go get it.

They also used this man as an outlet for meat that was unfit for human consumption. In part of the investigation it was found part of the meat was kangaroo meat that had been passed by inspectors corrupted by underworld money. Thus this businessman became a captive outlet for overpriced, stolen, diseased meat that he would not have purchased but for the fact that he had become financially and psychologically indebted to the underworld.

Needless to say, soon his regular liquor supplier, an honest and competitive businessman, was supplanted by a supplier controlled by underworld interests. As with meat, much of the liquor supplied had been stolen or had been brought into New York State in violation of various State and Federal tax statutes. And again, it would not have been sold in quantities to a purchaser other than one who was not—who was in a position where he would not ask too many questions.

Soon a young hoodlum, the son of one of the "investors" was placed in the premises as a headwaiter. The suggestion there was to protect the investment. Needless to say, the headwaiter's sole contribution was keeping a bar stool warm, and acting as a lookout for various bookmakers who had begun to use the premises for their operations.

It is easy to see why the security of a famous and large restaurant would be ideal for a bookmaking operation. In fact, the restaurant soon became a hangout, favored hangout, for the local underworld gentry, who spent quite freely, and never seemed to pay up on their charge accounts.

All this while it should be remembered the borrower was paying and paying on his loan, which was never really diminished very much, because of the high interest rate.

A loan shark never wants his loan paid back. It is quite understandable. Because after a few weeks have progressed in a typical loan shark transaction, the original investment, the original principal, has already been paid back, and everything after that is interest. As long as he can keep it going, he never wants this transaction to end.

I guess this is true of legitimate loan institutions as well. There is nothing really unusual about it.

After 2 years had passed, the underworld decided to have what is called a bust-out. This involves the total leeching of the business—the good will of the business, which still existed—because no one knew about the underworld infiltration—was used to the hilt. Credit was obtained in large quantities through legitimate sources, to the extent that it could be. Products were purchased and then sold without being used in the business. Phony credit cards—the underworld was encouraged to use phony credit cards, and charge up sales in large quantities that were not made, and the money would be paid by the credit card companies. This can only be done for a short period of time—before it becomes discovered. It is done at the brink of bankruptcy.

Of course, this is all without notice to legitimate creditors, employers, or other interested persons. The business suddenly becomes insolvent, in fact deeply in debt, and then is dissolved by way of the involuntary bankruptcy proceedings, usually instituted by one of the phony creditors at the right time. The underworld moves on enriched at the expense of the public and impervious to any of the subsequent repercussions.

Again you can see how honest businessmen can be indirectly hurt seriously by the underworld. You take the man who sold the meat. He will never know to this day why he lost a good customer that he had been doing a reasonable business with over a period of years.

Similarly with the liquor distributor, not to mention all the people who in the end extended various types of credit to the restaurant. This was a very large restaurant, so we are talking in large figures. These people then became recipients of 10 cents on the dollar if they were lucky.

Senator JAVITS. Why do you think this fellow did not disclose what has happened to him and come to you and the authorities in order to get help?

Mr. METZGER. By the time it got to that point, Senator, he was not in any position to go to anyone. He had actively permitted these gentlemen to use his premises for gambling, he had knowingly permitted—he had purchased stolen meat, stolen liquor. He knew very well that nothing could be done at this point to save his business. Moreover, he was—possibly the most important reason—he was afraid of getting killed.

The CHAIRMAN. All right, sir.

Mr. METZGER. Now—

Senator DOMINICK. I would like to ask a question.

You began this example by saying that the victim was unable to get a loan from the ordinary lending institutions—partly because they were reluctant to loan on businesses whose existence depend on licenses, particularly liquor license, I believe you said. Then you said that he turned to a loan shark. Now, does someone steer him that way? Are these people who have a better ear to the ground or does the lending institution officer send him there?

Mr. METZGER. In this particular case a union official had recommended the loan shark. The union representative, the business agent that represented the Hotel & Restaurant Workers Union, that happened to cover this particular area, in the discussion with this restaurant owner, said, "I know so and so who can help you out if you need that money."

Senator DOMINICK. Is this business agent part of that loan shark operation?

Mr. METZGER. Not directly, no; but he is associated, as a result of his character in the Hotel & Restaurant Workers Union; that is, the union that is headed by Mr. Fred Ferrari—that particular union, which by the way was the subject of extensive hearings before the Senate—the association is such that they do not have to be a member of a particular operation to make references.

A thought here at this point. If anyone had come to this businessman, who was rather successful, 2 years earlier and said:

Mr. Businessman, I am going to come in and make you buy stolen meat, and I am going to have some kangaroo steaks here for you, and I am going to charge you all kinds of money on loans. I am going to bring in an underworld outfit to run your labor relations, and eventually put you out of business, destroy your reputation, take all of your money, threaten you.

Et cetera, he could have thrown him out on their ear. No one would dare come in and make such a proposition—the biggest underworld tough in the world would not walk into one's office and say something like that.

Yet as a result of this loan transaction, and the steady erosion of this man's will and his morale—he voluntarily in the end put himself into the hands of the underworld. His courage and fortitude became virtually nonexistent.

The CHAIRMAN. All right, please proceed.

Mr. METZGER. Now, one of the questions that was asked by this committee generally was the use by loan sharks of legitimate loan institutions to obtain money which would then be loaned out again.

I would like to try this recorder again. I would like to play a conversation for you. This is denominated in the transcripts simply as conversation No. 1 and conversation No. 2, dated May 26 and May 28, 1966. This is a conversation between a loan shark and a strong-arm man. The principal subject matter of the conversations—the first conversation—is a borrower who has become delinquent, and they are talking about what they are going to do with him.

The second conversation, the strong-arm man describes what was done to him.

But during the first conversation, it is interesting to note that reference is made to the use of a particular bank in order to obtain finances which will later be sharked out.

With your permission, Senator, I will play this.

The CHAIRMAN. As I look at this transcript I see that this one probably has more four-letter words than the other one. Why don't you tell us the substance of this transaction. Anybody who wants to read the transcript, of course, is permitted to do so.

So tell us what this is about, what the facts were, what your conclusions are, and let us dispense, if you do not mind, with this recording.

Mr. METZGER. All right, Senator.

The CHAIRMAN. Mr. Metzger, counsel suggests at this point we call Mr. Sackin, and hear what he has to say, and then we will come back to you.

All right, Mr. Sackin, will you come forward?

You have counsel with you, is that right?

Mr. SACKIN. Yes, sir; I do.

The CHAIRMAN. We do not want to infringe on anyone's rights.

I am advised by counsel that you do not expect to testify. You are going to plead the fifth, is that correct?

Mr. SACKIN. That is correct.

The CHAIRMAN. In that case, in order to ask you some questions, I have to swear you in. So if you would stand, and raise your right hand—do you solemnly swear the evidence you shall give before this Senate committee shall be the truth, and nothing but the truth, so help you God?

Mr. SACKIN. I do, sir.

TESTIMONY OF NATHAN SACKIN, AN ALLEGED LEADER OF NEW YORK CITY LOAN SHARK RACKET; ACCOMPANIED BY ARTHUR HAMMER, ATTORNEY

The CHAIRMAN. Mr. Sackin, do you own a drycleaning establishment at 31 West 8th Street in Manhattan?

Mr. SACKIN. Upon the advice of counsel, I respectfully refuse to answer under the fifth amendment of the Federal Constitution upon the ground that it may tend to incriminate me.

The CHAIRMAN. I have had prepared for me by counsel a number of questions which, since we are running short of time, I really do not know whether we ought to ask, if this is the answer we are going to get.

For the record, I want to say section 193 of title II of the United States Code provides that a witness may not refuse to answer a congressional committee on the ground that his answer would tend to disgrace him or render him infamous. I want to make it abundantly clear your objection is not based on those grounds. Is that correct?

Mr. HAMMER. His objection is based upon the grounds set forth in the fifth amendment to the Federal Constitution, may it please the committee, which appears to conflict with the section of the law just read by the Chairman.

The CHAIRMAN. You are in fact claiming that any answer you might give would lead to your conviction of a crime, or could lead to your conviction of a crime?

Mr. HAMMER. In substance, that is the position of this witness.

The CHAIRMAN. What crime do you believe your answer might lead to conviction of?

Mr. SACKIN. I respectfully refuse to answer on the same grounds.

The CHAIRMAN. Senator Javits of New York.

Mr. SACKIN. I respectfully decline to answer upon the same grounds.

The CHAIRMAN. I want to make this point. Testimony we have heard this morning has impugned your reputation as a citizen. It is alleged that you were engaged in a loan shark racket, and now you have the opportunity to answer those charges. You have chosen to remain silent. I can only conclude that you acquiesce to the statements that have been made about you, that you believe the charges to be substantially accurate. Is that correct?

Mr. SACKIN. I respectfully refuse to answer upon the same grounds.

The CHAIRMAN. Senator Javits of New York.

Senator JAVITS. Did you ever own a florist shop in New York City?

Mr. SACKIN. I respectfully refuse to answer upon the same grounds.

Senator JAVITS. Did you ever own any establishment for the transaction of business in the garment district in New York City?

Mr. SACKIN. I respectfully refuse to answer upon the same grounds.

Senator JAVITS. Are you a New Yorker?

Mr. SACKIN. I respectfully refuse to answer upon the same grounds.

Senator JAVITS. Have you ever voted in any election?

Mr. SACKIN. Yes.

Senator JAVITS. What is the last election you voted in?

Mr. SACKIN. The last Presidential election.

Senator JAVITS. Do you consider yourself a law-abiding citizen?

Mr. SACKIN. I respectfully refuse to answer upon the same grounds, sir.

Senator JAVITS. Thank you.

The CHAIRMAN. I now excuse the witness.

Mr. METZGER. May it please the committee, instead of describing at this point the conversation that I heretofore made reference to, I would like, because of the time, to have this committee hear from the lips of a loan shark victim himself the extent to which a loan shark will go in his relentless efforts to drain the lifeblood from one of his victims.

Now, this witness must be, because of obvious reasons, referred to as Mr. John Doe. He was once the owner of a small business. He borrowed \$1,900 from a loan shark, in order to sustain that business during a period of financial crisis that he experienced. Until he finally came to the authorities, he had repaid approximately \$14,000 on that \$1,900 loan, and still owed \$5,000 more. Not long ago, one of his children was accidentally electrocuted.

The CHAIRMAN. How did that happen?

Mr. METZGER. This happened in a railroad yard. It had nothing to do with the loan shark.

The CHAIRMAN. I thought maybe your mentioning it might have some implications.

Mr. METZGER. The shark in his limitless desire to engorge himself off his prey, politely sent a floral piece to the funeral, and then on the evening after the boy was buried, came to his victim's home, demanded that the victim hire a lawyer to sue the owner of the premises where this tragic event took place, and then—and this is unbelievable, you have to hear this from the witness himself—ghoulishly extracted from this victim an assignment of any recovery that might be made in connection with the death of his son. I respectfully recommend at this time, Mr. Chairman, that Mr. John Doe be brought forward as a witness.

The CHAIRMAN. All right, sir. I am advised Mr. John Doe is en route. He will be here in another minute. So we will wait.

Senator DOMINICK. Mr. Chairman, could I ask a couple of questions while we are waiting?

I was interested in looking at the criminal record of Mr. Franzese—is that his name?

Mr. METZGER. Yes, sir; John Franzese.

Senator DOMINICK. He has had quite a long record as far as arrests and charges are concerned; starting in 1938, according to the transcript which you gave us. It would seem most of the charges were pretty well disposed of. He didn't serve much time in prison, is that correct?

Mr. METZGER. That is true.

Senator DOMINICK. Was this because of lack of evidence?

Mr. METZGER. Because of the inability to procure evidence—that is to say to use evidence that was properly procured—particularly with respect to eavesdropping, electronic surveillance. His conviction could have been obtained. I can state to you with authority his conviction could have been obtained years ago. I know for a fact 5 years ago—had we been able at that time to use wiretap evidence, secured pursuant to court order.

Senator DOMINICK. Is it my understanding that the tapes you have here are obtained pursuant to court order?

Mr. METZGER. Those that are wire taps or bugs were all pursuant to New York Supreme Court orders; yes, sir.

The CHAIRMAN. All right, sir.

Mr. John Doe—first I understand you do not wish to have your name and identity revealed, is that correct?

Mr. DOE. That is correct.

The CHAIRMAN. Are you a small businessman?

STATEMENT OF JOHN DOE

Mr. DOE. I was a small businessman.

The CHAIRMAN. You were a small businessman.

Would you feel safe in being willing to identify what your past small business was?

Mr. DOE. I was in the food business.

The CHAIRMAN. Now, when you refer to the fact that you were in it, is it your implication that the reason you are no longer in it is that you became involved with a loan shark?

Mr. DOE. That is correct.

The CHAIRMAN. Would you tell the committee what your experience was?

Mr. DOE. Yes.

I was in a business, and there came a time when I needed some money. This loan shark came up to me, told me he would give it to me if I needed it, and he would help me out, up until the time I could straighten my business out. He gave me—the original thing he had said to me “Do you need a thousand. I will give you a thousand.” This was in October of 1963. He gave me—instead of giving me a thousand, the next day he came around and gave me \$800. He said “I will bring the other \$200 around to you tomorrow.” I did not see the man for 3 weeks. He came around after 3 weeks and he said, “I want a hundred dollars.”

The CHAIRMAN. Let me stop you there to ask you this. When he offered to make that first loan to you, did he tell you the terms and conditions?

Mr. DOE. Yes. The terms at that time was to pay back \$1,300 for a thousand dollars.

The CHAIRMAN. And did he give you a length of time in which to pay it back?

Mr. DOE. A hundred dollars a week for 13 weeks.

The CHAIRMAN. Beginning when?

Mr. DOE. Beginning—in other words, the following week. In other words, I would get the money, say, on a Monday. The following Monday I have to start paying a hundred.

The CHAIRMAN. Now, prior to the time that you got into this situation, had you tried to borrow money from legitimate lending institutions?

Mr. DOE. Well, at that time I didn't; no.

The CHAIRMAN. You had not tried?

Mr. DOE. No.

The CHAIRMAN. How did you meet this loan shark?

Mr. DOE. Well, he came to my place of business for other purchases, and found out that I needed money.

The CHAIRMAN. You had not known of this man's background or connections?

Mr. DOE. No.

The CHAIRMAN. And he mentioned to you he had this money available?

Mr. DOE. Right.

The CHAIRMAN. All right, sir. Go ahead.

Mr. DOE. As I say, I received \$800 from him.

The CHAIRMAN. \$800?

Mr. DOE. \$800, right. He told me he would be around the following day to give me the other \$200, to make it a thousand. He didn't return the following day. In fact, he did not return for 3 weeks. Now, when he came back on the first week, he asked me for a hundred dollars. I says "A hundred dollars—for what? You only gave me \$800, and I didn't see you." He says, "Yes, well the 2 weeks I missed brought it up to a thousand. So you give me a hundred now, and you owe \$1,200. So I gave him the hundred dollars, and the following week I gave him a hundred, the following week I gave him a hundred. The following week I gave him a hundred. This went on for a period of about 7 weeks. Then he did not come around no more. He didn't come around for about 4 weeks. After the fourth week he came around late after the first of the month when my bills were due, and said that I owed him at that time \$400. So I says, "Well, I just paid my bills. I will give you \$200, and come around next week, and if I make enough money I will give you the balance, which will be \$300." He says, "No, give me a hundred. You owe \$1,300. We will put that on the end." In other words, he would put the \$300 on the end of what I had originally owed, plus \$200 interest. And this went on over a period of 1963 up until, I would say, June of 1967, where he was getting off me, over a period—over that period of time, a hundred dollars per week. If I could not make the payment of a hundred dollars, or if he didn't come around, or I didn't see him, he would put it on the end. In other words, every time he put \$300 on the end, supposedly, if another \$200 went on the end, it was interest.

The CHAIRMAN. So originally you intended to borrow a thousand dollars. Over this period of time, how much actually did you pay this man?

Mr. DOE. Over that period of time, I paid back over \$14,000.

The CHAIRMAN. Paid back over \$14,000?

Mr. DOE. Yes, sir.

The CHAIRMAN. How much did you actually get from him?

Mr. DOE. \$1,900.

The CHAIRMAN. \$1,900, and you paid \$14,000?

Mr. DOE. Yes, sir.

The CHAIRMAN. At the time you were first contacted by appearing before this committee, you apparently did not want to do it. Was it at your suggestion that you wear this mask?

Mr. DOE. Yes, sir.

The CHAIRMAN. Are you fearful as to what might happen to you if your identity is known?

Mr. DOE. Yes, sir.

The CHAIRMAN. And who is it that you fear?

Mr. DOE. The loan shark.

The CHAIRMAN. This same man—are you still in touch with him?

Mr. DOE. Well, I have not spoken to him, but I have seen him occasionally.

The CHAIRMAN. Is he still operating his trade with impunity?

Mr. DOE. That I could not answer. Like I say, I have not spoken to him.

The CHAIRMAN. All right, sir.

Any questions?

Senator JAVITS. Yes.

You say you borrowed \$800. How did that become \$1,900?

Mr. DOE. In other words, in October 1963, like I said, I originally got the \$800, you know, and if I fall behind, he would put this money on the end. It come to a point in March of 1964 when my wife went in for an operation, into the hospital. I did not have no coverage. I had a large hospital bill. He come around looking for a payment. I told him "I can't pay you anything now. My wife is in the hospital. I have to pay the hospital bill." At that time he gave me \$500 more in cash.

Senator JAVITS. That is \$1,300. Then what?

Mr. DOE. Yes, sir. After he gave me that \$500, like I said, he put it on the end, it was \$800. So he gave me \$500, but he put \$800 on the end. Then I kept paying him. Then around September of 1965, I went to his home and told him this thing should be paid up by now. He said, "What do you mean paid up. You have rocks in your head. You will be paying this thing for the rest of your life. And if you don't pay, you know what can happen to you." He showed me an article at one time there—I don't know if you are familiar—where a body was found in Jamaica Bay weighted down with concrete.

Mr. METZGER. That is Ernie the Hawk that he is making reference to.

Mr. DOE. And this loan shark at that time says "You want to wind up where this guy wound up?" At other times, he made threats to me and my wife. And he said, "Well, you know, you go upstairs in his place of business, it is a completely detached building. If this thing went on fire one night, how would you get your kids out. The whole family could go that way." At other times he told me "I know what school your kids go to. Kids get hit by cars, accidents happen." And these were the things that made me keep paying him as long as I did.

Senator JAVITS. You have only accounted for \$1,300. What about the other \$600? When did you get that?

Mr. DOE. It was the same kind of deal.

Senator JAVITS. Did you get additional money?

Mr. DOE. Yes; I did. In other words, I got a total over that period of time—

Senator JAVITS. Of \$1,900?

Mr. DOE. Yes, sir.

Senator JAVITS. When you were borrowing more money, had he threatened you before you borrowed additional money?

Mr. DOE. Yes.

Senator JAVITS. Nonetheless you borrowed additional money?

Mr. DOE. It wasn't a case I borrowed it. He threw the money at me so I could catch up. One time I was getting ready to lose my business, and he turned around and gave me another \$300 and he says, "Pay your bills, get straightened out. I will put it on the end." This is the way things kept going.

Senator JAVITS. Were you sure that the place you went to is this man's home?

Mr. DOE. Yes; I am.

Senator JAVITS. Did he disclose where he lived to you?

Mr. DOE. Yes.

Senator JAVITS. Did you meet any members of his family?

Mr. DOE. His wife and son.

Senator JAVITS. Did they know what you were there for?

Mr. DOE. Not to my knowledge. They were not in the room when we talked.

Senator JAVITS. Did they seem a very normal family?

Mr. DOE. Yes; they did.

Senator JAVITS. Is that the only occasion upon which you visited his home?

Mr. DOE. I went there three times actually, to his house.

Senator JAVITS. To his home?

Mr. DOE. Right.

Senator JAVITS. You have not been back since?

Mr. DOE. No, sir.

Senator JAVITS. When was the last time you got any money from him—that is any affirmative cash?

Mr. DOE. 19—in June of 1966.

Senator JAVITS. And then how long thereafter did you continue to pay?

Mr. DOE. Until—August or September of 1967.

Senator JAVITS. And in that intervening period, how much did you pay?

Mr. DOE. A hundred dollars a week.

Senator JAVITS. How much? What was the total? You paid from 1966, when you got the last money, until 1967, when you stopped paying him?

Mr. DOE. Over a year. I do not know the exact amount. I know it was a hundred dollars a week. That was in August of 1966—up until September of 1967, he was getting a hundred dollars a week.

Senator JAVITS. You paid about \$12,000 in that time?

Mr. DOE. Oh, yes. At least.

Senator JAVITS. You paid about \$5,000?

Mr. DOE. Right. Because it was a hundred a week.

Senator JAVITS. And when you quit paying, what happened?

Mr. DOE. I didn't quit paying.

Mr. METZGER. I think, Senator, with all respect to the committee, we may be treading in an area right now that would be dangerous to the security of this individual. There was some action taken in respect to this case.

Senator JAVITS. We will rely on you, I am sure, the Chair would agree, Mr. Metzger, and refrain from asking any questions you don't wish asked.

Mr. METZGER. Thank you, sir.

Senator JAVITS. Is this the point at which you wish to stop?

Mr. METZGER. The question directed to the witness in substance was how did he come to stop paying. I think——

Senator JAVITS. I was much more interested in what happened when he stopped paying. Did anything happen?

Mr. METZGER. I can tell you that certain arrests were made.

Senator JAVITS. You need not tell us anything. I am just asking you whether you wish the question asked.

Mr. METZGER. I would prefer we not go into that area.

Senator JAVITS. What do you suggest we do go into? Have we got the whole story?

Mr. METZGER. I would like to ask this witness one or two questions on behalf of the committee, if I may.

The CHAIRMAN. I understand that this witness did make some other loan. He actually got one from the Small Business Administration. I think we ought to get that on the record. Why did he get it, and what was it used for?

Mr. DOE. Yes. That was in 1966, after the New York City subway strike. That was the time that my wife also, like I mentioned before, went into the hospital, and he had given me that \$500, and said he was going to put it on the end. The following week he came around, he told me, he said "Go over to such and such an office and put in an application for a small business loan."

I told him "How can I get a small business loan with the business I am in?"

He says, "Go over there, you will get it. You won't have any trouble. Then you can straighten yourself out." I went over, put in the application, and received a \$900 loan from the Small Business Administration.

The CHAIRMAN. Did he seem to have some inside knowledge with respect to the operations of the Small Business loan office there?

Mr. DOE. Yes. Well, he told me what to do. He knew exactly what to do. He told me where to go, and everything else.

The CHAIRMAN. After you had made this Small Business loan, what did you do with the proceeds?

Mr. DOE. I put the proceeds into my account. He came around 3 weeks later, asked me if I got the loan. I told him I did. And he says, "All right, you are 3 weeks behind now, I want \$300." So I gave him the \$300, and he says, "Keep that money out of sight, in case you fall behind again, you can catch up."

The CHAIRMAN. In other words, the proceeds of the money which you got from the Small Business Administration was in many ways used to pay him back?

Mr. DOE. Yes, sir.

Senator JAVITS. Did you pay by cash or check to this loan shark?

Mr. DOE. They will never take a check, or they will never take anything in writing, strictly cash.

Senator JAVITS. Now Mr. District Attorney, could I ask you a question. What is really the difference between this operation and extortion? After all, the fellow did not have to lend him anything. He could collect a hundred dollars a week—that has been done plenty of times, in New York and elsewhere—straight extortion. What is really the difference?

Mr. METZGER. Senator, there is always some basis for extortion. And this is in effect what it is. This is exactly what is denominated. In fact, in the bulk of prosecutions involving loan sharking, the actual crime charged is extortion.

Senator JAVITS. And so the loan is just a cover, really, for extortion?

Mr. METZGER. The——

Senator JAVITS. They finger somebody through a loan. They finger a fellow that is weak or inadequate, and they take him on an extortion basis.

Mr. METZGER. You have stripped the outside of it. That is exactly what it does.

Senator JAVITS. Did the loan shark offer you any protection for your store or premises or against other dangers?

Mr. DOE. No protection. The only thing I ever got off him was threats.

Senator JAVITS. You never were offered any, and you never sought any protection?

Mr. DOE. No, sir.

Senator JAVITS. Thank you.

Senator DOMINICK. Did you carry the amounts of the debts on your company accounts in your books?

Mr. DOE. No, sir.

Senator DOMINICK. Did the Small Business Administration look into your books at all?

Mr. DOE. No, sir; they did not.

Senator DOMINICK. Did you ever get physically beaten up by this person?

Mr. DOE. No, I did not.

Senator DOMINICK. Did he bring others with him in order to give an impression of muscle?

Mr. DOE. Yes, a number of times.

Senator DOMINICK. Did you recognize the others as well?

Mr. DOE. Yes.

Senator DOMINICK. When did you go to the district attorney?

Mr. DOE. In September of 1967.

Mr. METZGER. Senator, may I put a question to the witness?

The CHAIRMAN. Yes, indeed.

Mr. METZGER. Mr. Witness, in September you say you paid \$14,000; is that correct?

Mr. DOE. That is right.

Mr. METZGER. How much was still owing, according to the shark, at that time?

Mr. DOE. They said I owed them \$5,800.

Mr. METZGER. Now, let me ask you this question, Mr. Witness.

At that period of time, did something happen to a member of your family?

Mr. DOE. Yes, it did.

Mr. METZGER. Will you describe the circumstances following that event?

Mr. DOE. I had a death in my family—one of my children. And this loan shark sent a big \$75 floral piece to the funeral parlor. He never showed up at the funeral parlor. But the night of my son's funeral,

when we came back from the cemetery, I was home in the house with my wife, they came up to the house and rang the doorbell and said they wanted to see me. At that time they told me that I would be able to bail out, that I should get a lawyer, have an assignment made, sue the party where my son was involved in the accident, and have an assignment made against any settlement I might get from this party, and to give them, more or less as good faith, \$25 a week from now until the settlement was made.

Mr. METZGER. Mr. Witness, did there come a time that the sharks changed—that is, a new individual came?

Mr. DOE. Yes.

Mr. METZGER. Would you explain those circumstances.

Mr. DOE. When I told this loan shark No. 1 that I would pay him all that money back, I wasn't going to pay him any more, he says, "It ain't my money. I got it from the big guy." I said "you better bring the big guy around, because I am not paying any more." He brought loan shark No. 2 around, loan shark No. 2 said he bought me for \$5,000 off loan shark No. 1, and all he could do at that time, he says, "If I don't get a hundred bucks a week from you, I don't care how you get it."

The CHAIRMAN. He said what?

Mr. DOE. He said, "I want a hundred bucks a week from you. I don't care how you get it, but I am going to get that money off of you."

Mr. METZGER. One other question. Did there come a time during your association with this loan shark that they made a suggestion that certain illegal activities take place in your premises, your business premises?

Mr. DOE. Yes.

Mr. METZGER. Was that in connection with gambling?

Mr. DOE. Loan shark No. 1 wanted to take horse bets and policy bets in my place of business, and I refused to let him do it.

The CHAIRMAN. Wanted to do what?

Mr. DOE. Take policy numbers and horse bets.

The CHAIRMAN. Make it a bookie shop, in other words?

Mr. DOE. Yes, sir.

The CHAIRMAN. All right. Any further questions?

Mr. METZGER. I have no further questions.

The CHAIRMAN. Senator Dominick.

Senator DOMINICK. I want to ask the district attorney if it is all right to go into this SBA situation a little further?

Mr. METZGER. Yes, sir. May I just ask one other question of the witness prior to going into that area?

Mr. Witness, eventually what became of your business?

Mr. DOE. I had to declare a bankruptcy.

Mr. METZGER. And the legitimate creditors of your business were unable to be satisfied, is that correct?

Mr. DOE. Yes, sir.

Mr. METZGER. I might add that is the typical result of such a transaction. And again its effect on those that are not directly involved is apparent.

The CHAIRMAN. All right. Senator Dominick.

Senator DOMINICK. You said that you went to the SBA office and applied and got a loan?

Mr. DOE. Yes, sir.

Senator DOMINICK. How long did it take you between the time you went there and the time you got the money?

Mr. DOE. Approximately 2 weeks.

Senator DOMINICK. Did they ask to see your books at all?

Mr. DOE. No, sir.

Senator DOMINICK. Did you give them an income statement or a liability statement?

Mr. DOE. Yes, sir.

Senator DOMINICK. You did do that?

Mr. DOE. Yes, sir.

Senator DOMINICK. And this loan to the loan shark was not listed on that?

Mr. DOE. Pardon me?

Senator DOMINICK. Your borrowings from the loan shark were not listed on that?

Mr. DOE. No, sir.

Senator DOMINICK. You had been paying out by this time what—\$14,000 on that loan?

Mr. DOE. No, not at the time I took the Small Business Administration loan. In other words, at that time I was paying out \$100 a week, I would say roughly I paid him back at that time about \$4,500.

Senator DOMINICK. Did you show these payments as a loss in your business books?

Mr. DOE. No, I did not. This money came out of the salary that I drew from the business.

Senator DOMINICK. So it was not reflected in your business at all?

Mr. DOE. No.

Senator DOMINICK. Did the Small Business people come around to your office at all, your place of business?

Mr. DOE. No, sir.

Senator DOMINICK. They did not?

Mr. DOE. No, sir.

Senator DOMINICK. They made no physical inspection?

Mr. DOE. You are talking about prior to the loan, right?

Senator DOMINICK. That is right.

Mr. DOE. No, sir; nobody came around.

Senator DOMINICK. How much did they loan you?

Mr. DOE. \$900.

Senator DOMINICK. Did you pay that back?

Mr. DOE. No, sir, I did not. That was declared in the bankruptcy also.

Senator DOMINICK. All right. That is all.

The CHAIRMAN. I would like to clear up how it was possible for you to make this loan from the Small Business Administration so easily. Usually it has been the experience of my constituents that they do not get this money this easily from the Small Business Administration. You mentioned you made this loan after the subway strike. Had there been a disaster area created within the city of New York as a result of this strike?

Mr. DOE. That is right.

The CHAIRMAN. And was it on the basis of your being one of the victims of this disaster that you qualified for this particular loan?

Mr. DOE. That is right, sir.

The CHAIRMAN. You have not prior to this time ever made a loan from the Small Business Administration?

Mr. DOE. No, sir.

The CHAIRMAN. Obviously you cannot make them now having gone into bankruptcy with their loan still outstanding.

Do you have any further questions, Mr. District Attorney?

Mr. METZGER. No, sir; no further questions.

The CHAIRMAN. All right. Thank you very much, sir. We appreciate your testimony. You have been very helpful to the committee.

Mr. METZGER. Before Inspector Cottell speaks, I would like to just make a final reference to these conversations of May 26 and 28, 1966.

If you look at the first conversation—by the way, I must make reference to page 2, the bottom, the name Hogan is mentioned. You have to understand the context in which this was mentioned.

These two, the shark and the strong-arm man, are discussing crews and mobs. And who is strong and who is not. They are making what they consider a funny reference to Mr. Hogan's office saying "That is a good crew, 27,000 strong." That is a reference to the police department of the city of New York. That is the number of policemen in New York. I do not want anyone to get any wrong impressions from this.

The substance of this conversation here is that—

The CHAIRMAN. Are you referring to the bottom of the page where it says—

Why don't you go tell the, Goldberg, Verone, and what do you call, told you, you ran into them, they said anybody goes near me I got a crew good, a very good crew, his name is Hogan.

The other says,

Hogan, ha-ha-ha Bags.

That's the greatest crew in the world.

It's a good crew 27,000 strong.

Yeah, that's right.

27,000 strong, did you hear any dirt, Bags?

How could I, I work hard, I don't.

Mr. METZGER. He is changing the subject at that point.

They are discussing one Harold Ashley, who is a loan shark victim who owes \$600, and the strong-arm man—there is a reference here to a Jerry Wolff. This is not the same Jerry Wolff as is involved in the Sackin case—there is no connection whatsoever.

In any event, the substance of this conversation, which we would introduce in evidence in its entirety, is that they are going to work on Ashley; in fact, if you look at page 4, towards the bottom the man on the outside says "All right, when are you going to work on Ashley to grab the 600?" And they discuss how they are going to do that.¹

Perhaps of more interest to this committee is a reference made, starting on the bottom of page 6—again I am referring to conversation No. 1, May 26, 1966—where one of the fellows says "Do you want to borrow \$3,000?" And the other fellow says "From where?" And the shark says—

This is the truth. One of the guys, what do you call it, is going tomorrow. Where?

A bank.

How do you get it?

¹ The supplemental information submitted by Mr. Metzger begins at p. 73, infra.

They got, like an in.

You need your real name?

Well, sure you got to go through a check-out with 3,000, what! They give it out, jerko. What a moron, if you want to pay it you pay it, if you don't want to pay it, don't pay it, but you got to go with your right name, you got good credit, dope.

What he is saying—they have a guy at the bank. You gave him a name and he will clear it, and then you can just not pay it back, or you can pay it back, depending on how you feel about it.

They give it to you, Bing, one, two, three.

Toward the middle of the page the fellow says "Where do you work, can you be self-employed? And he says, "Oh, no, you say you are working for Fleming or Lehigh Paint." These are a couple of companies associated with these people that any credit inquiry can be directed to, and someone will pick up the phone and say "Sure, he works here," and they will give phony information. And he says that a friend of Rocky put it through today—got a check for \$3,000.

They discussed whether or not they will pay the money back. At page 8, on the top, he is explaining "What is the difference. You only have to pay 4 percent a year on it."

The CHAIRMAN. This is a telephone call?

Mr. METZGER. Yes; it is, Senator. Of course the inference here is that they can get it by paying a very low interest rate, and then reloaning it out again. And then he says on 40th—that refers to the street—

On 40th you go over there and give them the statement; you give them, you're working for Fleming, you're working there eight years, you're making 15,000 a year, that's all and you're a salesman that all the guy said and he got it.

Yeah.

And they just, am I lying to you and they just called, they called up Lehigh, does Mr. work here? Yeah, how long, 15,000 a year period.

What he is saying is this is what Lehigh will say for him if he needs an ostensible credit rating. What is really going on is an official of this bank is knowingly making loans to these people knowing full well they have no credit whatsoever. And that to cover the situation, he makes these perfunctory telephone calls to a front, puts down the information, and this will cover him in the event the loan is not paid back, which is very likely, they will call up Lehigh, or something like that, and either find them nonexistent, or find some phony records—"Yes, he worked here, but he doesn't work here any more." This has to be done with the knowledge of the bank.

The CHAIRMAN. The implication is that there is a person in the bank who is in with these racketeers, right?

Mr. METZGER. It is absolutely sure.

The CHAIRMAN. If the loan goes bad, does not the bank check to see whether or not the one who recommended the loan called Lehigh, and if he did not could they not discover that the man in the bank was corrupt, and in connection with the loan shark?

Mr. METZGER. Well, the chances are, Senator, that he will say he made the phone call, that he spoke to a secretary, that they confirmed all the information he had put on the form, and that that is all he knows about it. A further check at this place of employment may show that there was a record showing he did work there, but just recently left for parts unknown.

Usually this is an individual in a bank that is himself deeply involved with a loan shark, and is permitting them to do this, in order to get out from under.

More often than not, it is to cover up some embezzlement which has been taken from the bank, and the employee is unable to return it to the bank, because his investment or speculation did not work out. He needs immediately a certain amount of money to put back in, lest he be apprehended. He gets this from a loan shark, and then falls into the clutches of that loan shark. This of course parallels the difficulty of a public official. There was recently a reference in the paper to a loan shark which our office arrested last week who was one of the individuals who lent money to Mr. James Marcus, formerly the water commissioner of New York City presently under State and Federal indictment.

I give you that just as an example.

The CHAIRMAN. All right, thank you.

Now, we have Inspector Cottell. Are you ready to testify, sir?

Mr. COTTELL. Yes, sir.

The CHAIRMAN. All right. You may proceed.

STATEMENT OF LOUIS C. COTTELL, CHIEF, CENTRAL INVESTIGATION BUREAU, NEW YORK POLICE DEPARTMENT, NEW YORK N.Y.

Mr. COTTELL. Mr. Chairman, members of the committee, I bring you the best wishes of Commissioner Howard Leary, and his fervent hope that the New York City Police Department might be able make a meaningful contribution to the work of the committee. As for myself, I thank you, gentlemen, for the privilege of appearing before you.

Organized crime has often been referred to as an iceberg—a small portion shows above the surface, the major portion lies hidden in a cloak of secrecy, which we are just beginning to penetrate. Of all crimes engaged in by major crime organizations, loan sharking is in itself an iceberg on which literally thousands of small businesses have foundered. Today, loan sharking equals, if not surpasses, gambling as a source of revenue for the underworld.

In gambling, you need expertise; you need an office, you need runners, controllers, bank workers; you need an organization, which will give you access to the line; and the ability to lay off certain hits. In loan sharking, you need none of them. All you need is money—and money is readily available to the underworld.

The criminal hierarchy has a very simple organizational setup by which the money flows from the top to the ultimate borrower. The boss of a family will give his trusted lieutenant a sum of money to push out for him—"put it to work" is the term they use. It is then no longer any concern of his how the money is handled. He will thereafter receive a 1 percent a week "vigorish." Vigorish is the term used to denote interest on a usurious loan.

The lieutenant will then deal with several subordinate members of the organization, who are going to have the direct contact with the borrowers. For this, the second echelon will receive 2 to 2½ percent

per week vigorish. It is to be noted that at this point we have two lines of the operation that are insulated from any possible prosecution, since there is no direct contact with the public.

At the third line, we have the soldiers or workers. It is these people who have the responsibility for dealing with the borrower—getting the money out, making the collections, and dealing with any problems that might arise.

The vigorish paid by the borrower is supposedly 5 percent but, in many cases, is anything the traffic will bear. In addition to the vigorish, any delay in payment results in a penalty, which is added to the principal. Once a loan is extended, the loan shark will resort to all sorts of stratagems to keep prolonging the payments.

You have heard the testimony of one witness this morning, who repaid \$14,000 on an original loan of \$1,900—and was still not out of debt. You have heard how this man was robbed of his business, and how these leeches attempted to, literally, rob the grave. This is not an isolated case—it is repeated time and time again, day in and day out.

The amount of money made in this field staggers the imagination. Some time ago, when Ruby Stein was arrested, it was documented that he had \$5 million out in usurious loans. It is attracting more and more of the top echelon of criminals today.

The CHAIRMAN. Who is Ruby Stein?

Mr. COTTELL. He is a New York loan shark arrested by the Federal authorities.

He is a person who the criminals themselves used to put their money to work for them on the street. They would go to Ruby Stein and say "Here is a hundred thousand dollars, put this to work for me." A loan shark's loan shark.

Since we are primarily concerned here with small business, let us consider for a moment how this affects that segment of our society. The small businessman is particularly vulnerable in this area, because his source of credit is limited. He has not the reserve or net worth to carry him through extended periods of economic reversal. He has recourse to his local bank on a limited basis—and that's that.

His first step, naturally, is to that bank. But what happens if business does not show the anticipated upswing in a short time, or if his accounts receivable falter? He needs ready credit—credit which is not available to him. He has no recourse, except to the shylock. And, in most cases, we find that he does not have to go looking for him. The shylock has learned of his predicament and presents himself. This is one of the most effective means of the underworld's gaining control or entry into a legitimate business.

What follows? They move into the business as a partner; they have themselves put on the payroll in an innocuous position, such as field representative, or they take over complete control. We had one investigation involving a wholesale provision business where two hoodlums were on the payroll for \$200 a week as "truck spotters."

When questioned, they had absolutely no idea of what their duties were supposed to be. The owner of the business, incidentally, was drawing \$150 a week. Whatever the situation, the legitimate owner is either completely tossed out or completely controlled by the mobster.

Why, you might ask, is the underworld so anxious to gain control

of a business? The reasons are many. First, it gives them a means of legitimatizing their money. They can now show a legitimate source of income for tax purposes. They may use it as a means of attaining respectability in the community, and as an opportunity to make new and influential contacts.

I might add, parenthetically, that even in the underworld, the loan shark is held in a certain amount of respect or awe. It derives, no doubt, from the power he wields by being able to control other criminal activities.

The bookmaker needs him to pay off an unusually large hit; the narcotics dealer needs him to finance a shipment of drugs; and the fence needs him to buy a hijacked load of goods. Whatever else happens, the loan shark always gets paid, for they are going to need him again.

Control of a business by loan sharks is widely used to force an honest businessman to aid them in their illegal activities. A bar owner or candy store owner will be forced to accept wagers, or the loan shark will just move in and use the place as his office. A merchant is forced to store or fence stolen merchandise. A truckman can be forced to continuously feed them information on valuable cargo.

Once the underworld has a businessman in its clutches through a loan-shark deal, there is no end to the illegal deeds on which he can be forced to assist. If the loan shark takes over a business completely, he follows one of two courses. In the one case, he will go for a "bust out."

This is an operation in which the new operator orders a huge inventory, based on the past good credit rating of a company, disposes of it for cash, and then throws the firm into bankruptcy.

We saw this type of operation in the latest Johnny Dio operation. He went to work for a kosher provision firm in Brooklyn, and before long had control of the business. He moved then to the Bronx, where he became affiliated with another company. Immediately, there was a juggling of the assets of the two companies, and when the dust settled Bronx Kosher Provisions Co. was bankrupt. A business was destroyed, with the resulting loss of jobs and financial disaster for the creditors.

If the underworld figure plans to continue to operate the business, his competitors are placed at a tremendous disadvantage. The mobster can and does undercut his competition by the use of nonunion labor; shoddy, inferior material; lowering the price of merchandise or service below what a legitimate business can meet, by subsidizing the business with moneys from illegal sources. Once the competition is destroyed, the price is then raised to whatever the traffic will bear.

The loan-shark operation is not peculiar to any particular business. We have seen them move into every segment of the business community—auto agencies, bakeries, funeral homes, bars and grills, restaurants, real estate—anything. We have seen these harpies move in and completely destroy the life's work of honest, industrious businessmen.

It is very prevalent in the New York City garment area. There is what is known in the trade as the panic hour—the hour from 1:30 p.m. to 2:30 p.m. This is the time that checks previously issued are presented for collection. A businessman who has insufficient funds on deposit at this time "panics." He needs immediate short-term credit to cover his obligations and, if unable to get it, runs to the shylock. A

witness at the New York State Commission of Investigation hearings on the loan-shark racket testified to the shylock's being present right in the bank to service people who were turned down by the bank.

No discussions of loan sharking can be complete without a mention of factoring. Factors were originally, in American trade, commission merchants known as old-line factors. There are various types of factoring, all of which are legitimate and integral parts of our financial structure. However, it is also a device which the underworld has used in its shylocking operations; by setting up ostensibly legitimate business ventures through which mob money is channeled out to commercial accounts.

Some of the criminal figures who have been active in this field are Salvatore Bonanno, doing business as Republic Finance Co.; Julio Gazio, doing business as First National Discount & Servicing Corp.; Joe Cataldo, doing business as Coral Credit; Carmine Lombardozzi, operating as Forsgate Trading Corp.; and others. The titles are deceptive, the offices are ornate, but the ultimate services they dispense are those of the shylock—mayhem and fear.

Gentlemen, this committee is to be commended for recognizing the tremendous evil influence loan sharking wields, particularly in the area of small business. Regardless of what other results might be achieved by this hearing, I think the business community has been served by highlighting the dangers involved in dealing with other than established, reputable lending institutions.

The CHAIRMAN. All right, sir, Mr. Cottell. Thank you very much.

I want to ask you one question. On page 10 you list Salvatore Bonanno doing business with the Republic Finance Co., and the First National Discount. Now, are those particular companies licensed by the State of New York?

Mr. COTTELL. The situation that existed at that time—it is my understanding that no license was required. Mr. Metzger has testified here prior to 1966 there was no law that covered commercial financing. And these people used this as a device to set up these dummy corporations, which put them just outside the law, and engage in making usurious loans to business firms.

The CHAIRMAN. Actually, then, they used these names, but they were not actually incorporated companies nor were they licensed.

Mr. COTTELL. They were not licensed by the State; no, sir.

The CHAIRMAN. All right.

Mr. METZGER. Mr. Chairman, we have also submitted to this committee certain conversations between one Sebastian Aloï and Ralph Lombardo, and others. They are marked "Conversations one through four."

These conversations were obtained by surreptitious eavesdropping devices, by the New York City Police Department, pursuant to court orders. We have these tapes. They are quite audible. However, again, you will see that they contain language which the committee may find offensive. However, we would submit the transcripts in evidence. I would ask Inspector Cottell to give a brief description of Ralph Lombardo, since he was subpoenaed by this committee.

The CHAIRMAN. All right. Mr. Cottell, you may briefly describe that for us.

Mr. COTTELL. Mr. Lombardo has no criminal record. He is a close associate of Sebastian Aloï, who has a criminal record, and who is a member of the Colombo criminal family in New York City. Mr. Lombardo has detailed knowledge of the loan sharking activities of Mr. Aloï, as is illustrated by the transcripts of conversations which we shall submit to the committee as part of their record.

Mr. METZGER. I think these transcripts, Senator, will show Lombardo's participation in these activities, and they speak for themselves—unless of course you want to hear them.

The CHAIRMAN. Well, I think that the testimony is becoming cumulative. We understand, I think, what the problem is at this point. So we will make them a part of the record.

Now, anything else before I ask you some questions, Mr. Metzger?

Mr. METZGER. We would like to make one last comment, and that is on the subject of electronic eavesdropping, wiretaps. I want to say this very briefly. Particularly in the area of loan sharking, this is an invaluable tool in the apprehension of members of the organized underworld. The victims of the underworld, unless confronted with their conversations, will invariably refuse to disclose their relationship, no matter how victimized they may have been, with members of the organized underworld. I hope that the committee, in addition to proposing legislation respecting criminal usury, will support individually any legislation that may be proposed with respect to easing the altogether too restrictive existing statutes respecting this form of evidence gathering.

The CHAIRMAN. All right, sir.

That was one of the questions I was going to ask you—how important you think that the use of electronic eavesdropping devices are in stopping the loan sharking racket?

Mr. METZGER. I think it is virtually mandatory that we have it.

The CHAIRMAN. We have before us, as you know, a bill pending in the Senate, the safe streets and crime bill, which has in it a provision allowing the use of electronic eavesdropping devices under certain conditions. What you are saying is you think it is desirable, and it should be used even more than the provisions which we have in our bill?

Mr. METZGER. Yes, sir. Judicially, controlled, within constitutional safeguards, this is an invaluable law-enforcement tool that cannot be duplicated.

The CHAIRMAN. Do you think that the Federal Government should pass a law setting limits of criminal usury, and that the Federal Government should combat this activity through the various agencies, such as the FBI?

Mr. METZGER. Absolutely, sir. Particularly in view of the fact that many States do not have adequate legislation, nor adequate facilities for these sort of investigations. The Federal investigation agencies, combined with the State agencies, amount to organized law enforcement versus organized crime, which is the only way that organized crime can be successfully combatted.

The CHAIRMAN. Do you have any specific ideas as to what limitations we should put into a proposed statute? For example, anyone

charging an interest rate of above, as was suggested yesterday, 75 percent would be per se usurious?

Mr. METZGER. I cannot think of any legitimate transaction wherein a true annual interest rate could exceed 75 percent.

The CHAIRMAN. It has been suggested if the Federal Government does that, it would therefore be inversely implied that any interest rate that was under 75 percent would be legitimate. Do you think that is a valid complaint?

Mr. METZGER. Not at all. That certainly could be handled by a statement of the intent of Congress in the preamble.

The CHAIRMAN. It is your judgment, is it not, that this loan sharking activity is increasing in a degree that is dangerous to our system of doing business?

Mr. METZGER. I think so. According to the information that has been developed by Inspector Cottell and his men in the New York City police department, it is an increasingly important area, and it poses threats that are as serious in some ways as those posed by other forms of subversion.

The CHAIRMAN. We can, therefore, conclude that you and Mr. Cottell and District Attorney Archer, who represents the Queens County District Attorney, would strongly urge this Senate to sponsor and to pass into law a bill setting up criminal usury in terms of Federal statutes?

Mr. METZGER. Yes, sir; we would.

The CHAIRMAN. All right, sir.

I want to thank each of you. Mr. Archer, did you have something you wished to add at this point?

Mr. ARCHER. No. I was just saying, Mr. Chairman, whatever bill will be sponsored by your committee should be broad in its scope, and not limited only to business people, because I have here files where the small person in the street has been borrowing money from others, and has been paying back 6 to 5. And this involves people who work at the airport, J. F. Kennedy Airport, employees there. I think your bill should cover not only business enterprises, but also broad enough in its scope to encompass other persons who are—laymen who are borrowing 5 for 6, as the traffic will bear.

The CHAIRMAN. In other words, as Mr. Metzger pointed out earlier, one of the faults of the original statutes in New York is that it could only be applied to corporations and businesses, and did not protect individuals. And that is what you have reference to.

All right, sir.

Gentlemen, we thank you very much. You have been most helpful in the testimony you have given, and the witnesses you have provided for us.

I must say it has made a very strong impression on me. I am satisfied it has on the other members of the committee who were privileged to hear you. We do believe that before we finally conclude our labors this year, we will recommend to the Senate some type of a criminal usurious statute making it an offense for loan sharks, speaking in the broad concept of the word, to operate as they now do.

(The complete prepared statement and supplemental information submitted by Mr. Metzger follows:)

STATEMENT OF NEW YORK COUNTY ASSISTANT DISTRICT ATTORNEY
MICHAEL H. METZGER

I

Mr. Chairman and members of the committee, I would like to extend greetings from District Attorney Frank Hogan and Chief Assistant Alfred J. Scotti.

We appreciate your according our office the honor of participating in your hearings and we consider it a privilege to have this opportunity to appear before your committee.

As I understand it, this committee is currently inquiring into the infiltration, by Organized Crime, into legitimate business with emphasis on "loansharking" an increasingly important activity of the organized underworld.

At the outset I believe it will be helpful to discuss some of the terms that are commonly used by law enforcement agencies in connection with this subject matter.

There is no *legal* distinction between "organized crime" and any other criminal conduct. Because there is no legal distinction, and for other reasons, the expression "organized crime" is not subject to easy or precise definition.

As you know, any group of individuals who organize or join together for the purpose of committing an unlawful act are—by legal definition—conspirators and are accomplices of each other in any completed crime that they commit together.

We do not, however, classify all conspiracies as "organized crime". Such a broad-based definition would, of necessity, include groups of criminals who are clearly not members of the organized underworld. Organized crime, as the expression is employed by law enforcement agencies, does not, for example, embrace local "burglary rings"; groups of car thieves or "gangs" of muggers. Nor does the expression contemplate those conspiracies involving subversive activities although such conspiracies are indeed highly organized.

Organized crime refers to that confederation of underworld elements who utilize a distinctive mode of operation in the pursuit of their criminal activities and whose operations are conducted within the framework of a recognized hierarchy and structure enjoying a durable existence.

The organized underworld—unlike other criminal conspiracies—does not depend for its existence, on any particular individual or individuals but has a continuity which exists despite its periodic and sometimes violent, changes of leadership.

Although individual members of the underworld may, from time to time, commit so-called "street crimes" such as burglary, robbery, etc., for sustenance [while waiting to climb the corporate ladder of the underworld,] Organized Crime typically is concerned with (a) Gambling operations, (b) Labor Racketeering, (c) Narcotic Traffic, (d) Loansharking.

The organized underworld, it may be said, exists by supplying illegal services, sought after by willing "victims"—at least in the beginning.

The principal feature of the Organized Underworld is its authoritarian nature. This feature is evident in both external and internal activities. Internal authority is ruthlessly enforced and fealty is guaranteed by the ever present threat of "gangland" style murder. The external activities of the Organized Underworld are similarly marked by rigid control. In the area of labor unions for example, the organized underworld seeks to infiltrate and exert influence in *both* labor and management.

The nature of organized criminal activity generally guarantees enormous financial reward and the continuity of control and influence that sustains the underworld and immunizes it from successful penetration by law enforcement.

Profit is of course the dominant motive of all underworld activity. The underlying advantage enjoyed by organized crime—which makes their activities possible—is the ability and willingness to employ fear, based on the express or implied threat of violence, whenever necessary and ample revenue, ever-ready to be used for the corruption of public officials.

II

Until recently the legal maximum interest rate in New York was 6%. The Penal Law prohibited rates in excess of 6% on loans [to individuals] not exceeding \$800. Violation of the applicable statute was a misdemeanor. There were many

loopholes and exemptions in this law. In 1966, the Penal Law was amended and now prohibits the charging of interest rates in excess of 25% on all loans. Designated Criminal Usury, the statute classifies the crime as a felony.

Despite what might appear to be a fairly high legal interest rate (25%) it should be noted that the typical loan shark transaction involves interest rates between 100 and 350 percent per year with an average of 262% (6 for 5). (Borrow five—pay back one dollar per week for six weeks).

As I previously mentioned, the organized underworld has become increasingly active in the area of loansharking. Loansharking is attractive to the underworld because the practice offers (a) an outlet for the use of illegally acquired cash obtained from gambling and narcotics operations, (b) enormous profits with little if any risk, (c) a vehicle for penetration into legitimate business. It is thus abundantly clear why the underworld finds loansharking attractive—the question naturally arises; why would a borrower be willing to pay excessive interest rates? The answer is, of course, that very frequently the shark is the only available source of a loan. The loan shark, like his ocean-dwelling namesake, feeds upon weak or distressed victims. A business in financial trouble is the natural prey of the loan shark.

It should be noted that all loan sharks are not affiliated with the organized underworld. There are some "private" sharks just as there are some "private" bookmakers whose association with the organized underworld is extremely tenuous and in many cases non-existent. Such private sharks rarely survive. Obligations incurred by borrowers dealing with unaffiliated loan sharks are rarely collected by extortive methods and such loans are, of course, not made as freely as those made by sharks who are, because of their underworld association, ready, willing and able to use violence to collect delinquent debts.

It is generally agreed that most loan-shark transactions are amicably conducted with both parties satisfied. To many, the local "shark" is a desirable and necessary institution. There are enough situations, however, where the borrower becomes so enmeshed with the shark that he cannot extricate himself. Where the shark is affiliated with the organized underworld the consequences of delinquency are always serious. Where the borrower is a businessman and cannot re-pay a loan to an underworld affiliated shark, the underworld will eventually take over all or part of the borrowers business or will exact some *avored position* with respect to the borrower's business. In any case the delinquent borrower will end up aiding and abetting the organized underworld in its various criminal pursuits. Resistance, of course, is never tolerated and the use of physical violence will be resorted to if all other persuasions fail. Where the borrower has no tangible business, the underworld will compel him to become a tool in some criminal venture. An illustrative example of this is the case of Gerald Wolff.

Nathan Sackin, the owner of a chain of dry cleaning establishments, became indebted to a shark affiliated with John "Sonny" Franzese (see criminal record). Sackin had difficulty in repaying and soon thereafter agreed to act as a shark for Franzese. Sackin cultivated, as a loan customer, one Gerald Wolff who was then employed in a major stock brokerage house in Manhattan. This victim became more and more enmeshed in various loan transactions with the shark Sackin and soon found that he could not extricate himself. At this point he was informed—for the first time—that he had borrowed "underworld" money. He was advised that he would be mutilated or murdered if he continued to be delinquent. During one such conversation, he was pushed from a moving auto and sustained serious injury. The underworld, in this case, had no intentions, however, of merely letting Wolff off with a beating. Wolff was designated to become a tool of the underworld. In the beginning he was permitted to "work off" some of his debt by supplying the shark with new customers. He did this [and thus incidentally became an accomplice of the shark in further acts of Criminal Usury and Extortion]. Not satisfied with his recruiting abilities, the underworld decided to use this victim—with his connections on Wall Street—as a conduit for the sale of stolen stock certificates obtained by the underworld through other aspects of its criminal activities.

Wolff, in the interim, had the good fortune of confiding in a friend who directed him to the Office of the District Attorney. When the plan to deal in stolen stock certificates was first proposed to him, he was already acting under the directions of the District Attorney's Office and was carrying, concealed on his person, a small recording device. [Wolff-Sackin tape]

Following this conversation Wolff—at the direction of the District Attorney's Office—introduced a "buyer" to Sackin. After prolonged negotiations, Sackin turned over \$100,000.00 worth of stolen stock to the "buyer" who was in fact a New York City detective. Sackin and his accomplices (Bishansky and Greene), were all placed under arrest. They were subsequently convicted of various crimes growing out of these transactions. Nathan Sackin—if called as a witness—could

give material testimony regarding loansharking operations of John "Sonny" Franzese, who is a major figure in the organized underworld, and who has been the subject of intensive state and federal anti-racketeering investigations and prosecutions.

There is every reason to believe that the Wolff case represents one of those instances in which the underworld actively sought a loanshark victim who could be utilized as a tool in pursuance of other criminal activities. The insidious inter-connection of (ordinarily) unrelated criminal activities—the hallmark of the organized underworld—is well illustrated by this case. An interesting thought: what would have become of Wolff had he not come to the authorities?

Not long ago, in the City of New York, the owner of a prosperous restaurant ran into a financial problem requiring a substantial quantity of cash. The owner found that regular lending institutions were extremely reluctant to make loans to businesses whose existence depends on licenses, especially liquor licenses. The owner, facing the possible loss of his business, turned in desperation to a loanshark.

A substantial loan was arranged with the following conditions:

- (1) The borrower had to pay a "finders fee".
- (2) The interest rate was set at 5% per week. (vig.)
- (3) The borrower agreed to retain the "labor relations" firm of S.G.S. Associates. He signed a contract requiring the payment of \$1,000 a month for labor "services".

[S.G.S. Associates (Saltonstein-Gambino-Schiller) was a front for Carlo Gambino (whose criminal record goes back to the Prohibition era). Gambino used the firm for conducting his labor racketeering activities and as a conduit for the collection of payments made by various businesses for "sweetheart" contracts and other forms of labor peace.]

As time progressed, this businessman was unable to keep up with his schedule of payments. The loanshark, a man with a big heart, would make various concessions such as extending the time for payments and, occasionally, suspending the "vig". The borrower, in return, was expected to show his "good faith" in various ways. For example, at the suggestion of the shark, he stopped buying meat products from his regular supplier and began giving his business to a distributor who has been "recommended" by the shark. This distributor was associated with the underworld. In the beginning his prices were competitive; but soon increased to the extent that the borrower would not, but for his vulnerable position, continue to pay such inflated prices. (Note: a large percentage of the meat industry in New York is controlled by underworld interests—especially by John (Johnny Dio) Dioguardi and his associates.) In addition to excessive prices, this borrower became the unwilling outlet for stolen meat (the product of systematic and selective high-jacking operations) and for meat that was unfit for human consumption, passed by corrupt inspectors. [In one instance Kangaroo meat was disposed of in this manner.]

This businessman thus became a captive outlet for overpriced and often stolen or diseased meat which could not have been sold to him but for the fact that he had become financially and (psychologically) indebted to the underworld.

Soon his regular liquor supplier—an honest and competitive businessman—was supplanted by a supplier controlled by underworld interests. As with the meat, much of the liquor supplied was stolen or had been brought into the state in violation of various state and federal tax statutes and could only have been sold, in quantities, to a purchaser who was not in a position to ask too many questions.

A young hoodlum, the son of one of the "investors" was placed in the premises as a "headwaiter". (To "protect the investment"). Needless to say the headwaiter's sole contribution to the operation of the premises was keeping a barstool warm and acting as a "lookout" for various bookmakers who had begun to use the premises to conduct their operations. The security afforded by the restaurant was of course ideal. In fact, the restaurant soon became the favorite hang-out for the local underworld gentry—who spent freely on "charge-accounts" that were never paid.

All this while, it should be remembered, the borrower was paying and paying on his loan—which, because of the high interest rate never diminished. (A loan shark never wants his investment returned.)

After two years had passed, the underworld decided to have a "bust-out". This involves the total leeching of a business. The "goodwill" of the business is used to the hilt, assets are secretly drained (fraudulent credit transactions take place) and then, without notice to legitimate creditors, employees and other persons interested, the business suddenly becomes totally insolvent (and indeed very much

in debt) and is dissolved by way of involuntary bankruptcy proceedings instituted by a "front" creditor. The underworld moves on—enriched at the expense of the public and impervious—to any of the subsequent repercussions.

It is sobering to reflect that if anyone had come to this businessman two years earlier and suggested a plan whereby he would lose his business, his personal assets and his reputation and would, moreover, become a "tool" of the underworld the businessman would have thrown him, literally, out on his ear. But two years later having voluntarily put himself in the hands of the underworld and having had his morale eroded by this association, his courage, fortitude and self-respect became nonexistent. (Note: during the course of a businessman's association with the underworld, he is not only subject to various forms of intimidation but usually finds that he has aided in the commission of numerous criminal acts and has lost any inclination to make accusations himself—examples: loan-sharking—extortion-permitting gambling-receiving stolen property and larceny).

Such a businessman is easily induced to commit criminal acts and thus poses an additional threat to the legitimate business community.

Conservation between

- (1) Gerald Wolff (Victim)
- (2) Nathan Sackin (Loan shark)
- (3) William Green (Loan shark's Assistant)

Recorded November 13th, 1964.

Victim wearing concealed recorder supplied by District Attorney's Office, New York County. Conversation takes place in dry cleaning store owned by Sackin.

Discussion involves outstanding loan owed by Wolff. (Approx. 5,000.00)

Wolff: I went down to George's office. (Refers to another victim, George Tausig.)

Green: Yea.

Wolff: And sat there for an hour and a half.

Green: Why?

Wolff: He didn't have the money, the runner didn't come back from the bank with the check—and this one didn't come here and this one didn't come there.

Green: You got it?

Wolff: I got George's.

Green: What are you going to do?

Wolff: What am I going to do?

Green: Yeah (inaudible).

How much did you get? Jerry.

Wolff: 105-80 and that's it.

Green: Now, what's with you?

Wolff: Well, one thing I know for certain, I don't have it today and I won't have it today. Donna's uncle is coming in Monday, and I'll talk to him. I got a negative answer from Wisconsin.

Green: I figured that.

Wolff: Not an affirmative and err that's all I can say.

Green: Well what can I tell you?

Wolff: That's all I can say.

Green: There's nothing else I can do.

Wolff: So tomorrow, already, I'll start turning around and looking.

Green: You ain't going to see them. When it happens to you, you won't even know it until it's all over.

Wolff: Uh huh.

Green: But, err, there's nothing I can do to stop it.

Wolff: That's all I can say Bill.

Green: And that's all I can say, whatever happens, happens that's all.

Wolff: I'll speak to you Monday, I guess. What are we going to do with George's other? Because I spoke to George today.

Green: Yeah?

Wolff: And, err, oh, by the way, he doesn't want you to call him up out there this weekend, because his wife is all upset as it is. So the less she knows, the better she'll like it.

Green: If I call, I'll ask for him. If he's not there, that's it. I'll say, "Mr. Green called," that's all.

Wolff: All right. So you speak to him. Do whatever you have to do with him and that's it.

Green: Is he going to be in on Monday? Do you know?

Wolff: I don't have the faintest idea.

Green: Oh boy, I'll speak, I'll call the office Monday and see what I can arrange, and maybe I'll give him a call at home.

Wolff: All right, I'll call you Monday anyway, after I speak to her uncle, and see what happens.

Green: Where is her uncle supposed to be coming from?

Wolff: Her uncle is coming in from the Island, he works on the Island, but err, we'll see what happens, that's all I can do. Either that, or like I told you. No, I didn't tell you once before, but I know my wife can get it, but she won't do it for me, maybe you can bust her head a little bit.

Green: I got nothing to do with your wife—He brought me George's—(George, a new victim, was brought to this shark by Wolff in effort to cut down loan).

Sackin: What did George pay?

Wolff: George isn't in the office.

Sackin: But his friend.

Wolff: 105-80.

Sackin: What about you?

Wolff: I haven't got it and there's nothing I can do, until I speak to her uncle on Monday, which is what I told him.

Green: Which doesn't guarantee.

Sackin: All you're doing is speaking to somebody, your uncle.

Wolff: Her uncle.

Sackin: You're in big trouble with these guys Jerry. You are in big trouble. Well, err, what can I tell you? Trouble.

Green: Listen, there's a big amount involved.

Sackin: Al is (Refers to Albert Bishansky—liaison man for John "Sonny" Franzese).

Green: They're not err.

Sackin: He is calling here or coming down. Hey, by the way, a thought occurs to me.

Wolff: Huh?

Sackin: If there was such a thing as stocks.

Wolff: Yeah.

Sackin: That they have in their possession.

Wolff: Yeah?

Sackin: Say for argument's sake, say this stock is in Al's possession.

Wolff: Right.

Sackin: And Al wants you to sell the stock.

Wolff: Right.

Sackin: Can you handle that?

Wolff: Sure.

Sackin: Without his authority?

Wolff: Without his authority—No.

Sackin: Let's say that Al stole it from him.

Wolff: I never need err—whose name is on the certificate?

Sackin: Say his name.

Wolff: His name?

Sackin: Yes.

Wolff: Aah.

Sackin: Remember it's stolen stock.

Wolff: As long as it's signed on the back, I don't care.

Sackin: What if he, somebody signed it on the back?

Wolff: I don't know who signed it.

Sackin: Can you sell the stock?

Wolff: Sure.

Sackin: Maybe there's a shot of you getting out of this, after all.

Green: Hold it. Wait a minute. Somebody stole my stock.

Wolff: Right the stock is made out to.

Green: And signed in the back of it.

Wolff: Right. I don't know who signed it.

Green: After it's given to you, what happens to it then?

Wolff: I sell the stock and I make a delivery.

Green: Wait a minute. You sell the stock to somebody and you deliver the stock to them?

Wolff: Right.

Green: Do they investigate this? Do they call on me to find out if it's a legitimate sale or not?

Wolf: Not until maybe six months later.

Green: And then what happens?

Wolf: After the clearing house looks at the signature.

Green: Then, then somebody calls me up and says, "We have such and such there."

Wolf: Go on; go prove you didn't sign it. It goes on every day.

Sackin: Now, wait awhile, that's why. Let me understand.

Green: They come back to the guy who bought the stock.

Sackin: They trace it backwards.

Green: He goes back to you. You come back from, to the one you bought it from.

Sackin: Here, let me do it this way. Let us say that I stole some stock.

Wolf: All right, prove it.

Sackin: From X, Mr. X, Mr. Smith, who you don't know. You don't know and I don't know it was stolen.

Wolf: Right.

Sackin: Now I want to sell that stock.

Wolf: Right.

Sackin: How can I do it and still avoid being picked up. Is there any way?

Wolf: I have the rules and regulations from the transfer agent at home in a book. I'll read it.

Sackin: Would you, all right, here's what you do for me. There's a possibility if you can work this out to everybody's satisfaction, you can come out of this clean.

Wolf: Uh huh.

Sackin: Smelling rosebuds, owing nothing.

Wolf: All right.

Sackin: Understand, when they spoke about it, somebody spoke about it, I know somebody who may be able to do it. He needs the job. He needs a score.

Wolf: Right.

Sackin: I don't know if, but, it's got to be done Jerry. Understand this, anything slips, you're the one who gets the beating.

Wolf: Right I know this.

Sackin: It can't be otherwise.

Wolf: I know this.

Sackin: You are D-E-A-D, dead.

Wolf: I understand this.

Sackin: Understand it? In other words, as far as anybody else is concerned they look at you. "Me?"

Wolf: Me. I never saw you before in my life.

Sackin: Exactly, you got the stock from somebody. You got the stock from a guy who stole it from Smith. You stole it yourself.

Wolf: hmm, hmm.

Sackin: What you did with the money nobody knows.

Wolf: Uh huh.

Sackin: Understand, because if you open your yap, they'll kill you.

Wolf: hmm hmm.

Sackin: I mean kill you, so don't you think I'm giving you an easy way out of the deal. If anything happens they'll leave you for dead, Jerry. There's a lot involved.

Wolf: Let me look at my rules and regulations and let me give them to you on Monday.

Sackin: I can't do anything over the weekend; but Jerry you've got—

Green: To come up with something over the weekend.

Sackin: Al is coming down today and he's set to work. You know what I mean? I will tell him.

Green: You're going to, whatever you say is going to have to get me off the hook. Because they're expecting me up there tonight.

Sackin: In other words, money. What's the shot? What's the chance of your coming up with some money?

Wolf: Some money? Good.

Sackin: What do you mean by some?

Wolf: Maybe 150, 200 bucks.

Green: Never mind some. What do you mean by good?

Wolf: Well, her uncle doesn't walk around with 400 in cash. Whatever I get from him I figure, but I figure 100.

Sackin: Check is good.

Wolff: His check is good.

Sackin: So, we'll cash.

Wolff: All right, that's what I mean, 100, 150, I'd say good. Very good.

Sackin: So then what? What are you going to do after that?

Wolff: Then it's up to her uncle. Not up to me.

Green: Up to who?

Wolff: Up to her uncle.

Sackin: Her uncle? Remember, they're not interested in her uncle or any — stories. They're out of patience.

Green: They're out of patience with me too because —

Sackin: I thought they were unhappy the other night.

Green: I let it go too far, which they're right (inaudible).

Sackin: Did I tell you what happened.

Wolff: Let me summarize it this way. I'll take a look at my rules and regulations.

Sackin: Bring them with you.

Wolff: I'll bring them with me.

Sackin: Come in Monday, here.

Wolff: Monday afternoon?

Sackin: Come in Monday afternoon here. I'll set up an appointment. Come in Monday afternoon. If you know anything on Saturday, tomorrow, call me tomorrow. If you know anything about how much you're getting, or when or what the possibilities of doing this, call me on the phone. Don't start talking about it on the phone. Just say, "Nat, I have some answers for you." And I'll tell you whether to come down or not.

Wolff: All right.

Sackin: All right, if you say, "It can't be done," like, there's no sense in coming down.

Wolff: Uh huh.

Sackin: Look, you say "Nat, I don't want, I can't do that for you."

Wolff: Uh huh.

Sackin: Then we'll just see you on Monday. But, if you should have an answer tomorrow, then call me. If you can do it and you want to take the whole responsibility for yourself, I may be able to get you off this thing completely free.

Wolff: O.K.

Sackin: Understand?

Wolff: All right, I'll speak to you on Monday. I'll call you tomorrow (inaudible). Goodnight.

CONVERSATION No. 1

Ralph: I like to keep the chart always straight, straight, buddy. You took that time a thousand dollars, rights? You said to me, you paid a lot of money on it. Here, I want to show you something, so that, so that there's no, no——.

Fred: Why would you lend me five hundred dollars?

Ralph: You took five hundred dollars, then you got five hundred dollars more—that you said five hundred dollars, that you said you wanted, you wanted to hold it, you was going to pay—forty a week.

Fred: Five hundred was the—(indistinct)—loan.

Ralph: What's the difference, its five hundred you got, right?

Fred: Yeah, yeah.

Ralph: That's forty dollars, right? Right, you was paying, you paid exactly with what you gave Charlie and what you gave me on this loan. You paid exactly seven of 'em, that's two hundred eighty dollars——

Fred: That's all the same?

Ralph: That's right. You missed me over sixteen weeks already, Freddie.

Fred: (Indistinct.)

Ralph: Freddie, I got it written down here, Freddie, I'm watching.

Buster: Er, what's written (indistinct) it.

Ralph: I don't—Freddie, here, I ain't going to lie to you, Freddie. If I say 7, I say 9, what do I got? First of all, see, I mean, if I wanted to talk to you like a scumbag, Freddie, I'd say, "Freddie, let me tell you, this is what you—— owe me, and that's it." I'm trying to be nice to you. Now, over here, there was—the thousand dollars still on the books, the sixteen hundred dollars, would the, would the money earn me two per cent a week, Freddie?

Fred: I——

Ralph: I want to make a figure with you, Freddie, a thousand dollars. I'll make it for a thousand. We'll make a figure and I want you to give it to him every week. Now, you can't pay a hundred, you can't pay seventy, but there's some amount of money you could pay, Freddie. You want to take two more weeks to turn around?

Fred: One other thing—(All subjects speak at once).

Ralph: I want you to tell me, Freddie.

Fred: Let me, let me—do it this way with me so I can maybe get a—— breather. I can't think straight today.

Ralph: Go ahead.

Fred: Er, what's today's date?

Ralph, Buster: Today's the 23rd, Tuesday.

Fred: The 23rd. Let's say, er, what's three weeks from now—(indistinct).

Ralph: Let's say, the first week in December.

Fred: All right, say about the tenth of December.

Ralph: Yeah.

Fred: Let's make it the tenth of December—the 23rd, let's see——

Ralph: Make it the 15th of December.

Fred: Make it about—(Both speak together). Go ahead, the 15th of December.

Buster: Yeah.

Fred: 'Cause you know what I was—you know what I'll do, I'll try to do it this way, which will make it easier on myself, eh, like I'll try to give you, like two fifty and, you know, like I'll try to break it down that way.

Ralph: Freddie, aren't you better—Listen to me a second, hear me out——

Fred: You want to know something? I'll tell you——

Ralph: (Indistinct).

Fred: What, what good is me kidding you. I, I got so much to —— pay, you know what I mean. I'd rather—(indistinct)—you know, get a little bit—(indistinct). (Both subjects speak.)

Ralph: Yeah, yeah—let me explain. Freddie, aren't you better off? I mean, listen to me, I got this is a thousand dollars. I make it a thousand. I, I, we made this two hundred eighty over here.

Fred: That's right.

Ralph: I turn around, I got sixteen weeks my money lay dead. Even if I say like I told you in the bakery over here, make it for fourteen, give me thirty dollars. Can you afford thirty dollars a week?

Fred: Ralphie, you want to know the honest truth?

Ralph: Yeah, tell me the truth, Freddie.

Fred: I couldn't afford five cents right now. This is the honest, —— truth. What, what's the use in me lying to you. I aint got five cents. I'll tell you, I'm so —— broke, I'm not even kidding you.

Ralph: But what am I supposed to do, Freddie? What am I supposed to do?

Fred: I never in my life did that. I'm gonna get some money, I mean, if I get money—(indistinct).

Ralph: For you to come up with two fifty to three hundred. I don't——

Fred: Right, I got to come up with more than that. I tell ya, I'm going one way or the other, it's only a matter—In the coming weeks. I gotta know.

Ralph: All right, so in the meantime, in, in the meantime, Freddie, in the meantime, you turn around and you give me a certain amount each week. You drop a quarter a week, it's reducing it. By the time two or three months pass by, you got three or four hundred off the top, Freddie. That's what I'm trying to tell you. This is the same thing—I mean—it's none of my business, which the man tried to tell you. With Freddie, ya give this guy twenty dollars a week, you think you gonna have this trouble? Ten dollars a week, Freddie.

Buster: Do this, show good deed.

Ralph: Ten dollars a week, Freddie.

U/M: Listen, how many times I had the book, I didn't ask you. I said, "Jesus, Freddie, you know he's a different——type of guy."

Ralph: I mean, you walk into the lion's den, you turn around, the guy asks you questions, like you're telling me now. I, I, I aint got it, Freddie, what is—listen to me, I aint—How am I supposed to——

Fred: Ralph, you know dam —— well, what a, what am I going to run anywhere? Am I going to go anywhere?

Ralph: I aint looking for the—I'm just asking (indistinct)—Freddie (Both speak—indistinct).

Fred: When you guys, you know damn ——— well, I'll give it to you, but I would, I wouldn't even—you a ——— I wouldn't even tell you the ——— thing only, I, I—

Ralph: Supposing, supposing I did this, supposing I did this, supposing I done this with everybody?

Fred: I got, I got more ——— money owed to me, forget about it. I can't collect my own ——— money, you know that.

Ralph: Freddie, you're in the car business, Freddie, I'm not. This is not my problem, Freddie—I mean—

Buster: What—He's telling you, can you pay thirty dollars a week?

Ralph: I'm trying to make it easy for you, Fred, but what else to do to make it easier for you—a quarter a week, thirty dollars, tell me, me a quarter.

Fred: And, when do we start?

Ralph: You want—you tell me, you want two weeks, you want the first week, the tenth of December? The week of the tenth.

Fred: The tenth is all tight.

Ralph: Whatever ya, Freddie, I'm not, I'm telling—turning around and trying to tell you.

Buster: But make it sure that every week you're going to pay the—you know.

Ralph: You drop it off here. I don't even want to get involved, no check, you drop it off—

Buster: No check.

Ralph: Cash and that's it. If in the event, Freddie.

Fred: Either that or I'll work it. If, if I get some more, I'll give it to you. I'll (indistinct) work it the other way.

Ralph: You gimme this two fifty, take it off the thing.

Buster: Oh, what the hell, if you get more, er, more.

Fred: I'm saying, I'll, I'll do it the other way with you, then I'll give you two fifty.

Ralph: Freddie, whatever you want to do, Freddie, I mean—than you know.

Fred: No, I don't want to take on more than I can, you know (indistinct)

Buster: Like, er, what am I going to take on more than I can afford to even pay out.

Buster: Yeah, but thirty dollars you could pay.

Ralph: Easy. Freddie, what's this, gas money, Freddie.

Fred: You want to know something? I'll tell you the ——— truth. I can't even make my—I just got so ——— much on my ——— back right this minute. When I tell you, so ——— much.

Ralph: Freddie, how did you get this on your back, Freddie?

Fred: Look! Look! It all happened at once, Ralphie, you know, hey, that ——— Volkswagen deal crippled me completely. I mean it just killed me completely. Look I—that ——— thing put me in trouble, it really put me in ——— trouble, and the debt is in with the bank.

Ralph: Freddie, if you went to ——— work, if you went to work in a decent job, you could make yourself a deuce a week and straighten out, Freddie. Who are you kidding? I know you got earning power, Freddie.

Fred: Ralphie, Ralphie, in the meantime, I owe out ——— money. I got loans I gotta pay, you know, in other words, a deuce a week isn't enough for me to work. I, I, the only way I can earn it is with my joint. I can earn it.

Ralph: Yeah, but Freddie, you didn't lose all, so you lost ten dollars with the Volkswagens, Freddie. There's more than that involved, Freddie.

Fred: There's more than that. I been losing more than that with the ———

Buster: How much can you lose in a Volkswagen?

Fred: There's more than that. I been losing more than that with the ———

Buster: How much can you lose in the Volkswagen?

Fred: Well, I'll tell you, I had to pay lawyers fees, and every ——— thing added up, Buster. Then, not having the money, and meantime my rent was due every month and, I, look, I couldn't even work now. I might—I just like, I lost two, three months, my rent, my phone, that was another two, three thousand, and it just kept adding on until a ——— point that, er, it came out to a lot of money.

Buster: But look December the tenth, you start to pay over here.

Fred: Yeah, all right, I'll pay ya over here.

CONVERSATION No. 2

U/M: This kid, Jake, I grabbed him the other night.

Buster: The Jew?

U/M: Tall one.

Buster: The Jew.

U/M: Yeah, he come up with the money.

Buster: He come up?

U/M: He gave me two seventy five.

Buster: But isn't he doing, er, rug work, yeah?

U/M: Yeah, he's just starting' to learn, yeah. He's gotta come up Tuesday and Wednesday. He comes to see me. I told him, I don't want you to go see Ralphie, I don't want you to give it to Charlie. You come and see me every Monday, Tuesday or Wednesday at eight o'clock. And I says, "And you not there eight o'clock, I'm gonna come by your house," and I says, "I don't care who's in the house, I'll break the door (indistinct)." That's the only thing. Sometimes you gotta, er, you gotta, you can't be nice to nobody. Sometimes you got to do the right thing, and, er, they come across.

CONVERSATION No. 3

Buster: Did he tell you, er, what time?

Benny: Nope.

Buster: Why don't you call him home?

Benny: I'll wait til two o'clock, then I'll call him.

U/M: He probably aint home anyway. He must have went to the track. (Long pause.)

Benny: Did you do the job on Fritzie Brown?

Ralph: He's suppose to be here tonight.

Benny: He got banged up, somebody banged him up.

Ralph: What a shame.

Buster: But this is the first time, er, that he gets banged up?

Ralph: It only the first time, er, I don't want to bang him up.

Benny: You should a seen his mouth, like this, all bandaged up.

Ralph: Benny, I don't want, I don't want to bang him up, right? I want to — his face up, Benny, I got 186 of mine, I want to give him 187.

Benny: That's what he's got, he's got a few.

Ralph: Because, you see, there's people like me, I shave, I don't give a —, I got a stitch or two don't mean nothing. He thinks he's what that guy, Rock Hudson. He thinks he's beautiful. You know, these guys, they think they're beautiful.

Benny: He's got a few, I heard.

Ralph: Knock a few of their — teeth out and they can't sleep nights.

Benny: I heard he's got a few, I heard his mouth like this, all bandaged up with a couple a stitches.

Ralph: Ever hit these — guys, the first thing they do, they go like this. Dopey —, protect your stomach, over here's important, your liver, your kidneys, — face — what's the face, what's important about your face?

Benny: They're pretty, eh —

Ralph: Stupid, they think they're beautiful, you know? Over here's important. You got your liver, you most important part of your body is your, in here.

CONVERSATION No. 4

Ralph: As long as you know where you stand, this way you know what's what with this guy.

Buster: I'll become the owner of the — cutting store.

Ralph: This — (indistinct) you know, this, this is what this guy is — "Ralph, I want to tell you something in all fairness to this guy Bobby. This guy don't gamble, he don't —" he said, "I don't know what he does with his money," he says. This guy should earn a fortune of money in this joint, a fortune.

Buster: But, he's, he's, er —

Ralph: But what? What is it cost him for ——— what, Buster?

Buster: I'll tell you what happen—you see what happen, he must, er, his wife—a must be, er, living high, or she must have a sweetheart or something. He doesn't gamble, he doesn't drink.

Ralph: That's what this, this is what this Max said.

Buster: I think—a that his wife—a must have a sweetheart.

Ralph: She's milking him dry or what? He says, "Ralphie, this guy's got some business."

Buster: (Speaks in Italian, translated as follows). He borrowed money from here to pay here. He borrowed from here (meaning us) to pay here. Here he borrowed from here to pay here, here, here. To pay here, he borrowed from here, on top of—(continues in English). He got himself ———. But I got my son in there (laughs), my son, Benny.

Ralph: Why don't you let Benny, eh, eh, eh, get into the cutters union and everything while he's there, Buster? Maybe he could take the shop over today or tomorrow.

Buster: Nah, I'm gonna be proper. I got no papers.

Ralph: He's got some business, Buster.

Buster: I'm telling him——

Ralph: Some business.

Buster: As soon as the end of this month comes, we got papers. Don't forget, I got——

Ralph: Why don't you ask him if you——

Buster: I got, I got about eight thousand dollars invested up there.

Ralph: You know, be careful up there, wha—You know what I told him. I made him send a message to (indistinct). I said, let me tell you something, Max, because he was going to see him Monday. I says, I want you to all this guy one thing, I said, and I'm going to tell you something. He'd better know what he's doing, he says, he better know what he's doing.

He better not turn around and ——— around with these people, he says, because I'm going to tell you something, Max, he says. Don't let him take kindness for weakness, I says, because we been nice to him. Don't think that's a sign of being weak.

CONVERSATION No. 1—MAY 26, 1966

In: I don't know why ——— would involve you.

Out: No because I had nothing to do with it.

In: Well I just bring, out what do I know, there's about 50.

Out: You're only rooting that I should be involved.

In: I should root, I only.

Out: You want I should sell across the way.

In: He's a piece of ——— I just told you something, I was told.

Out: When are the indictments coming in?

In: Who the hell knows, I don't know maybe they'll never come, maybe they'll come.

Out: That grabbed that Gil Beckley from er.

In: How do you like that swindler huh!

Out: That swindler they finally grabbed that creep.

In: And you what do you call didn't look to take a shot with him.

Out: Ah, he's an ———.

In: An ——— why can't ———

Out: I think he's washed up now, though now huh?

In: Why, why can he go on the next one to Antiqua (phonetic).

Out: I don't know when it's leaving, I want to ask you a question?

In: What?

Out: Do you figure that he's, he's off the street now.

In: What off the street.

Out: They got him on another indictment in Atlanta on something else, they got him, this is the third indictment, they got him on interstate stuff, he's a wire service.

In: I heard they got, they got wire service with gambling and bookmaking.

Out: They got him on two other things on income tax evasion.

In: What do I know?

Out: They got this guy like good.

In: That's part of your mob, right that's part of your new mob.

Out: Who Gil? he ain't my mob, I'm with another crew, what do I want to be with this ——— heel, they called me up today, what do you think? They offered me a contract to get this three kids that struck him down there.

In: Who?

Out: They got some guy from Fat Tony's¹ crew, this Frankie Natrone (phonetic) or something.

In: Yeah.

Out: Catrone (phonetic), so they want me to do the dirty work so they're going to give me a piece.

In: A piece to get after who?

Out: Goldberg.

In: Yeah.

Out: Montalto (phonetic).

In: Where are you going to find them, when the basketball season isn't on.

Out: In the Garden.

In: In the Garden you're going to find them.

Out: Yeah, yeah.

In: In the Garden, that's what they want to collect their money.

Out: In other words, they want to be collectors, but through me.

In: (Inaudible).

Out: In other words, they want to be like fagans sit in the bleachers.

In: Yeah.

Out: They want to give me a piece of theirs, I can get a whole piece what do I need to get piecemeal from them. I wait long enough I'll get the contract.

In: Why don't you, why don't you go tell the, Goldberg, Verone (phonetic) and what do you call, told you, you ran into them, they said anybody goes near me I got, a crew good, a very good crew, his name is H-O-G-A-N.

Out: Hogan, ha, ha, ha Bags.

In: That's the greatest crew in the world.

Out: It's a good crew 27,000 strong.

In: Yeah, that's right.

Out: 27,000 strong, did you hear any dirt, Bags?

In: How could I, I work hard, I don't.

Out: Did you fill any jobs today?

In: I do a little business now and then.

Out: You do a little business today?

In: I've been doing a little business right along.

Out: Oh, you can write a little better?

In: I've been doing a little business.

Out: But you wouldn't tell me that.

In: Tell you, you're with a new mob, what do you think that Ashley did?

Out: Harold Ashley, the big large guy.

In: Yeah.

Out: What did he pull?

In: He wrote three jobs in Fleming and gave it to wrote three jobs for Fleming, he took 600 from Jerry for front money.

Out: Yeah.

In: Because I fronted him in, I'm letting him, what do you call breathe, a little bit.

Out: And he gave nothing in?

In: That ——— crept that's all right Jerry answer to Jay you want me to do it, I'll go Jerry said no let him alone, leave him alone.

Out: Jerry said leave him alone?

In: Leave him alone, I'll see what he does I said, I mean he had the nerve to get three and he can't give you one, at least Larry's group, you know gave Fleming two jobs.

Out: Yeah, then why can't we whack up the 600.

In: We'll whack up more don't worry about it. We'll whack up plenty more.

Out: Bags.

In: Don't worry about I'm not with you no more, you're not in my crew.

Out: There's only one guy that can make with you, you know it.

In: You're not in my crew no more, you're through with me.

Out: Ha, ha.

In: You're.

¹ Anthony (Fat Tony) Salerno Genovesse family—Capo, Harlam Policy.

Out: Bags Baby, and Bags Baby.
 In: I got other, I got other body.
 Out: Who?
 In: Other spots, I got.
 Out: That's all right.
 In: That you can't—
 Out: That's all right there is only one guy who can handle them spots.
 In: You can't earn with me no more.
 Out: That's Big Rich.
 In: I know Big Rich the petty bum, he used my money and used in —
 Out: One of the nicest guys you know.
 In: That's all right, I just called you to give.
 Out: All right when are you going to go to work on Ashley to grab the 600.
 In: I don't know when Jerry wants him, what do you want from me.
 Out: Maybe I should call up Jerry Wolfe and ask him?²
 In: He don't want to know nothing yet, what do you want from?
 Out: I'll kick that Ashley right in the —.
 In: You kick him, the — bum, to make me, to use me and said to him.
 Out: 300 of that 600 is mine.
 In: I said to him do you want to lend me \$100, he said I can't I'll send you \$45.
 Out: The cheap —.
 In: I got him \$600 for nothing all right.
 Out: Meanwhile I got news for you, 300 of the 600 is mine if it is a contract.
 In: 600 is yours, Jerry gets nothing, 600
 Out: He gets, 3.
 In: I get nothing right.
 Out: You get half on Jerry's side, afterwards.
 In: I need you to go after Ashley, — like you. You — bum.
 Out: Bags.
 In: What's the matter your girl went back to Miami.
 Out: No she's resting.
 In: She's resting heh.
 Out: She don't bother nobody, she's a good kid.
 In: Yeah I know.
 Out: She bothers no one she got her own trouble.
 In: That's right, I don't blame her, what's she doing with you, I want to know,
 she must be really crazy.
 Out: Now Bags.
 In: Now just tomorrow just have the 90 clams over there.
 Out: Calm yourself down.
 In: Why?
 Out: Just calm yourself down, let me get that 300 from Ashley.
 In: Ashley.
 Out: And I'll be.
 In: I'm talking about \$90, Hello.
 Out: Hello.
 In: \$90 you have until Friday.
 Out: What?
 In: \$90 Friday.
 Out: \$90 Friday.
 In: Yeah.
 Out: Now my girl wanted to know what you said about her?
 In: What did I say about her?
 Out: All you said was what; where she was right?
 In: That's what I asked, did she go back to Miami?
 Out: Hold on a second (off phone)—he asked if you went back to Miami—
 worrier, you know once her name is mentioned she jumps up like a mad dog.
 In: I don't blame her, she—
 Out: Wanting to know what's going on.
 In: She figures other people are interested in her, why should she bother with
 a louse like you.
 Out: There's nobody else in the world interested in her but me.
 In: Inaudible
 Out: If I find anybody else interested in her I'll step on their faces.
 In: Ha, ha, well I'll make my business.
 Out: That's all right, you mind your business.

² Not the Jerry Wolf of the Sackin case.

In: Mind my business, you crumo, you creep, hey listen do you want to borrow 3,000.

Out: What?

In: Do you want to borrow 3,000?

Out: Do I want to what?

In: Borrow 3,000.

Out: Yeah.

In: I mean it, I'm not kidding you, they got——

Out: From where?

In: This is the truth. One of the guys, what do you call it, is going tomorrow.

Out: Where?

In: A bank.

Out: How do you get it

In: They got, like an in.

Out: You need your real name

In: Well, sure you got to go through a check-out with 3,000, what! They give it out, jerko. what a moron, if you want to pay it, you pay it, if you don't want to pay it, don't pay it, but you got to go with your right name, you got good credit, dope.

Out: Yeah I got very good.

In: So why don't you go, go in there, you give the guy, they don't they don't check you out that good, bing, 1, 2, 3, you get it, er but if you got judgments against you, you can't get it.

Out: I got no judgments against me.

In: Harry, is going tomorrow, Harry Weiss (phonetic) is going tomorrow, Rock, Harry and Rocky is going, Rocky knows the guy.

Out: They er, they push it right through?

In: 1, 2, 3 a guy put it in er.

Out: You don't have to bring no tax statement.

In: Nothing, nothing, you er.

Out: Where do you work, can you be self employed

In: Well, no say you working for Fleming like they work for Lehigh Paint, some guy, I don't even know the guy, a friend of Rocky. He put it through today got the check for 3,000.

Out: Who got it

In: The guy he put it in Tuesday and he got the check and he put it in Monday, and got the.

Out: Is he going to pay it or what

In: What do I know if he's going to pay it or not! I'm only trying to tell you, he went under his right name, he had no, no judge—I can't take it because I got judgments, you dope if I had no judgments I'd take it.

Out: And you wouldn't pay them.

In: What

Out: You wouldn't pay them.

In: I wouldn't pay them, I always pay, I'm only try to tell you, you want to get it, you can give it out stupid, like you pay back for 3,000 on one year, you pay back er, er, it's 4% you stupid moron, there why are you talking like a mope, you pay back a big er.

Out: When can I get it?

In: You pay back \$120 back vigorish for it you stupid mope.

Out: Well when can I get it?

In: I'll let you, I'll tell you go over to the Meadowbrook Bank.

Out: You call me tomorrow and let me know.

In: On 40th you go over there and give them the statement, you give them, you're working for Fleming, you're working there eight years, you're making 15,000 a year, that's all and you're a salesman that all the guy said and he got it.

Out: Yeah.

In: And they just, am I lying to you and they just called, they called up Lehigh, does Mr. work here Yeah, how long, 15,000 a year period.

Out: The same day?

In: The next day he got the money, what do you want, you just tell them up there, you got the rating, you got the broad, they'll say it, stupid —— I try to tell you.

Out: All right, all right, don't get excited.

In: Goodbye.

Out: You'll call me tomorrow bags?

In: I'll call you, you filthy fat ——.

Out: OK I love you Bags.
 In: You love me, remember \$90, \$20 from——
 Out: As soon as I collect that 300, Bags, don't worry.
 In: What?
 Out: I'm going to grab Ashley, Friday for the 300.
 In: Why, Jerry don't want no money, why are you butting in for?
 Out: —— Jerry I want the money.
 In: What money, what do you expect, hey you creep why don't you yeah, you give me my, you give me the 70 and you give me, hey look you fat pig I'm telling you.
 Out: Just lay there quietly in Jersey before you get a slap.
 In: Hey look, you want, you want to give me the money.
 Out: I'm going to pick up plenty of money from Ashley the whole 6, and I'll whack it up with you, give Jerry nothing.
 In: What are you giving, what are you crazy don't involve me with that there, he doesn't what are you kidding him or what.
 Out: I'll call Wolfe tomorrow.
 In: Wolfe, Wolfe is gone, he went down to what do you call?
 Out: He went down to Carolina again.
 In: Yeah.
 Out: How's Rubin doing down there?
 In: I don't know, you ought to know, you spoke to him, he sends you money.
 Out: He sent me \$50.
 In: So what do you want?
 Out: So what do I want, I want more, I want all the money in the world.
 In: Oh, you want it all, you got to take care of Janet.
 Out: Right, Fags.
 In: Bags don't get his money right.
 Out: Fags Baby, are you going to call me tomorrow?
 In: Bags, just better get his \$90, I just telling you.
 Out: 70.
 In: What about the \$20 from Popkin (phonetic).
 Out: I don't know what he's giving me, what if he only gives me 50.
 In: You filthy pig you.
 Out: Inaudible.
 In: So you got 50 & 50 for the two what do you call it?
 Out: You don't get nothing on the juice.
 In: Hey you filthy animal, good bye.
 Out: Wait.
 In: Goodbye you —— animal.
 Out: Wait Bags, wait Bags, now Bags, what did the Yankees do yesterday.
 In: Lost.
 Out: Oh, now one more thing Bags, are you listening to me? are you calling me in the morning to find out about that bank thing.
 In: (Inaudible) I'll send you over there goodbye.
 Out: OK Baby.

CONVERSATION NO. 2—MAY 28, 1966

Out: Hello.
 In: Hello.
 Out: Hello Bags.
 In: Don't give me that bags ——.
 Out: I had to hit that Harold Ashley (phonetic) today.
 In: What do you mean you had to hit him?
 Out: Because he got out of hand.
 In: What do you mean he got out of hand.
 Out: I busted him.
 In: Why did you bust him?
 Out: Because he got too snotty.
 In: What do you mean he got snotty?
 Out: He got snotty.
 In: What do you mean by snotty? What did you hit him for? Jerry don't want, what did you butt in for?
 Out: That's all right he's a —— weasel.
 In: I know what a weasel he is, what are you hitting him, I want to hit him.
 Out: I said, I said, I said Ashley, I said just either give because you know Mac was the guy who fronted you in there. He's responsible. I said either give the money

back or give the guy some paper, don't be no cutie then he said like this to me; "don't worry about it." All he had to say is, he'll give him paper and I would have walked away, so I said "I won't worry about it" and I walked outside. Now he must have took it that it was a sign of weakness cause I walked away from him so I walked outside and I was standing and I come back in and he started getting like real ——— tough, he was acting you know like a tough guy, giving me abuse, you know, so——

In: What do you mean giving you abuse, what did he say to you?

Out: He said, "a thief."

In: That you're a thief?

Out: Yeah.

In: What do you mean you're a thief?

Out: Yeah that I'm a thief and that "he knows people." So looked at him you ——— shut your ——— mouth, I said "who you talking to?" I said, "you mother open your mouth again and I'll crash you." He said "no", he says, "I'd like to see you." Boom I hit him right in the ——— eye then I started to kick him, I was ripping.

In: Why didn't you go through his pockets and take the money?

Out: He got no money on him, he got a check, a Fleming check that was no good because he could have stopped it.

In: He can't stop it.

Out: Yes he can.

In: I'd have taken him by the ears, I'm, I'm going to go to work on him.

Out: Wait then I ——— hit him with a chair, I hit him with a chair, he kept, he wouldn't stop, you know he kept ———.

In: What do you mean after you.

Out: He was not going to pay, he says, "no for this he said I ain't paying." I said listen to me, you ——— I said and one of his canvassers was there, I said now you can do yourself a favor friend, and tell the other canvasser to get that money back there and this ——— will get a beating every week till he gets the money back there, every single week, I'll take a piece out of his body, he says yeah, I says, he says "I'll get a gun." I said you ——— yellow ———.

In: Why didn't you kick him then, when he said that?

Out: I kicked him, I kicked him.

In: As long as you're threatening me, why didn't you go to work?

Out: I kicked him and I said you stool pigeon.

In: You never learn, you should have kicked him, you threatening now.

Out: Kicked him, U busted him wide open.

In: You should have belted him.

Out: I hit him with a chair, I almost broke his arm, what I carried on up there, I smashed the whole place.

In: What did Joey "J" say?

Out: So Jay said, what did, you know he come in he did know what happened, he said not in the joint. I said Joey, when I told him what had happened that Ashley went out and took 600 from another joint.

In: And he hustled from behind the back, he had Jersey leads, and he, he said Fleming can't do nothing to me where can I go with Jersey leads.

Out: Right so I told him. He went and creeped and took money, I said and he's looking to be ——— cute when he owes you money, well Jay says I don't blame you then, oh I was ripping.

In: What did he do? So what happened in the end?

Out: I busted his eye so he now and he left the joint like when I was inside with Jay, he left, I busted his eye.

In: What did, what did his canvasser say?

Out: His canvasser said he's going to get the money up.

In: What?

Out: They'll get up the money.

In: I'm going to grab Ashley, I'll tell him and when I grab this dirty ———.

Out: He said to me, he's going to go to Sonny, I said I'll bust you up all over the lot you fag. I called him a fat fag.

In: He's going to Sonny.

Out: Yea, I said you whore you.

In: He's going to Sonny, he's another guy going to Sonny, everybody's going to Sonny. You should have then busted his head when he mentioned the name Sonny. Why do you mention the name? You know Sonny you should have busted his head open.

Out: That's all right, I bust him good, I busted him wide open.

APRIL 8, 1967.

[In: Albert Shultz]

[Out: Dominick "Buddy" Cappolla]

In S: Buddy.

Out C: How did you know it was me?

In S: Well, I could tell by the ring.

Out C: I called you earlier.

In S: I know. I was out but er but I spoke to you, I said Friday or Monday.

Out C: Oh, I thought it was just Friday.

In S: That's all right. I could understand your anticipation, sure.

Out C: What's doing.

In S: Well—er—he's got an appointment, he spoke to him already.

Out C: Right.

In S: Now he told him to come back on Tuesday morning, he'll give him an answer.

Out C: All right.

In S: He demanded one of the other things. One of the two things.

Out C: What?

In S: Where are you? Home?

Out C: Yeah, go ahead.

In S: Er—out?

Out C: No. I'm all right. Go ahead.

In S: I mean out on both sides. Er an S.S.—

Out C: Yeah.

In S: Or—

Out C: Pro.

In S: Right.

Out C: Yeah.

In S: One of those two things.

Out C: Right.

In S: He demanded it for—for a lotta for a lotta reasons. For political reasons and other things. And he knows him well enough to talk that way with him.

Out S: Okay good.

In S: Now the only thing is, Buddy, he wants me to have that 4 on Tuesday morning.

Out C: Tuesday morning you want it?

In S: Yeah. Or during the day Tuesday.

Out C: You could have it.

In S: Now—if he comes back with an answer that's er er at all favorable but not one of these two things—

Out C: Forget it.

In S: He don't get two cents.

Out C: No. Forget it. I don't want it. I already told you what I already got.

In S: No. You didn't.

Out C: Yeah. I can get six—you know.

In S: No. No.

Out C: I can get six months.

In S: I, I understand it's gotta be one of these two things.

Out C: Right.

In S: That's it.

Out C: Okay?

In S: Right.

Out C: Then I'll speak to you when?

In S: Well, you tell me when, now.

Out C: Well, I'm ready for him, if that's all it is.

In S: All right then let's make an appointment on Monday—I mean for, for Tuesday morning or Monday night; however's good for you.

Out C: Whatever you tell me.

In S: However is good for you.

Out C: All right. I'll tell you what we'll do, we'll leave off that er—

In S: You want me to call you tomorrow night?

Out C: Tuesday morning. I'll call you Tuesday morning, you call me, I'll tell you where to meet me and I'll have it for you.

In S: At er—if you call me, what time would it be or—

Out C: About 9 o'clock.

In S: All right. I'll be home at 9 o'clock.

Out C: All right.

In S: Sure.

Out C: If not you call me then, you know, if don't call you and I'm sleeping you—

In S: Well then I'll call you before I leave. Because I'll be, probably be sleeping also.

Out C: Atta boy.

In S: All right? Have a nice evening. Don't worry.

Out C: Thank you very much.

In S: Okay.

APRIL 8, 1967.

[In: Albert Shultz]

[Out: Buddy Cappolla]

In S: Hello.

Out : Albert?

In S: Yeah.

Out C: What's the matter?

In S: It coulda waited, pal, until I spoke to you. You know ah you mentioned to me in our conversation that—er—you were offered—er—you know—

Out C: Six months.

In S: Right—well—did somebody else approach him?

Out C: Him? No I don't think so.

In S: Oh, because er because it wouldn't be wise to have two people—

Out C: No—Nobody approached him.

In S: All right, all right then ah, ah we'll go according to our schedule—I'll talk to you Tuesday morning.

Out C: All right.

In S: And ah, ah, the way it was told to me tonight—I think it's favorable ah it looks very favorable.

Out C: All right if he tells you okay—

In S: One of these two things that we want.

Out C: Yeah, now if he says all right—you see the only thing I gotta do is check it out with him, like to see if it's true. And that's what it's gonna be, he spoke to this Sam, you know what I mean.

In S: Oh you mean if your guy spoke to him?

Out C: If your man, your man, you see that's all I want to check out. And if it's gonna be done. You know?

In S: No—ah—if I come back and tell you yes—it's yes Buddy.

Out C: Okay—all right.

In S: If I tell you—that's it—because I'm not telling you no stories.

Out C: I'll know before time you know what I'm trying to say?

In S: Well you're gonna know—I'm gonna know on Tuesday night.

Out C: I'll know—yeah but I'll know—in other words—through a different source you understand what I mean?

In S: You'll know from a different source that my guy spoke to him?

Out C: Right.

In S: Okay if you could do that I'd be happy.

Out C: Yeah—I could do that. All right Albert I'll speak to Tuesday—or tomorrow?

In S: Well—er—make it Tuesday morning.

Out C: Okay, Fine.

In S: Right.

Out C: Bye, bye.

In S: You know—the way we said.

Out C: Right.

In S: Nine in the morning.

Out C: Bye, bye.

In S: Okay.

The CHAIRMAN. We have under subpoena Mr. Ralph Lombardo. Mr. Lombardo, would you come forward.

Mr. Lombardo, I understand that you do not propose to testify before the committee. That being the case I will have to swear you in.

Raise your right hand—do you solemnly swear the evidence you shall give before this Senate committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LOMBARDO. I do.

The CHAIRMAN. Have a seat, sir.

TESTIMONY OF RALPH LOMBARDO, AN ALLEGED LEADER OF NEW YORK LOAN SHARK RACKET; ACCOMPANIED BY ED BRACKEN, ATTORNEY

The CHAIRMAN. Do you know Sebastian Aloï?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answers may tend to incriminate me, degrade me, and may subject me to a penalty or forfeiture.

The CHAIRMAN. Is it not a fact that you are a button man for Aloï?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answer may tend to incriminate me, degrade me, and subject me to a penalty or forfeiture.

The CHAIRMAN. Is it not true that you worked in Aloï's flower shop?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answers may tend to incriminate me, degrade me, and may subject me to a penalty or forfeiture.

The CHAIRMAN. Is it not a fact that you know Sebastian Aloï to be a member of the Joseph Colombo family?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answer may tend to incriminate me, degrade me, and may subject me to a penalty or forfeiture.

The CHAIRMAN. Isn't it a fact that Aloï sponsored you to be a soldier in that family?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answers may tend to incriminate me, degrade me, and subject me to penalty or forfeiture.

The CHAIRMAN. For the record, I want to say section 193 of title II of the United States Code provides that a witness may not refuse to answer a congressional committee on the grounds that his answer would tend to disgrace him or render him infamous. I want to make it abundantly clear that your objection is not based on those grounds. Is that correct?

Mr. BRACKEN. May I hear that inquiry, Senator?

The CHAIRMAN. The question I am asking is that we want to make it clear that your objections to testifying are not based on the ground that it would disgrace him or render him infamous. You are claiming the fifth.

Mr. BRACKEN. That is correct, sir. And also the other grounds as stated in the answer given.

The CHAIRMAN. For what crime do you believe your answer might lead to your prosecution?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answers may tend to incriminate me, degrade me, and subject me to penalty or forfeiture.

The CHAIRMAN. Is it for violation of the usury laws of the State of New York?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answers may tend to incriminate me, degrade me, and subject me to penalty or forfeiture.

The CHAIRMAN. I want to make this point clear. The testimony that we have heard this morning has impugned your reputation as a citizen. It is alleged that you were engaged in the loan shark racket. You now have the opportunity to answer those charges. You have chosen to remain silent. We can only conclude that by your acquiescence in the statements that have been made about you, that you believe the charges to be substantially accurate, is that correct?

Mr. LOMBARDO. I respectfully refuse to answer any questions within the scope of this inquiry upon the grounds that the answers may tend to incriminate me, degrade me, and subject me to a penalty or forfeiture.

The CHAIRMAN. The witness is excused.

The committee will stand in recess until 10 o'clock tomorrow morning.

Thank you, gentlemen.

(Whereupon, at 12:30 p.m., the committee was recessed, to reconvene at 10 a.m., Thursday, May 16, 1968.)

the first of these is the fact that the
the second is the fact that the

the third is the fact that the

the fourth is the fact that the

the fifth is the fact that the

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IMPACT OF CRIME ON SMALL BUSINESS—1968

THURSDAY, MAY 16, 1968

U.S. SENATE,
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 1202, New Senate Office Building, Senator George A. Smathers (chairman) presiding.

Present: Senator Smathers.

Also present: William T. McInarnay, staff director and general counsel; Ernest P. Evans, professional staff member; and James H. Grossman, minority counsel.

The CHAIRMAN. The meeting will come to order.

Today is the final hearing in our series on the impact of loan shark operations on small business enterprises. Yesterday the conferees on the truth-in-lending bill reported out a provision which would make loan sharking a Federal offense. The conference bill sets a statutory limit of 45 percent per annum. It also prohibits the use of threats of violence or other illegal means to collect payment for any loan. I urge both the House and Senate to accept this provision in the truth-in-lending bill which can curtail the type of tragedies we have heard about in the past 2 days.

The committee has initiated these hearings pursuant to the rules of the select committee in executive session of the committee held March 26, 1968, notice of which was announced on April 19, 1968, by me. In accordance with rule 6, any witness summoned to public or executive hearings may be accompanied by counsel of his own choosing who shall be permitted while the witness is testifying to advise the witness of his rights.

To introduce our first witness today we are privileged to have the very distinguished Senator from Illinois, Mr. Charles Percy, who will present our first witness.

Senator Percy.

STATEMENT OF HON. CHARLES H. PERCY, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator PERCY. Mr. Chairman, it is my privilege and pleasure to appear before your committee to introduce a very distinguished citizen of Illinois, Mr. Charles Siragusa. Mr. Siragusa is the executive director of the Illinois Crime Investigation Commission. He is accompanied by Mr. Robert J. Walker, the chief investigator for the commission.

He also will be accompanied by another witness who we shall call Mary Smith, whose husband is deceased, but whose husband was a victim of the juice racket. As she discussed with me the trials and tribulations of her husband, who got deeply into debt, and then unfortunately in the hands of these unscrupulous people, I could not help but recall the years that my father and millions of other Americans in the depths of the depression battled against indebtedness. The despair, the despondency, the hopeless situations that they sometimes felt themselves in. My father finally went through bankruptcy, 6 years after he initially got into debt. But I can well envision that these profiteers, these racketeers, that offer some panacea and hope to a person so desperately besieged by his creditors can induce them into the business of accepting a loan under conditions that they do not clearly understand. And once they become a victim, as Mary Smith told me this morning, it is almost impossible to get out of their hands.

I particularly am pleased to be able to just recount for a moment to you, Mr. Chairman, the background of Charles Siragusa. He was born in New York City, and graduated with a degree in education in 1933 from New York University. He retired from the Federal Bureau of Narcotics in 1963, after 28 years as Deputy Commissioner of Narcotics—or 28 years in the Federal service.

He was appointed to his present position in Illinois December 1963. He serves as one of five members of Gov. Otto Kerner's Illinois Committee on Criminal Justice, created as a result of the National Crime Commission recommendation. He is currently serving as a member of the organized crime committee of the International Association of Chiefs of Police. During his career with the Federal Bureau of Narcotics, he held every supervisory position up to and including the second to this position. He was chief investigator of the Senate Subcommittee To Investigate Crime in Interstate Commerce, whose chairman was Senator Kefauver, from May to August of 1951. In 1950 he established the first permanent overseas Federal Bureau of Narcotics office in Rome.

During his foreign mission, through 1958, he also established branch offices in Beirut, Istanbul, Marseilles, and Paris. In conjunction with the police of 25 countries in Western Europe, North Africa, Near and Middle East, and in Canada, Mexico, Puerto Rico, Cuba, and Costa Rica, he worked undercover, penetrating international narcotics gangs engaged in smuggling illicit narcotics to the United States. He made hundreds of arrests and seized tons of contraband narcotics. He is the recipient of the U.S. Treasury Department's highest award, the exceptional Civilian Service Honor Gold Medal, the Colombo Award of 1960, the Italian American Man of the Year, and was knighted by the Italian Government for his international narcotics enforcement work.

He served during World War II as a Naval officer, assigned to the Office of Strategic Services (OSS) in counterintelligence.

I therefore present with great pride a distinguished citizen of Illinois who has at considerable personal risk in the course of his lifetime attempted to understand better, and then help us legislate against, the problems of organized crime in this country.

As the conference committee of the Senate and the House yesterday reported out truth-in-lending bill—and I should say parenthetically,

Mr. Chairman, that I think we owe a debt of gratitude to my predecessor in this office, Paul Douglas, for pioneering for so many years an attempt to have more full disclosure of the costs of borrowing money. I think it is a tribute to Senator Douglas that this persistence has now helped us bring the Federal law before the Senate and the House. I think it is particularly pertinent, as we are dealing this morning with a crime-on-the-streets bill, that we have before us this morning one of the ablest witnesses in the United States, and one of the great experts in this field.

Thank you, Mr. Chairman.

THE CHAIRMAN. Thank you very much, Senator Percy, for that moving statement. We will be delighted to hear from this witness.

Mr. Siragusa.

STATEMENT OF CHARLES SIRAGUSA, EXECUTIVE DIRECTOR, ILLINOIS CRIME INVESTIGATING COMMISSION, CHICAGO, ILL.

MR. SIRAGUSA. Mr. Chairman, on behalf of the Illinois Crime Investigating Commission, we wish to compliment this committee very much for conducting what we believe to be the first nationwide exposé of the degrading, highly profitable, and economically debilitating crime of criminal usury. I am so concerned about this problem, and have been so involved for the past several years, that I am now in the process of writing a comprehensive nonfiction book on the subject.

Consequently, I am very honored that you invited me here today to participate in these hearings.

The Illinois Crime Commission Act was adopted by the General Assembly in Illinois in 1963. We did not become operational until December of that year, when I was appointed its first executive director.

Ours is a bipartisan commission, composed of four State senators, and four State representatives, appointed by the majority and minority leaders of both houses. The Governor appointed four public members.

We have two cochairmen, one from each political party.

As executive director, I have the responsibility of the day-to-day supervision of 15 investigators, a counsel, and an auditor.

Our act specifically recognized the influence of organized crime in the frequent subversion of governmental, political, and economic institutions within Illinois.

The act clearly defined our mandates:

- (1) To investigate organized crime and establish the facts and general background relating thereto,
- (2) To investigate individual crimes having any bearing on organized crime.
- (3) To investigate the connection of organized crime and politics, and
- (4) The connection with legitimate business.

In this context it is our obligation to protect the public safety, public peace, public health, public morale, public welfare, and public justice of the State of Illinois through the statewide investigation of organized crime.

I shall address my remarks to the thrust of your public hearings, namely the operations of organized crime in the loan-sharking area and the impact on small business.

During my 4½ years with the Illinois Crime Investigating Commission and about 24 years with the Federal Bureau of Narcotics, much has been said about the criminal syndicate's involvement in legitimate business. This has been usually characterized as penetration or infiltration. In recent years the term "domination" becomes more appropriate.

There has been little evidence of gangster involvement in large commercial and industrial complexes. But there has been monumental documentation of the mob's huge participation in what would constitute your definition of small business.

In Illinois we do not use the label of "loan sharking" or "shylocking" for the despicable practice of loaning money at usurious rates of interest. In the East the term of "Vigorish" is applied to the 10- to 25-percent weekly interest rate.

Instead, in Illinois, specifically in the greater Chicago area, we cloak these practices under the more appropriate title of "juice." It is a "juice loan." "Juice" is also applied to the weekly payments which are in excess of 500 percent annually.

The CHAIRMAN. What do they call usurious loans which are less than 500 percent? Are they called juice, too?

Mr. SIRAGUSA. Yes. There are very few charitable juice men that charge less than 500 percent a year. This is "sop" in Illinois. And 10 percent is a very magnanimous rate of interest—per week.

We had a witness that testified before us in some hearings we conducted, and he said the word "juice" is synonymous with "squeeze." He said the juice customer is squeezed of his blood, his morale; and his soul is squeezed. The pressure of meeting 500-percent annual interest rates, and fleeing inexorable physical reprisals when he cannot pay, were unbearable to the point where he is certain that the term of "juice" is much more appropriate than "loan sharking" or "shylocking."

As you know, the term "shylock" derives from the character of the same name in William Shakespeare's "Merchant of Venice." Over the years the name was applied to anyone engaged in the usurious money-lending business in the American underworld. The word "shylock" was unintentionally slurred by guttural, illiterate hoodlums. The word came out as "shark."

Juice gangsters in the Chicago area epitomize the words of Shakespeare's Shylock. In addressing Bassanio who was seeking a loan, he said:

If you repay me not on such a day, in such a place, such sum or sums as are expressed in the condition, let the forfeit be nominated for an equal pound of flesh, to be cut off and taken in what part of your body pleaseth me.

We recently had in Chicago a rather infamous, not too important gangster, by the name of William "Action" Jackson, who was a petty Chicago muscleman, and a forcer. He failed to meet his weekly juice payments, plus working for a juice gang, and withholding collections—not giving them to his bosses. William "Action" Jackson was strung up alive on a meathook in the basement of a restaurant, the juicemen cut off a piece of his buttocks, stabbed him with ice picks, and burned

the bleeding portions of his body with an acetylene torch. "Action" Jackson died from shock rather than from the wounds themselves.

How do these juice activities affect small business?

The National Crime Commission assessed the economic impact of gambling at \$7 billion annually. Ranked next were narcotics and loan sharking at an annual economic impact of \$350 million each.

Juice gangsters also squeeze the financial community. Small businesses are denied their rightful share of this economy. Banks, savings and loan companies, finance companies, acceptance companies, factors lose their normal share of the legal loan business to organized crime juice racketeers.

Licensed financial institutions and otherwise legally constituted lending and credit companies, many of them within the framework of Small Business, are squeezed out of their lawful rates of interest when individuals and small business, in need of financial assistance, go to the juice gangster.

Small business engaged in the sale of consumer goods and services are denied income juice victims must pay in the form of high rates of interest.

The Illinois Crime Commission continues its investigation of the juice racket, started in 1965.

In 1966 we solved two armed robberies and successfully prosecuted several defendants. They needed the money to pay off their juice debts. We also arrested and convicted top juice gangster operators Willie Messino, George Bravos and their cohorts Joseph Lombardi and Sam Mercurio on charges of aggravated kidnaping, battery and conspiracy committed before the criminal usury law was enacted.

Consequently we proceeded on the substantive charges themselves.

With me today will be Mr. Robert J. Walker, our chief investigator, who will testify in more detail concerning this specific case of Willie Messino, which I believe can best be described as a horrible anatomy of a juice mob.¹

From January 14 through 16, 1966, we held some public hearings in Chicago. This was the first time in Illinois that the juice racket was exposed, the first time that the nature and scope of this venal organized criminal activity was presented to the public.

Twelve juice victims testified in detail as did two of our own undercover agents. Thirteen suspected juice gangsters were subpoenaed but took the fifth amendment to a total of 1,026 questions.

We questioned these hostile witnesses concerning 16 gangland murders, crimes of arson, armed robbery, assault and battery, intimidation, kidnaping, torture, B-girls, vice, gambling, hijacking, counterfeit stock schemes, narcotics, embezzlement, income tax evasion and fraud, and a host of other organized criminal activities.

We discovered that many of the juice gangsters were engaged in a wide range of legitimate businesses, including, but not limited to restaurants, restaurant supplies and services, trucking, juke box, vending machines, furniture distribution, household appliances, and others.

Some of the gangsters operated sales acceptance and factoring companies as covers for their juice operations.

¹ See p. 114, *infra*.

Another 12 gangsters refused to comply with our subpoenas, contesting their validity and the validity of the Commission itself. They were Fiore "Fifi" Buccieri, who is here today, who your committee has subpoenaed—his brother Frank Buccieri, Joseph Grieco, Joseph "Gags" Gagliano, two former Chicago Police officers Richard Cardi and Albert Sarno, Dominick Carzoli, Patsy Ricciardi, Pete Ori, Tony Spilotro, Lenny Patrick and Arthur "Boodie" Cowan.

We filed petitions with the Cook County Circuit Court in Chicago. The mobsters were to appear before our Commission. The court orders were appealed unsuccessfully to the Illinois Supreme Court. The U.S. Supreme Court refused to grant certiorari. In effect this upheld the constitutionality of our position and of our subpoenas. In the interim one of these respondents, Arthur "Boodie" Cowan was murdered in in gangland fashion.

We finally got eight of the 11 respondents to appear before the next phase of our public hearings held February 24, 1968, which was almost 2 years after the initial hearings. These men also invoked the fifth amendment a total of several hundred times.

Albert Sarno, Chris Cardi and Patsy Ricciardi were the subjects of of court petition to grant them immunity from self-incrimination. We have filed written arguments, and there will be oral arguments soon. We intend to pursue this action in granting them immunity, in order to obtain more information, and get on further with our investigation.

Three remaining of the original 11 respondents, Fiore "Fifi" Buccieri, Joseph "Gags" Gagliano and Joseph Grieco, appeared before us on March 23, 1968, at our next public hearings. They too pleaded self-incrimination.

A very courageous widow, who is here and will testify, that Joseph Grieco gave her husband a \$300 loan.¹ He was a full-time employee of a local Chicago newspaper. Doctor and hospital bills depleted all his earnings. He was compelled to go to juice gangster Grieco for a \$500 loan. She will testify later.

May I please request this lady not be photographed. She will be wearing a thin veil. But even so, I would appreciate it tremendously if she was not photographed. She has many children at home. She is quite fearful for her safety.

The CHAIRMAN. We are thinking about putting her in a hood, like the witness yesterday, so that even if they do photograph her, she will be unidentified.

Mr. SIRAGUSA. Thank you very much.

We had another recent investigation concerning a previously unknown aspect of the juice racket. On March 23, 1968, we had the last of a continuing series of juice racket public hearings in Illinois. This one particular case involved five uneducated practically illiterate Negro employees of a glue factory. They were borrowing money from a nearby clothing store owned by a gentleman named Marvin Browning. Marvin Browning, who possibly, coincidentally, happens to be an associate of some of our prime mobsters in Chicago—Charles and Sam English.

These unfortunate Negro employees were paying 20 percent interest a week. They would purchase a shirt, and the next week they would borrow \$20, the next week \$10—at the very moment they made a

¹ See p. 120, *infra*.

purchase and did not make cash, they had to sign a blank wage assignment. This is illegal, and we are presently proceeding toward prosecuting them for this violation.

But the development of this situation over a period of 17 years that we knew of was very disturbing.

The assignments were made at the discretion of the juice man, Mr. Marvin Browning—he would serve these assignments upon the employer, the owner of the glue factory, and each week 15 percent of their salaries was withdrawn, and paid to the clothing store. One of the employees had been the subject of wage assignments for the past 19 years, which coincided exactly with the full length of his employment with this firm, which employment we have verified.

Among the group of five men was one who had a minimum period of juice, being on juice to Marvin Browning, of 10 years.

As I have said, we intend to prosecute Mr. Browning and two of his associates, one of whom is his brother-in-law, Guido and Emil Smania.

We are also looking into the aspect of consumer fraud, and illegal operation of a tavern.

Adjoining the clothing store these men also owned a tavern. They were using both establishments as a base of operation for the juice racket.

In my experience, we have come to appreciate that the juice racket, up until World War II, was a relatively insignificant operation. Only disreputable thugs, petty pickpockets, and those at the very bottom of the underworld ladder would even stoop to becoming Shylocks.

Since World War II, through our investigations, through exchange of correspondence with authorities in other States, particularly in New York State, we have determined that during the post-World War II period they realized there were tremendous profits to be made from loan sharking. Because of the huge economic potential, the former attitude of disdain for lowly juice men now changed, and it became elevated to an important position, acquiring the image of a good, profitable underworld racket.

Today gangland leaders finance juice operators, loaning as much as \$50,000 and upward. These are the men at the top. They only charge 1 percent to 5 percent. They want their principal returned plus the interest within a very short period of time, a few weeks. These are the financiers. They work on a heavy volume and a fast turnover.

These loans, large loans, from the top, when they are given to people, let us say at the second echelon, maybe some also at the first echelon, only supplements the large bankrolls which already prevail with any one particular juice gang.

One gang, for example, five men, in 1 year invested \$200,000—yet during this year they were able to grant loans in excess of \$350,000 to a total of 150 persons. At the end of the year this gang earned almost that amount in weekly interest payments and return of principal.

At the end of that year, it still had a balance of unpaid, unreturned principal, of \$200,000. They were obviously using the juice money to further expand their wealth in granting more loans.

The structure of this one juice fashion and the way it works is typical of many others in the greater Chicago area.

The juice mobs usually operate in three sections. They have one which distributes loans, another which collects the weekly interest payments, and the third are the real villains—possibly since they are the most unimportant in the framework of organized crime, but they are the deadly ones—these are the musclemen, the killers, the ones that intimidate, maim, tell housewives to go out and become prostitutes, get an otherwise legitimate factory worker, give him a gun, and tell him to go out and stick up a currency exchange place—do anything to get the money.

You always have the alternative of the “or else.”

The CHAIRMAN. Mr. Siragusa, are these juice people only in the juice business, the juice racket? Or are they gangsters that also have other illegitimate occupations?

Mr. SIRAGUSA. We have some who become so expert, and who have earned so much money in the juice racket that they more or less become specialists in it, and have put all of their eggs in that basket. You have others, instead, who have a little piece of the juice action, who are also big gambling operators. The one common thing they all have, those who engaged in either one racket or a combination of rackets, is that they all seem to have legitimate businesses.

The CHAIRMAN. When you say other gambling operations—to what precisely do you refer? Do they run bookmaking establishments, or what?

Mr. SIRAGUSA. In Chicago it is bookmaking. In Chicago, as well as throughout Illinois, we sometimes have what appears to be innocuous gambling operations—which are not innocuous. The punchboards, things I remember from my childhood—they used to give away prizes in a grocery store or candy store—they are now a very profitable source of income. You find punchboards, what they call pull jar tickets, lucky seven tickets, in just about every tavern throughout Illinois. I am proud to say that Chicago, despite its unearned reputation, is probably and relatively speaking among the cleanest areas in terms of gambling. You cannot find a pinball machine, for example. Outside the city of Chicago this is a big racket. There is an awful lot of money in pinball machines. We have pinball machines where you can increase the odds by depositing additional dimes and quarters into a machine. We have worked undercover cases throughout Illinois where we have had our own men stand on line at truck stops, restaurants, taverns, all sorts of joints, in order to play the pinball machine. One of my men saw the fellow right in front of him, after having waited an hour in line, drop \$15 within a space of a few minutes. This accounts for a lot of volume. There is small money involved at the outset, but collectively this is a huge, profitable thing.

We also have in Illinois as a gambling operation football, baseball, basketball, hockey parlay cards. You purchase these cards, you try to pick out a winning combination, in order to win, and the chances of winning are astronomically high.

The CHAIRMAN. Betting on sports—is that becoming more popular? Is that a bigger and bigger item of gambling?

Mr. SIRAGUSA. From our own investigations, I am convinced that sports betting far surpasses bookmaking. There is more money bet on sports games, and the size of the bets are not the 25 cents you would use for a pinball machine, or the two bucks for a horse, but

they are in sizable quantities. You have many respectable businessmen's clubs where you have the bartender, different trainers, the fellow in charge of the swimming pool, who become bookies for sports bets—where the average bet would start maybe at \$500.

The CHAIRMAN. It is not less illegal to bet on a football team? Do you find more and more people innocently becoming involved in this type of betting who previously would not bet on the horses or a lottery? Is that a fair statement?

Mr. SIRAGUSA. That would be a very fair statement—possibly an understatement, Senator—because I think that suppression of gambling, the enforcement of gambling statutes, whether local, county, State, or Federal—enforcement is really a waste of time. And I say this against my own best interests, because I do not think in the whole law enforcement system, including the public—which includes the judges, the prosecutors, everyone—I still believe that everyone concerned is not yet convinced that moneys from gambling still remain the basic source of income for all racketeers. When nobody goes to jail, the gambling operators never see the inside of a jail, when they make bail immediately—where in 1963 the State of Illinois, after an accurate survey we conducted, over 11,500 people were arrested for gambling in Illinois, and I think three people went to jail. The fines imposed, in cases where there were convictions, amounted to about \$75,000.

The CHAIRMAN. Is it your judgment that one of the reasons we do not get more convictions is the recent rulings of the Supreme Court with respect to—overprotecting the rights of the criminals?

Mr. SIRAGUSA. They help tremendously.

The CHAIRMAN. Under protection of the rights of the public?

Mr. SIRAGUSA. Well, it seems that when it comes to gambling especially, you have so many contributing causes that even a best mobster's PR man, or the best advertising executive could not possibly give him a program which is as effective as that which he receives for free. When judges do not send him to jail, when they give him ridiculous fines like \$100, when a bookmaker will spend in expenses throughout the year more than what is collected the entire year for fines—when they go in and out of jail continuously maybe for a day—this is rather ridiculous.

The CHAIRMAN. Do you think that this wide, ever-increasing growth of gambling on sports contests poses a threat to the integrity of the sports world itself?

Mr. SIRAGUSA. Whenever you have gambling, syndicated gambling, whenever you have a third man entering into a gambling situation—if you and I bet against one another in Illinois this would be illegal per se, but I think this essentially is not gambling. Where a third man steps in, and he is the one that takes the action, corruptive influences always take place. These corruptive influences are obviously the gangsters. And they will walk right into it. There are millions and millions of dollars to be made from gambling. People just do not realize the consequences.

We have analyzed the customers of juice victims—they do not come from any one particular category of life. You have criminals, you have many, many, otherwise honest people. You have the one common denominator, which applies to both a cheating bookie or to a factory

worker, and this is an urgent need for money. Compulsive gamblers accumulate too many losses from bookmakers. We have had cases of bookmakers selling them to juice men, much as a businessman would sell a promissory note or discount their accounts receivables.

You have the stick-up man, the burglar, the hijacker, who need money for legal and bail bond fees—in between scores, commissions of different crimes, he needs money to tide him over. So he goes to the juice man.

Bookmakers holding out on collections, fearing certain retribution, run desperately to the juice man to borrow money.

Underworld sources represent a secondary fountain of revenues. I believe that legitimate people far outnumber gangsters as juice customers.

We have had many people that we know of who have admitted to us being on juice—people with no criminal records, people of low income, average income. We have also had some relatively wealthy men who have also been on juice.

I have here some one- or two-sentence thumbnail descriptions of some of these customers.

An uninsured motorist became involved in a traffic accident, had to furnish a financial responsibility bond. He did not have the money. So he goes to a juice man.

An unskilled worker behind on his payments toward his automobile, fearing repossession, he goes to the juice fellow.

An unemployed stevedore suffered some family sickness, has large unpaid hospital bills, doctor bills. He is a fit subject for a juice man.

Automobile salesman—we have run into a number of them that seem to live a little beyond their means. They owe more money to credit and finance companies than their salaries can sustain. One thing in common with all these people is that they expect a miracle—a miracle that never arrives, but a miracle which they hope can solve their financial dilemmas.

We have come across people who tried to maintain several homes—a normal home with their wife and family, another home with a mistress. And they just do not earn enough money to do this.

Another fellow we know of wanted to expand his plant. He needed some money to bind a deal. So he goes to the juice fellow.

Another businessman was looking for loans for the construction of many high rises and office buildings. He finds a mortgage binder who takes him for \$150,000 as an advance commission. The deal doesn't go through and now he finds himself without a deal but with a \$150,000 debt. The advertisement for juice gangsters is almost entirely by word of mouth. A bartender overhears the groans, the laments of the fellow factory worker across the street, the fellow is beefing that he needs money. And the bartender conveniently refers the prospective customer to another fellow sitting at the other end of the bar. The story usually is "I know a man who knows a man."

Many times it is the first individual himself who is the direct representative of the juice gangster.

Another recruitment method—a fellow building contractor is discussing his money problems with a colleague in the same industry. The latter says "Say, why don't you go to a certain savings and loan institution." When he goes there, the loan officer says, "Sorry, but your net worth statement does not warrant a loan from this bank. But you

are in luck today because I know someone who can give you the loan which does not require the collateral or the net worth statement that we require."

In one case a fellow needed \$20,000. I might state here parenthetically that in the jargon of the Chicago underworld, a \$20,000 loan is referred to as a classic loan. Why they would call it "classic," I still have not been able to determine.

There are two methods of granting loans and repayment. In one, the borrower pays 10 percent interest per week. The principal can be paid back whenever it is convenient. In that case, the loans are not amortized.

In other situations, loans must be amortized at the rate of 10 to 20 percent a week, within a previously stipulated period. If, however, the customer can pay off the principal within that period, he still does not escape from the interest—must pay the collective interest payment.

At this point, there is no threat, there is no violence. There is no semblance of any kind of gangster activity.

The longer the man cannot repay his principal, the better it suits the juice gangster. They would rather have juice than interest.

This one case we investigated, \$1,000 in interest was paid over a few years' period on an initial loan of a hundred dollars. In this case, the \$100 loan principal is still outstanding.

The picture of the juice racket changes when customers find difficulty in paying. This is where the otherwise unsuspecting juice customer has the peace very rudely interrupted.

The collector says, "Look, Buster, my boss has got a hot temper, he wants his money on time or else."

I am paraphrasing this language, because it is invariably expressed in extremely obscene, threatening fashion.

One man ran around frantically to his close friends and relatives. He finally got up the money to make the payment, which represented previous payments in which he was in arrears, plus the current payment. But the day arrives when he just has exhausted all of his friends and all of his relatives. Now he begins to hide. He does not answer the telephone at home. He tells his fellow workers where he works "If anybody calls me, I am not in."

I should state at this point that before a loan is given, and even though there might not be any written contract, the juice man knows the true identity of the customer, knows where he lives, including the telephone number. If the man is working, he knows where he works.

In one case a juice customer in broad daylight was cornered on the street and given a few punches to the ribs. Another time two real plug-uglies—whom he never met before—came to his house. They fractured his ribs, broke a few bones—elbow bones seem to be preferred, shin bones are pretty good—baseball bats are in season in Chicago all year around, even when the baseball season is on. They think nothing of telephone calls, terribly threatening calls to the individual. If he is not there, to his wife. They like to use iron pipes. These have become tools of the trade in Chicago—iron pipes, baseball bats, ice picks—none of which can be construed as illegal.

On top of this physical and mental torture, juice customers are punished with financial weapons. They tell juice customers "You

angered me, you made my patience thin, we are going to increase the juice rate. From now on instead of 10 percent a week it will be 15 percent a week."

Mr. GROSSMAN. Could I ask you at this point—aren't all these attempts at physical violence extortion? Isn't there a Federal extortion statute that these people can be prosecuted under?

Mr. SIRAGUSA. Yes, it is extortion. Even under State statutes you could still prosecute them for intimidation, or extortion. The one trouble you have in this area, as well as all gangster areas, is this fear, the reluctance of victims to come forth to testify. It is this terrible fear that grips them that prevents them from going to the authorities. Unless you have witnesses in a court of law, you cannot prosecute.

We have spoken literally to at least 200 juice victims who have no reluctance in telling me the gory details in my office. But when you ask them to sign a complaint to go to court, that is a different story.

Mr. GROSSMAN. The testimony of New York witnesses made it sound like the New York situation was more subtle. Your pictures of lead pipes seems to be a lot more in the old gangster era, which I take it still continues more in Chicago.

Mr. SIRAGUSA. I am a native of New York myself. I live in Illinois. And I do not like to take a back seat to my former State. But I may have not put this in the proper context.

I think that with the violence which has been displayed in Chicago, there is still enough sophistication to make New York look silly. And I think many refinements of racketeering activities—I think some of the real good gimmicks in this loan shark racket have been invented in Chicago, I think that in Chicago we will not take a back seat when it comes to using sophistication in racketeering. This is a dubious distinction—but I must say this.

New York obviously, being a city twice the size of Chicago, you have twice as many of everything. Therefore, New York City is indisputably the crime capital of the country. And we might rank No. 2. By the same token, if you give me the opportunity, I want to say that in Chicago we too have a fine law enforcement setup, we have many Federal agencies, we have State agencies, State police, crime commission, Chicago Police Department, insurance office, the States attorneys police—collectively I think we are just as good, if not better, than law enforcement agencies in other States in which I will include New York. This is a debatable issue, obviously. I know some of my New York friends will take exception to it. But this is my conviction.

Mr. GROSSMAN. Thank you.

Mr. SIRAGUSA. I have possibly overemphasized the violent aspect of the juice racket because I hope that if these hearings are given proper nationwide publicity, that the public will become shocked immediately, and not wait until the juice racket takes hold in a community, and not wait until the first sign of violence to become convinced that it is a vicious racket. So I am guilty of emphasizing the violent aspects of it, which I think are the most atrocious characteristics of this racket.

In addition to collaterals—rather in addition to these assessments, these arbitrary assessments, which must be paid if the juice customer is late in making his payments, we do have a little gimmick in Chicago, and I do not know whether this applies to New York—and I think perhaps this is where the degree of sophistication takes place.

The man who introduces the juice customer—this man is a human collateral. He is the guy who will introduce the juice customer to the juice man. He now becomes a collateral or an invisible paper promissory note, if you will. By the ethical criteria of organized crime, in its psychopathic interpretation, the man who did the introducing is equally and fully responsible with the man who actually borrows the money. He is the cosigner, whether or not he ever affixes his pen to anything. He gets the same pressure. In some cases he is pressured before the juice customer. In some cases he is given a little beating beforehand, and he is told he better collect from the juice customer. A chain reaction sets off. The original introducer may inflict a slight beating of the juice customer himself, to prevent the beating to himself.

Now, when neither the borrower nor the cosigner, so to speak, can pay, we have had a case where the cosigner—I am using that expression figuratively—he can wind up as a compulsory finger man, and the juice victim, the guy who actually pocketed the money, is taken for a ride, they shoot him with some bullets, put him in the trunk of his car—always arranging to have the car found, parking it in a spot where it will inevitably become conspicuous.

The purpose is that this gives them an awful lot of free advertising. When the newspaper headlines talk of so-and-so being found dead in a trunk, those juice customers who have themselves been delinquent get the message immediately, and they accelerate their efforts.

The CHAIRMAN. Mr. Siragusa, your testimony is excellent and helpful.

I wonder if we could go to your recommendations on page 24. We are getting a picture of what the problem is and what is involved. What we are interested in at this point is what we can do about it.

Mr. SIRAGUSA. Yes. I think in the Federal area there are some specific things that can be accomplished.

I think a model uniform criminal usury law for distribution to the Governor, the legislative bodies, and the attorneys general of every State should be drafted. As it is now, only Illinois and New York State have criminal usury laws.

The CHAIRMAN. In other words, each State should not have a different rate of interest or a different usury statute, because it is too difficult to enforce.

Mr. SIRAGUSA. Yes, sir. I think in addition to the usury laws which now exist, they should either be amended or a separate law be passed, such as we have done in Illinois, making a separate criminal usury statute, which simply defines you cannot collect more than 45 percent a year, you must be a licensed institution—if you are not a licensed institution, you have to be a factor. But in any event, you cannot receive more than 45 percent interest. I think that maybe your committee can draft a model criminal usury law for distribution.

The CHAIRMAN. You think that it could be worded so that it would apply, for example, to two friends who have a personal arrangement between them—"You lend me \$800 and I will pay you back \$1,200 at the end of a year." That actually would figure out to be usurious—therefore violative of the criminal law.

You would have to put in "willfully and knowingly with intent to collect more than 45 percent."

Mr. SIRAGUSA. Yes. I think no law should be adopted which would prevent a situation such as you have described—a man wanting to loan money to his friend, a man who is not licensed in the lending business. But I think 45 percent interest is sufficient for anybody, including a friend. And I think that the statutes—

The CHAIRMAN. If he is a good friend, it certainly ought not to be that.

Mr. SIRAGUSA. I would agree with you on that.

The CHAIRMAN. All right. What are the other recommendations?

Mr. SIRAGUSA. We attempted to amend our present law. This one amendment which I thought was significant—we said not only loans should come within the definition of criminal usury, but also these transfers of indebtedness, where a compulsive gambler finds himself now responsible to a juice man. This is not within the definition of a loan. I think that should be included in the law.

I think there should be something in this model uniform criminal usury law which now exists, I believe, only in New York City—not in Illinois—making the possession of juice records a crime per se.

The CHAIRMAN. How about this Federal law? What do you think we should do about that?

Mr. SIRAGUSA. I think there are several ways of approaching this. I think there might be a Federal law which would say that anyone who is guilty of accepting more than 20 percent a year—if he is convicted of a Federal or State law—can be subjected to damages, treble damages, much as we used to have in the days of the OPA, where there was black marketeering. I think this might have a good—

The CHAIRMAN. You would not make that criminal. In other words, you would make it treble damages—and not any penalty beyond that or no incarceration?

Mr. SIRAGUSA. I am recommending that in addition to criminal sanctions, that there also be economic sanctions—because a combination of both becomes very effective.

The CHAIRMAN. All right.

Mr. SIRAGUSA. I would like to recommend possibly the passage of a Federal law which would provide financial assistance to State authorities—after an application has been approved and certified by the U.S. attorney for the appropriate Federal district—moneys which can be given to the State prosecutors handling criminal usury prosecutions. I am speaking specifically of an area of financial assistance institution which has been totally ignored in law enforcement today. Assistance to victims, assistance to persons courageous enough to testify. Their own financial support, the support of their wives and children, education of their children. If, after a man has testified for the Government and has been responsible for a prosecution of a big gangster, this fellow, if he wishes, deserves to have himself, his family, and his household effects transported to another State, because living in the same State is just a delayed death warrant. And I do not know of any law today, State or Federal, which will meet this realistic problem head on, and supply financial assistance.

Today it is a case of improvisation, borrow, beg, and steal from other agencies to try to put witnesses in military installations—and it is a very difficult problem.

The CHAIRMAN. Let us refer specifically to numbers eight, nine, and 10, which have to do with Small Business recommendations.

Mr. SIRAGUSA. Yes. I think maybe the Small Business Act can be amended to provide that recipients of Small Business Administration

loans engaged in any phase of money-lending activities—cannot charge more than 45 percent interest annually, under penalty of imprisonment. Perhaps loan applications could include this requirement.

I believe another amendment could be that any person, group, or company convicted of criminal usury in State or Federal court should be ineligible to apply for or receive a loan from the Small Business Administration for the next 10 years.

I think local offices of Small Business Administration should be encouraged to screen questionable loan applicants with the many Federal and State law enforcement and regulatory agencies. This is not done.

The Small Business Act, section 8, provides for the dissemination of information concerning the managing, financing, and operation of small business enterprises. Perhaps the act could be amended to include dissemination of information concerning criminal usury activities in order to encourage small business to apply for loans from Small Business Administration and not go to juice gangsters.

Section 7 of the Small Business Act provides for research grants, I think that could be amended to authorize grants to study existing State usury laws.

The CHAIRMAN. In your experience, your observation, would you not say that it is usually the small businessman or small individual who is usually the victim of this type of thing?

Mr. SIRAGUSA. That is very, very true. There are many more small people than there are big people.

The CHAIRMAN. Right. The big people usually have ways and means of acquiring capital when they need it.

All right, sir.

If you would read your conclusion.

Mr. SIRAGUSA. Yes, sir.

Finally, in conclusion, Senator, I am convinced that juice racketeers seriously encroach upon small businessmen engaged in the legitimate field of money lending. The loan sharks deprive legitimate business of millions of dollars of income. Juice racketeering is on the incline, and there is the present threat of an increasing theft from the pockets of small businessmen—money which should go to businessmen, and not to racketeers.

I think the urgency to suppress the juice loan racket conforms with the policy of Congress as expressed in the Small Business Act, section 1 specifically, which states in part: "The preservation and expansion of competition within free enterprise is basic not only to the economic well-being, but to the security of this Nation."

The CHAIRMAN. All right, sir. Thank you very much.

Mr. SIRAGUSA. Thank you very much.

(The complete prepared statement of Mr. Siragusa follows:)

STATEMENT OF CHARLES SIRAGUSA, EXECUTIVE DIRECTOR, ILLINOIS CRIME INVESTIGATING COMMISSION

IMPACT OF ORGANIZED CRIME ON SMALL BUSINESS—LOAN SHARK ACTIVITIES

I am indebted to Senator Charles H. Percy for his gracious introduction.

Mr. Chairman and distinguished members of your Committee. On behalf of the Illinois Crime Investigating Commission, we compliment you highly for conducting the first nationwide exposé of the degrading, highly profitable, and economically debilitating criminal usury racket. I am so concerned that I am now in the process of writing a comprehensive, non-fiction book on the subject.

I am honored you invited me to participate in your public hearings.

The Illinois Crime Investigating Commission Act was adopted by the 1963 General Assembly. We became operational in December of that year when I was appointed its Executive Director.

Our bi-partisan Commission is composed of 4 State Senators and 4 State Representatives appointed by the majority and minority leaders of both houses. The Governor appointed 4 Public Members.

We have 2 Co-Chairmen, one from each party.

As Executive Director I have the responsibility of the day-to-day supervision of 15 investigators, 1 Legal Counsel and 1 Auditor.

Our Act specifically recognized the influence of Organized Crime in the frequent subversion of governmental, political and economic institutions within the State of Illinois.

The Act clearly defined our mandates. (1) To investigate organized crime and establish the facts and general background relating thereto, (2) to investigate individual crimes having any bearing on Organized Crime, (3) to investigate the connection of organized crime and politics and (4) the connection with legitimate business.

In that context it is our obligation to protect the public safety, public peace, public health, public morals, public welfare or public justice of the State of Illinois through the statewide investigation of organized crime.

I shall address my remarks to the thrust of your public hearings, namely the operations of Organized Crime in the loan sharking area and the impact on Small Business.

During my 4 and ½ years with the Illinois Crime Investigating Commission and about 24 years with the Federal Bureau of Narcotics much has been said about the criminal syndicate's involvement in legitimate business. This has been usually characterized as penetration or infiltration. In recent years the term of domination becomes more appropriate.

There has been little evidence of gangster involvement in large commercial and industrial complexes. But there has been monumental documentation of the Mob's huge participation in what would constitute your definition of Small Business.

In Illinois we don't use the label of loan sharking or shylocking for the despicable practice of loaning money at usurious rates of interest. In the East the term of "Vigorish" is applied to the 10 to 25% weekly interest rate.

Instead, we cloak these practices under the more appropriate title of "juice". It is a juice loan. Juice is also applied to the weekly payments which are in excess of 500% annually.

A witness testified before us that the word is synonymous with squeeze. The juice customer is squeezed of his blood, morale and soul. The pressure of meeting 500% annual interest rates and fleeing inexorable physical reprisals, when he can't pay, are often unbearable.

As you know the term "Shylock" derives from the character of the same name in William Shakespeare's "Merchant of Venice". Over the years the name was applied to any one engaged in the usurious money lending business in the American underworld. The word "Shylock" was unintentionally slurred by gutteral, illiterate hoodlums. The word came out as "Shark".

Juice gangsters in the Chicago area epitomize the words of Shakespeare's Shylock. In addressing Bassanio who was seeking a loan, he said "* * * if you repay me not on such a day, in such a place, such sum or sums as are expressed in the condition, let the forfeit be nominated for an equal pound of flesh, to be cut off and taken in what part of your body pleaseth me".

The late William "Action" Jackson, a petty Chicago muscleman, failed to meet his weekly juice payments. He was strung up alive, on a meat hook, while the juice men cut off a piece of his buttocks, stabbed him with ice picks, and burned him with an acetylene torch. He died from shock.

How do these activities affect small business? The National Crime Commission assessed the economic impact of gambling at \$7 billion dollars annually. Ranked next were narcotics and loan sharking at an annual economic impact of \$350 million each.

Juice gangsters also squeeze the financial community. Small businesses are denied their rightful share of this economy. Banks, savings and loan companies, finance companies, acceptance companies, factors lose their normal share of the legal loan business to organized crime loan sharks.

Licensed financial institutions and otherwise legally constituted lending and credit companies, many of them within the framework of Small Business, are squeezed out of their lawful rates of interest when individuals and small business, in need of financial assistance, go to the juice gangster.

Small business engaged in the sale of consumer goods and services are denied income juice victims must pay in the form of high rates of interest.

The Illinois Crime Commission continues its investigation of the juice racket, started in 1965.

In 1966 we solved two armed robberies and successfully prosecuted several defendants. They needed the money to pay off their juice debts. We also arrested and convicted top juice gangster operators Willie Messino, George Bravos and their cohorts Joseph Lombardi and Sam Mercuiro on charges of aggravated kidnapping, battery and conspiracy committed before the criminal usury law was enacted.

My Chief Investigator, Mr. Robert J. Walker will testify before you today concerning Messino, et al, the horrible anatomy of a juice gang.

We held our first juice racket public hearings from January 14 through 16, 1966. We exposed, for the first time in Illinois, the nature and scope of this venal organized criminal activity.

Twelve juice victims testified in detail as did two of our own undercover agents. Thirteen suspected juice gangsters were subpoenaed but took the Fifth Amendment to a total of 1,026 questions.

We questioned these hostile witnesses concerning 16 gangland murders, crimes of arson, armed robbery, assault and battery, intimidation, kidnapping, torture, B-girls, vice, gambling, hijacking, counterfeit stock schemes, narcotics, embezzlement, income tax evasion and fraud, and a host of other organized criminal activities.

We discovered that many of the juice gangsters were engaged in a wide range of legitimate businesses, including, but not limited to, restaurants, restaurant supplies and services, trucking, juke box, vending machines, furniture distribution, household appliances, and others.

Some of the gangsters operated sales acceptance and factoring companies as covers for their juice operations.

Another 12 gangsters refused to comply with our subpoenas, contesting their validity and the validity of the Commission itself. They were Fiore "Fifi" Buccieri, his brother Frank Buccieri, Joseph Grieco, Joseph "Gags" Gagliano, two former Chicago Police officers Richard Cardi and Albert Sarno, Dominick Carzoli, Patsy Ricciardi, Pete Ori, Tony Spilotro, Lenny Patrick and Arthur "Boodie" Cowan.

We filed petitions with the Cook County Circuit Court in Chicago. The mobsters were to appear before our Commission. The court orders were appealed unsuccessfully to the Illinois Supreme Court. The U.S. Supreme Court refused to grant certiorari. In the interim Arthur "Boodie" Cowan was murdered in gangland fashion.

Eight of the 11 respondents finally appeared before our next public hearings on February 44, 1968, more than two years later. They too invoked the Fifth Amendment a total of several hundred times.

Albert Sarno, Chris Cardi and Patsy Ricciardi were the subjects of a court petition to grant them immunity from self-incrimination. We expect to file written arguments on or before April 22, 1968.

Three of the original 11 respondents, Fiore "Fifi" Bucciere, Joseph "Gags" Gagliano and Joseph Grieco, appeared before us on March 23, 1968 at our next public hearings. They too pleaded self-incrimination.

A very courageous widow, Mrs. ———, testified that Joseph Grieco gave her husband a \$300 loan. He was a full time employee of a local Chicago newspaper. Doctor and hospital bills depleted all his earnings. He was compelled to go to juice gangster Grieco for a \$500 loan.

Mr. ——— experienced frequent trouble in meeting the weekly 10% juice interest payments. One night he was dropped at his wife's doorstep badly beaten and bloody.

In May 1964, Grieco and two of his henchmen tried to kidnap Mrs. ——— 5 year old kindergarten son, Michael. His father was again overdue on his payments. Mrs. ——— frantically begged \$30 from her grocery store boss when a telephone call said she may never see her son again.

Another time she was told they would get her enough male customers so she could earn \$100 a day and thereby meet her husband's payments. Unfortunately, there is a 3 years statute of limitation on kidnapping.

Mr. ——— had paid about \$1,000 in interest without ever reducing the principal before he finally took his life with a bullet to the chest.

At our March 23, 1968 hearings evidence was adduced from 5 uneducated negro employees of a glue factory, who made juice loans from a nearby clothing store owned by one Marvin Browning, an associate of Chicago area gangsters Charles and Sam English. They paid 20% interest a week and signed blank wage assignments.

The assignments were served upon the negroes' employer. Each week 15% of their salaries was withdrawn and paid to the clothing store. One of the employees had been the subject of wage assignments for the past 19 years, coinciding with the full length of his employment. The period of the other continuing juice loans ranged upward from 10 years.

We intend to prosecute Browning, his brother-in-law Guido Smania and the latter's brother Emil Smania, in state court, on charges of criminal usury, consumer fraud, and illegal operation of a tavern.

We established that before World War Two, the juice racket was relatively insignificant in Illinois. Previously only the so-called disreputable thugs would stoop to shylocking. It was considered to be undignified and penny-ante.

Our experience indicated that during the post World War Two period organized crime discovered the tremendous profits to be made from loan sharking. Organized crime now considered this activity as most respectable.

Today gangland leaders finance juice operators, loaning them \$50,000 and upwards at an interest rate of 1 to 5%. They usually want their principal returned plus this rate of interest within a few weeks. The financiers work on volume and fast turnover.

These loans usually supplement the large bankrolls already in the possession of the juice operators.

We investigated one juice gang, composed of just 5 men, that in one year, with an initial investment of about \$200,000, managed to grant loans in excess of \$350,000 to a total of about 150 persons.

At the end of the year the gang earned almost that amount in weekly interest payments and return of principal. And it still had about \$200,000 due it in unreturned principals.

The structure of this one juice faction and its modus operandi are typical of the many others in the greater Chicago area.

Gangs have three sections, one distributes loans, another collects the weekly juice payments and the last are the musclemen and enforcers who threaten, intimidate, maim and ultimately murder those marked as total dead beats.

The customers are from every walk of life, legitimate and otherwise. One common denominator is the urgent need for money with false hopes of speedy repayment.

Compulsive gamblers accumulated too many losses from their bookmakers. The latter sold the debts to juice men much as a business man would sell promissory notes or discount their accounts receivables.

The stick-up man, the burglar, the hijacker, for example, need money for legal and bail bond fees. Or in between "scores" he needs money to tide him over. Again he goes to the juice man.

Or the bookmaker holds out on his collections and fears certain retribution for his sins. He knows where he can find a juice man and runs to him.

Underworld sources represent a secondary fountain of revenue. Those without criminal records, the average man of middle or low income and the small businessman, account for the bulk of the juice man's fortune. Following are a few factual case histories.

The uninsured motorist was involved in a traffic accident and had to furnish a financial responsibility bond.

The unskilled worker was behind on his automobile installment loan and had to avert repossession.

The unemployed stevedore suffered family sickness with large unpaid hospital and doctor bills.

The automobile salesman lived much beyond his means. He owed more money to credit and finance companies than his salary could sustain. Somehow, some way they all expected some miracle to solve their financial dilemmas.

The salesman or even a management officer found it expensive to maintain a wife and family, and a mistress. He hoped to hide his financial woes from his wife. He too was ripe for the juice man.

The small business man wanted to take a flyer on the expansion of his plant. Another needed earnest money to bind a deal. Another was compelled to pay advance commissions of \$150,000 to a mob mortgage finder who never did deliver on his part of the contract.

The juice racketeers do not advertise for business. Bartenders overhear the groans and laments of the worker across the street from a large factory or office building. The bartenders refer the prospective customers to the man at the other end of the bar who knows a man who knows a man. Many times it is the first man who is the direct representative of the juice gangster.

We determined another recruitment method. One fellow building contractor discussed his money problems with a colleague in the same industry. The latter referred him to a savings and loan institution. The loan officer broke the sad news that the applicant lacked adequate collateral or his financial statement was too scrawny.

However, the loan officer said, "I know an individual who may loan you the \$20,000". Five figure loans are called "classic" loans in the jargon of the juice gangsters.

There are two methods of granting a loan and repayment of it. The borrower pays 10% weekly interest. The principal can be paid back whenever convenient. Or loans must be amortized, at the rate of 10 to 20% a week interest, within a previously stipulated period, usually only several months. If, however, the principal is paid off before the expiration of the period, the juice customer is still obliged to pay the interest which would have accrued for that period.

As yet there is no threat, there is no violence. Should a borrower not be in a position to repay the principal, but only the weekly juice, this is entirely satisfactory and preferable.

We know of innumerable instances where an aggregate \$1,000 in interest was paid over a long period on a loan of \$100. And the \$100 principal was still outstanding.

When the day arrives the juice customer can not pay, his peace is rudely interrupted. The collector reminds him that the boss has a hot temper, wants the money on time, or else.

One man ran around frantically to his close friends and relatives. He succeeded in meeting the next payment and pay the arrearage. The next week he could not come up with the juice. He didn't answer his phone at home. Calls to his office or plant were avoided.

He was soon cornered on the street. Another time he received a visit at home from two plug uglies he never saw before. Fist blows fractured his jaw, and broke his ribs. Another delinquent received a few taps on his shin bone with a junior league baseball bat. His wife and children were terrorized. Baseball bats and short pieces of iron pipe have become tools of the trade for the juice enforcers.

As additional punishment delinquent accounts are given arbitrary, flat assessments. Or the interest rate is raised to 15% a week. Or the principal is doubled with the interest payments also doubled.

The human collateral also comes in for the muscle treatment. He is the man who introduced the juice customer. As such, he is the collateral for an invisible paper promissory note. By organized crime's ethical criteria and policy, he is held equally and fully responsible.

The co-signer adds to the pressure already exerted on the juice customer. If his entreaties don't culminate successfully, he, the co-signer must make good for the debt or suffer the same beating. So he either begs the borrower to pay or himself assaults the borrower.

When neither the borrower nor the co-signer find it possible to pay up, the co-signer sometimes winds up as the compulsory finger-man. The juice victim is taken for a ride, riddled with bullets, and thrown in the trunk of his own car. The juice gangsters arrange for the car to be parked so that the police find it.

Discovery of the murder is a warning to other delinquent juice customers. They get the message with stark emphasis. The news headlines don't cost these gangster animals a dime of advertising space.

Occasionally the juice customer borrows money from mobster A to pay mobster B. The customer has broken the unwritten code. A juice mob will never cut in on another's territory. The juice customer gets knocked around just enough to teach him a lesson when he purposely causes one juice faction to unwittingly violate this unwritten edict.

In Illinois, as elsewhere, ordinary usury laws are too broad to permit successful criminal prosecution. Consequently, we adopted a new law in 1965. It prohibits an

annual rate of interest in excess of 20% annually. It generally forbids anyone to engage in commercial lending without being duly licensed by the State. Violation of this law is liable to a penitentiary term of maximum 5 years.

In 1967 we attempted unsuccessfully to amend the law to include provisions making possession of loan sharking records illegal per se, and to compel licensing and control of acceptance and factoring companies. We also failed to have the criminal usury law also cover indebtedness. For example, our State law does not yet consider a gambling debt as being a loan. Consequently, a gambling debt converted into a juice debt, is not legally a violation of our criminal usury statute.

We were also unable to secure passage of still another amendment making it unlawful for even a licensed lending institution to charge more than 20% annual interest rate.

We also proposed that some business loans, now exempt from licensing, be compelled to charge no more than 20% annually.

RECOMMENDATIONS

I would recommend the following for your consideration:

(1) Draft a model, uniform criminal usury law for distribution to the Governor, legislative bodies, and Attorneys General of every State.

(2) Include in the model law the substance of the existing Illinois criminal usury law, a copy of which I will give you. A copy of the New York State Law would also be very helpful.

(3) Include the amendments we attempted to pass in the 1967 General Assembly. I also brought them with me.

(4) Study the advisability of provisions making violators, upon conviction, liable for treble damages based on amounts of money paid in excess of 20% annually.

(5) Passage of a federal law to provide financial assistance to state authorities, upon approval and certification by the United States Attorney for the appropriate federal, judicial district, in relation to state prosecutions for violation of criminal usury laws. Such financial assistance should be limited to subsistence, housing and transportation for complainants and their dependents, whenever such assistance is essential for a successful court prosecution and state authorities lack sufficient financing.

(6) Passage of a federal law making criminal usury a felony when a person or persons have travelled across state borders in furtherance of this activity. Perhaps an amendment could be made to the Interstate Travel in Aid of Racketeering statute.

I would add parenthetically that this would not be in lieu of responsibilities of state governments to enforce their own criminal usury laws, but rather supplemental thereto.

(7) Amend the Small Business Act to provide that recipients of Small Business Administration loans engaged in any phase of money lending activities, can not charge more than 20% interest annually, under penalty of imprisonment. Loan applications could include this requirement.

(8) Another amendment could be that any person, group or company convicted of criminal usury in state or federal court be ineligible to apply for or receive a loan from the Small Business Administration for the next 10 years.

(9) Local offices of the Small Business Administration should be encouraged to screen questionable loan applicants with federal and state law enforcement agencies.

(10) Section 8 of the Small Business Act provides for the dissemination of information concerning the managing, financing, and operation of small business enterprises. Perhaps it can be amended to include dissemination of information concerning criminal usury activities to encourage small business to apply for loans from the Small Business Administration rather than go to the juice racketeers.

(11) Section 7 of the Small Business Act provides for research grants. You may wish to amend this section to authorize such grants for studies of existing state usury laws.

In conclusion, juice or criminal usury racketeers seriously encroach upon small business men engaged in the legitimate field of money lending. Loan sharks deprive legitimate business of millions of dollars of income. Loan sharking is on the incline, with the accompanying threat of robbing more millions from more small business men.

The urgency to suppress the juice loan racket conforms with the policy of Congress, as expressed in Section 1 of the Small Business Act which states in part:

"* * * the preservation and expansion of competition within free enterprise is basic not only to the economic well-being but to the security of this nation * * *." Thank you.

The CHAIRMAN. Before you leave—we are going to have Mr. Buccieri come before the committee this morning. Can you summarize very briefly what is his record as it relates to loan sharking, rather than have us put it in the record.

Mr. SIRAGUSA. Our investigation indicates that Fiore "Fifi" Buccieri, and his brother Frank, form a separate juice racketeering faction. He is now considered—Fiore is the more important of the two—he is now considered to be probably the No. 1 juice racketeer in the Chicago area. He has also been involved in legitimate business.

"Fifi" Buccieri at one time had a factoring corporation. The corporation is used, we are convinced, to cloak his activities, because under existing Illinois law, under existing criminal usury law, business loans are permitted. Therefore you could get a loan from him in his capacity as an executive of the various factoring corporations, and still remain beyond the law.

"Fifi" Buccieri also has a rather important outfit working under his direction. He, at one time, ran the Vic Damone Pizza Co.—this is Vic Damone, the singer. This pizza company, the factoring company, were all located in one building in Chicago. Some time ago, when the first revelation was discovered by the Chicago Police Department concerning the Vic Damone Pizza Co., Mr. Vic Damone was questioned by the press obviously, and he said that he had met a fellow named Joseph Grieco, and through him he happened to meet "Fifi" Buccieri, but really did not know who Mr. Buccieri was. He did admit—Mr. Damone—to loaning his name to this company—mostly as an endorsement. He did not know the reputation of these business associates, he claimed.

Yet about a year ago there was a big party given at the Edgewater Beach Hotel in Chicago, which has a reputation of having been one of the most elegant hotels in Chicago. And this party was given by a Santa Fe saddle and gun club. This is a club which exists on a farm and on land which is owned by Buccieri and his associates. They gave a party at the Edgewater Beach Hotel. Just about every mobster in Chicago was there. And they even had what I thought to be a colossal gall in selling lottery tickets which were distributed before this ball to win a big prize. On top of that, Vic Damone was the star attraction of the evening—he sang. And he stated publicly that he was playing in New York City, a nightclub date. Before he signed that contract, he had asked his employer, or rather told his employer, that he would have to be excused on a certain date in order to go sing at the Edgewater Beach Hotel in Chicago for his very dear friend, "Fifi" Buccieri—which to me was rather a strange statement to make, since he had previously said less than a year before that that he hardly knew Mr. Buccieri.

The CHAIRMAN. Thank you very much. Your testimony has been most helpful, Mr. Siragusa.

At this time I would like to ask the witness, Mr. Buccieri, if he would take a seat in the witness stand.

Mr. Buccieri, I understand from our counsel that you do not propose to testify before this committee. That being the case, I am

going to have to swear you in. Do you solemnly swear the testimony you shall give before this Senate committee is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BUCCIERI. Yes, sir.

**TESTIMONY OF FIORE (FIFI) BUCCIERI, AN ALLEGED LEADER OF
LOAN SHARK ACTIVITIES, CHICAGO CRIME SYNDICATE; ACCOMPANIED BY DAVID POVICH, COUNSEL**

The CHAIRMAN. Would you state your name for the record, please?

Mr. POVICH. I am counsel for the witness, Mr. Chairman. My name is David Povich. I am a member of the bar of the District of Columbia.

The CHAIRMAN. Mr. Buccieri, state your name.

Mr. BUCCIERI. Fiore Buccieri.

The CHAIRMAN. Are you sometimes referred to as "Fifi"?

Mr. BUCCIERI. I respectfully decline to answer that question.

The CHAIRMAN. On what grounds?

Mr. BUCCIERI. On the grounds that the answer I may give would tend to incriminate me.

Mr. POVICH. Excuse me, Mr. Chairman, the witness has great difficulty talking. I would like to ask, where he wishes to invoke his constitutional privilege against self-incrimination, that he be permitted to do so by stating merely "the same answer," or something similar to that.

The CHAIRMAN. That will be satisfactory.

Mr. POVICH. Thank you.

The CHAIRMAN. Is your address 3004 South Maple Street, in Berwyn, Ill.?

Mr. BUCCIERI. Yes, sir.

The CHAIRMAN. Did you organize and operate the Frontier Finance Co.?

Mr. BUCCIERI. The same answer.

Mr. POVICH. In that instance, Mr. Chairman, the witness wishes to invoke his constitutional privilege against self-incrimination.

The CHAIRMAN. Was the Frontier Finance Co. involved in lending money on a weekly and monthly basis?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Have you ever been arrested?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Were you arrested June 26, 1928, in Newark, N.J., for breaking and entering, larceny, and receiving stolen property?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Was your brother, Frank Buccieri, the vice president of the Frontier Finance Co.?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Did you receive wages of \$30,000 in 1964 from the P. & B. Finance Co. as reported in your 1964 income tax return?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Is your business—has it been referred to and have you referred to it yourself as a loan shark business?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Would you care to advise the committee as to what methods you use to collect from your customers who become delinquent in their accounts?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Do you expect, Mr. Buccieri, or would you be willing to—not insofar as you are concerned, but tell us how this particular business works, the loan shark business, how you get your customers?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Can I gather from your statements that you do not expect to tell us anything at this committee hearing?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. What crime is it that you envision that you would be prosecuted for if you answered?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Section 193 of title II of the United States Code provides that a witness may not refuse to answer a congressional committee on the ground that his answer would tend to "disgrace" him or "render him infamous." I want to make it abundantly clear your objection is not based on those grounds; is that correct?

Mr. POVICH. That is correct, Mr. Chairman.

The CHAIRMAN. You are in fact claiming that any answer you might give would lead to possible conviction of a crime; is that correct?

Mr. POVICH. The witness is relying on his fifth amendment rights against self-incrimination.

The CHAIRMAN. Do you care to state for what crime you believe your answers might tend to incriminate you?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Is it violation of the usury laws of Illinois or New York?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. Do you know what the usury law is in Illinois?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. I want to make this point. The testimony we have heard this morning has impugned your reputation as a citizen, it has alleged you engaged in the loan shark racket. Now, you have the opportunity to answer those charges and to clear them up if you care to do so. You have, of course, remained silent and pled your rights under the fifth amendment. However, the committee can only conclude that you choose to acquiesce in the statements that have been made about you and your activities, and that therefore those statements that have been made about you must be substantially correct. Would you agree with that statement?

Mr. BUCCIERI. Same answer.

The CHAIRMAN. All right. I do not see any purpose in going on further with this. You are excused.

Mr. POVICH. Thank you.

The CHAIRMAN. Our next witness is Mr. Robert J. Walker, chief investigator of the Illinois Crime Investigation Commission.

Mr. Walker, we are very happy to have you. You may proceed as you like.

We do have a time problem. The safe streets and crime bill is on the floor of the Senate today. Of course, it is of great concern to you, and it is of great concern to the Senators. We will be voting thus. I need to be there as quickly as I can. If you will make your testimony brief and to the point, that will be appreciated.

STATEMENT OF ROBERT J. WALKER, CHIEF INVESTIGATOR, ILLINOIS CRIME INVESTIGATING COMMISSION, CHICAGO, ILL.

Mr. WALKER. Mr. Chairman and Mr. Senators, my name is Robert J. Walker. I am the chief investigator of the Illinois Crime Investigating Commission. I have been employed by our commission since May 26, 1964. Before that I was with the Chicago Police Department for 8 years.

Mr. Siragusa has given you details of criminal usury or "juice" racket operations in the Chicago area. I will attempt to furnish you a summary of our investigation of one specific juice mob faction.

The case started on July 29, 1965, when juice victims George Chiagouris and his two brothers, Jack and Al, came to our office. The case ended on August 17, 1965, when we arrested gangsters George Bravos, aged 57, residing at 715 North Pulaski Road, Chicago; Sam Mercurio, aged 47, residing at 3257 North Notthingham, Chicago; and Joseph Lombardi, aged 32, 221 South 30th Garden Apartments, Bellwood, Ill.

The principal defendant, Willie Messino alias Wee Willie alias Willie the Beast, aged 51, of 2037 77th Avenue, Elmwood Park, Ill., escaped, but he surrendered a few days later.

Messino, Bravos, and Lombardi were convicted in Cook County circuit court, Chicago, on charges of aggravated kidnaping, aggravated battery, and conspiracy. Mercurio was convicted on conspiracy charges. The trial started on December 19, 1966, and ended January 21, 1967. The jury was out 8½ hours.

Defendant Messino received a sentence of 10 to 30 years; Bravos received 5 to 20 years; Lombardi 7 to 20 years, on April 25, 1967. Mercurio was sentenced on June 8, 1967, and received 5 years, probation, the first 30 days to be served in the county jail. All the convictions were appealed.

I will explain briefly why these defendants were not prosecuted on the fundamental usury violation. The witness-victims borrowed a total of \$165,000 during the period from June 23, 1964, until July 1965. They paid \$163,000 mostly in interest and still owed \$124,000. Since the events antedated the passage of Illinois' criminal usury law in 1965 we prosecuted the defendants for kidnaping, battery, and conspiracy. In effect, justice was done because penalties for these crimes exceeded the 20-year maximum prison term provided for in the criminal usury statute.

Nevertheless, the news media in Chicago characterized this as the first successful "juice" case prosecution in Illinois.

Juice victims George, Jack, and Al Chiagouris were successful small businessmen. They owned a thriving construction company engaged in modest-priced private dwelling housing developments.

They had an opportunity to purchase a Chicago loop hotel at a significant bargain price.

The outstanding loan with licensed banking institutions did not permit an additional loan from them. The lure of a bargain led them through a long path of violence and severe mental anguish.

They discussed their financial dilemma with Sandor Caravello, a colleague in the construction business. The Chiagouris brothers were

told they could obtain the necessary \$50,000 earnest money but the interest rate would be higher than usual. The Chiagouris brothers hesitated, but only briefly.

The brothers were subsequently introduced to Sam Mercurio, a director of the Service Savings & Loan Association, at 7666 West 63d Street, Summit, a Chicago suburb. Mercurio advised them his association could not extend the loan but he knew friends who could.

On June 23, 1964, the brothers arrived at Caravello's carpeted, wood-paneled office. Seated behind the desk was Willie Messino. Also present was George Bravos. "We need \$50,000", Albert Chiagouris said.

Messino explained that the interest would be 40 percent, a total of \$70,000 to be paid back in 47 weeks. The payments would be \$1,500 a week for 46 weeks and \$1,000 on the 47th week.

Two days later the brothers returned. Messino counted out \$50,000 in cash. At Messino's directions Jack Chiagouris typed out 10 judgment notes, nine for \$7,500 each, and one for \$2,500, a total of \$70,000.

All three Chiagouris brothers signed the notes, Messino retained the originals and the brothers kept the carbon copies. Bravos added that the final security on the loan would be the brothers' eyeballs.

At that point Messino introduced Joseph Lombardi as the weekly collector of \$1,500. They were instructed to put the cash in an envelope mark the number 24 on the envelope and leave it for Lombardi at Caravello's office.

After Messino and Lombardi left, Caravello implored the Chiagouris brothers for a \$15,000 loan from the \$50,000 they had just received. He was to repay it in a week, but he never did.

The brothers made three weekly juice payments of \$1,500 each, but their financial plans were snagged. They had expected to liquidate some of their holdings to obtain an additional \$100,000 necessary to seal the option on the hotel purchase, and to realize enough cash to cancel their \$50,000 loan from Messino and Bravos. However, the liquidation did not materialize.

The Chiagouris brothers returned to Messino and Bravos and succeeded in obtaining a second loan, this time it was \$100,000 in cash currency. The terms were repayment of \$10,000 at the end of the 35 days, another \$10,000 35 days later, and \$110,000 on the 105th day. The loan of \$100,000 was secured with a \$130,000 promissory note.

When Messino and Bravos departed the brothers were opportunized by Caravello for another \$25,000. They never saw that money again or the original \$15,000 they had loaned to Caravello.

The Chiagouris brothers continued making their \$1,500 weekly payments but could not meet their \$10,000 payment on the \$100,000 loan. A parking lot rendezvous was arranged to explain their predicament. Jack Chiagouris was behind the wheel of his auto. The window was open on his side. Without warning Messino shot his fist at Jack's jaw.

Messino threatened that unless the large payment was made soon, he would impose a tax of \$1,000 a day for every day the brothers were late.

Two days later the Chiagouris brothers made their weekly \$1,500 payment on the first loan, and paid \$10,000 on the second loan. They

also paid the tax of \$2,000 for the 2 days they were late; a total of \$13,500.

Keeping up with the payments on the two loans from Messino and Bravos became so burdensome the Chiagouris brothers asked Mercurio for help in getting Caravello to repay them all or part of the \$40,000 due them. Instead Mercurio repeated the confidence to Messino and Bravos.

The time arrived for the \$110,000 payment. In the Flying Carpet Motel cocktail lounge at 6465 North Mannheim Road, the gangsters threatened to put a bullet in the head of each of the three brothers.

Bravos stipulated new terms. Thereafter they would pay \$10,000 every month until such time as they could make a one lump payment of \$100,000. Bravos said this would continue if the victims had to make monthly payments the rest of their lives.

Also present in the cocktail lounge was Caravello. He was punched about the face, kicked in the shins and threatened with murder for "breaking the rules"; Caravello had, after all, taken \$40,000 of their money from the Chiagourises. His life was spared.

Thereafter the brothers paid \$10,000 a month on the so-called refinancing of the second loan. They were also still paying the \$1,500 weekly on the first loan.

In March 1965, however, they could only pay \$8,000 of their \$10,000 obligation. Messino and Bravos threatened to choke them until their tongues hung out. The terrified men were also given another arbitrary tax of \$2,000 on top of the \$2,000 balance for that month.

The brothers made their regular monthly and weekly payments on the two loans, plus the above assessment, until May 1965. Lombardi collected the payments from them at the Bonfire Restaurant, 7900 West Grand Avenue, Elmwood Park, Ill.

Once again the brothers could not come up with the money. As instructed, George and Jack Chiagouris reported to the picnic area of the Bonfire Restaurant. Albert Chiagouris was afraid to keep the appointment.

Messino and Bravos were furious. Messino punched Jack, fracturing his jaw. He also walloped George in the face, kicked him in the ribs, and kned him in the groin. They were both worked over thoroughly until they agreed to locate Albert.

Bravos said he would hold them as personal security until Albert showed up. At the court trial 2 years later George Chiagouris testified:

In the meantime Mercurio had arrived. A tooth was out of my mouth, my lip was all swollen, the side of my face was swollen, there was still some bleeding, I couldn't stand erect, I couldn't breathe too readily * * * the whole left side of Jack's face was swollen, he was holding his hand to his face * * * he couldn't stand straight.

Messino and Lombardi had inflicted all the punishment.

The brothers had a trust account at the Chicago City Bank valued at \$140,000. They promised to make an assignment on the trust, to Mercurio, with Messino and Bravos having the real but undisclosed interest.

George and Jack telephoned their homes, leaving word for Albert to be at the bank the first thing next morning. George and Jack were forcibly taken to the home of Messino's mistress where they were held overnight, literally kidnaped and held for ransom.

The morning of May 8, 1965, George and Jack Chiagouris were taken to the Chicago City Bank & Trust Co., 63d and Halsted, Chicago, where Albert awaited them. There were 22 buildings and some vacant land in their trust. The Reliance Federal Savings & Loan, 2000 West Cermak, Chicago, had mortgages on the houses. The Chicago City Bank & Trust Co., held the first assignments of the beneficial interest in the trust. The Chiagouris brothers' attorney held the second assignment for past, unpaid services. A third assignment was then signed over to Mercurio by each of the brothers.

The juice victims were now released from custody. A few days later new promissory notes were executed, totaling \$124,000. The new schedule of payment was \$1,500 a week for the original loan of \$50,000 on which they had already paid back \$70,000. Monthly payments on the \$124,000 would be temporarily suspended but they would resume until the entire sum was paid back in installments, or in toto.

The time arrived when the Chiagouris brothers had difficulty in meeting their legitimate mortgage obligations to the Reliance Federal Savings & Loan. In order to protect their third beneficial interest in the Chicago City Bank & Trust, Messino gave the Chiagouris brothers a \$15,000 cash loan, payable in 90 days, interest of \$900 a month, with a promissory note of \$17,400 as security. Messino's greed again blinded his business acumen.

By July 28, 1965, the brothers were at the end of their rope. They were without any money, and were several weeks behind on their payments. They stayed away from their office and their homes, fearing that any moment either Messino or Lombardi or Bravos would find them and do the worst.

This is when they came to our office and poured out the preceding narrative. They furnished us some documentary evidence and other undeveloped leads which we subsequently verified. However, it was Director Siragusa's wish that we obtain additional, direct evidence to strengthen our case further. Consequently we planned and put into operation an appropriate undercover scheme.

We discussed the investigation with Cook County State's Attorney Daniel P. Ward, who is now a justice of the Illinois Supreme Court, and enlisted his financial assistance. We made a list of the serial numbers of \$1,500. On July 30, 1965, I accompanied George Chiagouris in his automobile to the Red Steer Restaurant at 8800 West Grand Avenue, River Grove, Ill., where he had to keep his regular appointment with collector Lombardi.

In a few minutes Lombardi arrived in his car, parked and walked over to us. In my view George gave the \$1,500 to Lombardi, stating I was his brother-in-law. Other agents of our office watched from vantage points in the parking lot, and took photographs of the event.

On August 2, 1965, a second meeting was held between George and Jack Chiagouris and Lombardi, at the Red Steer Restaurant. Surveillance agents also took photographs of this incident. At that time George and Jack made another payment of \$800.

The Chiagouris brothers tried to delay another meeting with collector Lombardi. Jack and Albert went into hiding. George got himself admitted to a hospital, for a rest. Lombardi left violent telephone messages at Jack's home.

Consequently, George telephoned Lombardi from the hospital to plead for time. Lombardi threatened to "come choke him a little." Therefore, George agreed to bring his brother Al the following day to the La Salle Hotel.

I walked in with George and Jack Chiagouris. Shortly thereafter Lombardi entered with Messino. Messino motioned for the brothers to follow him into the bar. I protested, saying I wanted to be present. Messino told me Lombardi would sit with me in the lobby.

George Bravos now walked by me and went toward the bar. I made conversation with Lombardi in an effort to obtain more corroboration of past events concerning these juice transactions. I told Lombardi that as George's brother-in-law I had given him the money for the last two payments.

I volunteered that I was concerned for George's safety because of the beating he suffered a few months before, like the broken jaw Jack received from him and Messino. Lombardi said it could have been worse than a broken jaw.

I asked Lombardi why it had been necessary to get rough with the Chiagouris brothers. Lombardi replied they had certain methods of collecting debts from delinquent customers. He also admitted "having given Jack and George a couple of slaps."

I asked Lombardi if there wasn't some way to settle all the debts. Lombardi replied that only Messino and Bravos had the power to do that.

Inside the bar Messino heaped foul language and threats of violence on George and Jack Chiagouris because they had continued to duck their payments. George made another payment to Messino giving him \$1,500. Bravos, who was seated at the bar, then walked over to the table, to join the conversation. Bravos cautioned the brothers to stop the nonsense hereafter and make their payments on schedule, or else.

Another meeting was arranged for noon August 9 at Stefano's Restaurant, Damen and Chicago Avenues. I accompanied Jack and George. Messino was there. He said he had another appointment and would see us later that afternoon at Mooreale's Furniture Store at 3742 West Chicago Avenue.

We kept the appointment at the furniture store. Messino did not want to talk to me. Instead he took Jack and George into the private office there. They told Messino they had an opportunity to cancel out their debt to him but would like a rebate. Messino magnanimously said he would accept \$75,000 to wipe out the outstanding debt of \$124,000.

As I left the store with Jack and George, Messino waved goodbye to me.

We later decided to close out the case because we were not in a position to make any more payments to the juice gang. Coordinated arrests were made on August 17, 1965. Lombardi was arrested at the Sahara Motel, 3800 North Mannheim Road, Schiller Park, Ill.

This establishment was formerly owned by Manny Skar, a Chicago hoodlum who was murdered in gangland fashion on September 11, 1965. It was later determined the motel had received a million-dollar loan from Marshall Savings & Loan Association, Odgen and Harlem, Riverside, Ill. That association was placed in receivership by the State of Illinois.

Bravos was arrested at his A-1 Industrial Uniform Co. located at 1217 North Oakley Boulevard, Chicago.

Caravello was found at his Bee-Gee Builders, 5420 North Harlem Avenue, Chicago. He was formerly associated with the Northlake Community Hospital, Northlake, Ill., when it was named the Dr. Bruni Memorial Hospital. Dr. Bruni was later convicted in Federal court on counterfeiting charges.

Messino was seen on the street coming out of the Chicago Linoleum & Tile Co., 3816 West Chicago Avenue, in which Messino was suspected of having secret financial interests. He became suspicious of the surveillance agents and escaped, running down alleys and vaulting backyard fences. Because of the many motorists and pedestrians in the vicinity I fired only one warning shot, straight up into the air, but to no avail.

Mercurio was arrested at the Service Savings & Loan Association. He had \$1,500 in cash in his possession. This savings and loan was taken over by the State of Illinois on September 1, 1965, because it was unable to pay dividends to its shareholders. At one time he was also the president of the Michigan-Erie Insurance Co., 645 North Michigan Avenue, Chicago.

Messino surrendered to us on August 23, 1965, saying he did not want to take the chance of us shooting him on sight if we saw him on the streets. He said he heard we had been looking for him armed with shotguns. Messino was correct, because we considered him to be extremely dangerous.

Messino has the following criminal record:

March 29, 1935, sentenced to 1 year to life, Joliet Penitentiary for armed robbery.

November 25, 1940, paroled from Joliet Penitentiary.

April 11, 1946, investigation in Dallas, Tex.

April 20, 1953, investigation in Chicago.

March 11, 1958, conspiracy and extortion, found not guilty in Chicago.

December 31, 1963, aggravated kidnaping in connection with another juice case in Chicago. He was found not guilty.

Bravos was first arrested on March 9, 1944, for investigation in Chicago and on August 8, 1959, for disorderly conduct in Arlington Heights, Ill. He is the intimate associate of gangster Dave Yaras of Chicago and Miami Beach.

Joseph Lombardi was arrested on January 3, 1963, for burglary, but he was released. On December 9, 1963, he was again arrested for burglary, and released.

Sam Mercurio has no prior criminal record.

Our conspiracy case against Sandor Caravello was dismissed. He has the following criminal record:

On January 3, 1934, he was arrested for armed robbery, but was later acquitted.

On December 30, 1936, he was arrested on charges of election fraud, found guilty and sentenced to the penitentiary from 1 to 5 years.

He was paroled from the penitentiary on December 23, 1940, and discharged from parole on September 11, 1942.

In my 12 years of law-enforcement experience this was probably the roughest and toughest high echelon mob faction I encountered. A 24-hour guard is still maintained on all three of the Chiagouris brothers, and for good reason.

The court prosecution was handled by Assistant State's Attorneys Patrick A. Tuite, who is now chief of the criminal division, and George P. Lynch who since left the State's attorney's office to engage in a private law practice. These two young men did a masterful job unfolding an intricate web of diabolical criminal usury and in besting four middle-aged, highly competent, and experienced defense counsels.

I would also like to acknowledge the excellent cooperation we received from Mr. John Stamos, who succeeded Judge War as Cook County State's attorney, and his first assistant, Mr. Louis Garippo.

Thank you.

The CHAIRMAN. All right. Thank you very much. That is an interesting, if not an inspiring story, insofar as the inspiration comes from the fine work which the police department did.

Let me ask you this simple, naive question.

How come these fellows are supposed to be so tough—how come they beat up everybody? Are they big, husky guys?

Mr. WALKER. No. As a matter of fact, Messino is not a big guy. He is not too tall. However, their reputations, Senator, precede them. Nobody wants to take the chance of fighting back.

The CHAIRMAN. In other words, they are obviously bullies. For example, if they saw you, I doubt they would pop you on the nose. Do you think they would?

Mr. WALKER. I would hope for their sake they would not.

The CHAIRMAN. I would hope so, too.

All right. I congratulate you on the work that you have done.

Mr. WALKER. Thank you, sir.

The CHAIRMAN. I am proud of it. Thank you.

Now we have scheduled as our next witness Mary Smith, which is, of course, a fictitious name. She has asked, and I would ask too, that she not be photographed. She believes that it would endanger her family. And so if you do not mind, Mr. Cameraman, let us treat her as she wants to be treated.

Do you want Mr. Walker or somebody to sit with you, Mrs. Smith?

STATEMENT OF MARY SMITH (VICTIM OF CHICAGO LOAN SHARK OPERATIONS)

Mrs. SMITH. No, sir, I do not think that will be necessary.

The CHAIRMAN. All right.

Now, they would like to take a picture from the back of you. Would that be all right? I do not feel that would in any way compromise you.

Mrs. SMITH. No, sir; it would not.

The CHAIRMAN. Mrs. Smith, do you have something that you would like to say before we ask you questions, or would you prefer that we ask questions?

Mrs. SMITH. There is a lot I have to say, Senator.

The CHAIRMAN. Why don't you tell us, then. It might be best if you would tell us about how your husband got involved, as you know it.

Mrs. SMITH. Senator, that is rather long and drawn out, and it is rather difficult to make it very brief, without bringing it to a full understanding.

You see, the loan shark business is something that people should not laugh off. And there is a great many people in this world that are laughing it off. These people are vicious, they are not even animals, because animals kill to survive. These people are lower than animals. They kill for the pleasure of it. They kill just to maim and be cruel and brutal. There is no sense to these people. And why? In God's name, I do not know why these people are not put out of business, because they have no right to live on this earth.

The CHAIRMAN. Why don't you tell us how, as far as you know, your husband got involved with them.

Mrs. SMITH. Well, Senator, it goes back to my late husband, now deceased, who was a very ill man over the years. Due to his illnesses, and the falling behind in our debts, my husband was unable to acquire a loan. Because of this, he had heard that he would be able to obtain a loan.

The CHAIRMAN. What business was your husband in?

Mrs. SMITH. My husband worked for the Chicago Sun Times newspaper.

The CHAIRMAN. He needed a loan. And he heard he could borrow from these people?

Mrs. SMITH. Yes, sir; he did.

Upon being able to borrow it, he was told he would have to give so much back. Well, Senator, if you never had your back against the wall this sounds pretty easy. And the first couple of payments were not bad. But later, as my husband went ill again, and returned to the hospital, it was not so easy. And I had yet not known of this. We began getting calls. At first they would not tell me who they were.

The CHAIRMAN. Let me interrupt you there. Do you recall how much money he borrowed from them?

Mrs. SMITH. Yes, Senator. It was between \$200 and \$300 that was borrowed.

The CHAIRMAN. \$200 and \$300. Did he ever borrow more than that, or were there several transactions in which he borrowed?

Mrs. SMITH. Senator, if he had borrowed more than that, my husband never told me. To my knowledge that was the amount that was borrowed.

The CHAIRMAN. All right. So after he borrowed it, he began to get the telephone calls. You go ahead from there.

Mrs. SMITH. Well, at first they would just ask for my husband. When I said he was not home, who is calling, I will have him call you back, they said "Never mind, just tell him you received a call and he is behind."

The CHAIRMAN. And what?

Mrs. SMITH. That is all there was to it.

The CHAIRMAN. That he received a call and what?

Mrs. SMITH. I was to tell him he was behind, and he would understand. Well, it was one call after another like this. Finally my husband had gone into the hospital, whereupon he told me that I would have to make a payment to this place—and I asked him why. He said: "Because if you don't things are going to be very involved. A lot of

harm will come to you and the children." Well, I took the payment over to what was called the Vic Damone Pizzaria, in Chicago, oh, I believe it is, Larabee Street—yes, I believe it is Larabee. I could be wrong. And I made the payment.

Well, I made about two payments there in person. Upon my second payment to these people, I was offered to become a prostitute to keep up with these payments.

The CHAIRMAN. Who suggested that you become a prostitute?

Mrs. SMITH. Joseph Grieco offered this to me. And I told him, I said, "No, so long as I have two hands, and I can work, I will scrub floors, but I will never do that for a living." Well, I had left, and I could not come up with the money on the next payment. I received a phone call at the place where I was employed, and they told me that if I wanted to see my son, I had better come up with a payment.

The CHAIRMAN. What did they say about your son?

Mrs. SMITH. They told me if I wanted to see my son again, I had better come up with a payment then or else. Well, I did not know what to say. My son was in kindergarten. It was 3:30. The boy wasn't home. School was only two blocks from home. Well, I waited; 4 o'clock, and the boy did not show up. In the meantime I had talked to my boss, I explained as little as I could without going into detail why I needed the money. I had borrowed from my boss the amount of \$40, which I immediately took over to the Pizzaria place, and I gave it to Grieco. When I got there, I asked where my boy was. He said, "Have you got the payment?" I said, "Yes, I have. Now, where is my boy?" He says, "Don't worry, your kid will be there when you get home." When I got home my son was there. I asked my son. And he didn't make it out that he was picked up, but he did say two men had stopped him and talked to him.

The CHAIRMAN. Two men what?

Mrs. SMITH. Two men had stopped him and talked to him.

There was another occasion when they had beaten my husband so severely it put my husband in a hospital. They broke his nose, he had a severe cut over the left eye which required 12 stitches. His mouth, his whole face was almost completely beyond recognition.

I do not know exactly how I can make it clear to everyone in this room present, what these people are, or the fear. But, Senator, if ever a woman had any hatred in her heart, I have. And I want to see these people put where they belong. I do not know what more I can say. Maybe there are some questions you would like to ask.

The CHAIRMAN. Well, I do not think you need to say any more, actually. You, of course, have been cooperating with the authorities.

When did you decide to go to talk with the authorities about this?

Mrs. SMITH. Well, the first time I discussed anything with the authorities was shortly after the one fellow, which was my late husband's coworker, was severely beaten and later died in the hospital, from the loan sharks. And my husband became quite alarmed, quite frightened, for all our sakes, and he decided to tell the police.

The CHAIRMAN. Was this fellow who was beaten also a victim of the loan sharks?

Mrs. SMITH. Yes, sir, he was.

The CHAIRMAN. All right. So then your husband talked it over with you, and you decided you would then go to see the police?

Mrs. SMITH. Yes, sir.

The CHAIRMAN. And what did the police have you do at that time?

Mrs. SMITH. Well, they asked a great deal of questions upon which I could give any answers I gave. And, of course, my husband told me not to worry, that he was doing this for our sakes, to protect us, and I went along with this.

The CHAIRMAN. Now, what finally happened to your husband?

Mrs. SMITH. My husband finally shot himself.

The CHAIRMAN. Is it your believe that his suicide was a result of the threat of these gangsters, these loan sharks, to him and his family?

Mrs. SMITH. Senator, I think everything led up to the final day of his death. I think being subject as the man was subject to epileptic convulsions due to the severe beatings, the threats, the fear, yes, sir. They all drove him to it.

The CHAIRMAN. All right. I think that is all we want to ask you. Do you have something you would like to add?

Mrs. SMITH. Only that I wish to God somebody would get going and put these people away.

The CHAIRMAN. Let me ask you one question.

How much was the loan, and how much did your husband and you finally pay? How much was the original loan, so far as you could ascertain?

Mrs. SMITH. The original amount that I knew of was between \$200 to \$300. We paid back over the year \$1,000.

The CHAIRMAN. All right.

Thank you very much, Mary Smith, for your testimony. I commend you on your bravery and your courage in going to the police.

Mrs. SMITH. Senator, I have one other thing. May I?

The CHAIRMAN. Surely.

Mrs. SMITH. I am not a very brave person. I am not going to sit here and say I am not scared or nervous, because I am. But someone once told me if they could get six of the worst hoodlums in any of the syndicate operations, and line them against the wall, and place me with a gun, these people wouldn't be so brave. I only wish that people would realize these people are only brave and strong so long as they can let them be forced upon people who have no way of defending themselves. If these people would once learn by coming forward, they can help stop it and put an end to it, I think maybe more people will come forward.

The CHAIRMAN. That is as good a note as I could end on.

All right, Mary Smith. Thank you very much for your very moving and telling testimony.

Now, would everybody just stay seated until Mary Smith has left the room, so we can help her and her family to conceal their identity, so that they will not have to live in fear.

The committee will stand in recess subject to call of the Chair.

(Whereupon, at 12:25 p.m., the committee was adjourned, to reconvene subject to the call of the Chair.)

APPENDIXES

APPENDIX I

STATEMENT OF HON. WAYNE MORSE, A U.S. SENATOR FROM THE STATE OF OREGON

These hearings by the Small Business Committee are welcome. Increases in all types of crime over the last decade are affecting businessmen as well as individuals to an extent that cannot be ignored. I would thus like to commend the Senator from Florida (Mr. Smathers) for his leadership in this field, which also includes hearings on the subject of crime and the small businessman in April 1967; his introduction of a bill to provide effective insurance for small companies in high crime areas; and his eloquent testimony in support of this legislation before the Senate Committee on Banking and Currency in August of last year. This activity is a reflection of the consistent interest which our Chairman has shown in this field since he was Assistant U.S. Attorney in his home state of Florida.

The first assignment which brought me to Washington some thirty years ago was the direction from the Attorney General of the U.S. to perform a comprehensive study of prison and criminal procedures. At that time, state standards and procedures in this area were highly diverse and uncoordinated, resulting in considerable confusion and injustice.

I believe that a parallel exists with today's state of the law and the state of governmental response to the problem of loan sharking and organized crime.

It is my understanding that loan shark interest rates ranging from 5% a week (250% a year) to 1,000% a year are not uncommon. With the borrowers under tremendous pressure, a significant number have turned to crime to try to pay off these usurious loans, while others have fallen under criminal influence requiring them to buy or rent equipment from the lenders, and others have been taken over completely, with the result that the entire income of these businesses is then channeled directly into underworld activities.

Investigations in New York, of which we are aware, have revealed that loan sharks have taken over businesses such as optical stores, nightclubs, brick companies, and even one bank, which failed because of improper loans to persons connected with organized crime.

Members of the Committee have seen that in the short space of five years, loan sharking has become a major criminal activity in nearly every state, and therefore an increasing danger to legitimate small businessmen in every part of the country.

However, there seems to be a gap in the response of federal, state and local governments across the country to these insidious activities. At the present time, there is no federal statute making loan sharking illegal, and there would appear to be no authority capable of coordinating diverse state activities and legislation in this field.

We have heard estimates that the income of organized crime in this country may exceed \$20 billion a year, or 2% of the entire Gross National Product. In contrast, the Department of Justice spends less than \$15 million to combat this evil and, as far as I know, there is no clear picture of what states and cities may be spending and whether they are all pulling in the same or opposite directions.

It is my hope that these hearings of our Committee can make a contribution to the protection of small businessmen from loan sharking and organized crime in the following ways:

1. Exploring whether a federal statute on loan sharking would be desirable;
2. Recommending ways in which state programs could be encouraged and coordinated with each other and with federal and city programs;
3. Strengthening the Small Business Administration as a source of loans for legitimate businesses with financial difficulties; and
4. Changing the balance of monetary and fiscal policies to relieve the "tight money" squeeze on the nation's small business community.

It seems to me elementary that the federal effort in the fields of loan sharking and associated crimes should be developed to the point where the federal government is at least as organized as the criminals.

APPENDIX II

STATEMENT OF VIRGIL W. PETERSON, EXECUTIVE DIRECTOR, CHICAGO CRIME COMMISSION

Of various phases of America's staggering crime problem, none is more insidious or significant, than organized crime. And organized crime is an integral part of the total crime picture. It has exerted its unholy influence in every phase of the crime problem, and on the economic and political life of various communities in our nation. Its toll in loss of life, in violence and threats of violence, in losses to our economy and its subversive effects on law enforcement and government has reached astronomical proportions.

In the various communities in this nation criminals, hoodlums and racketeers of every stripe have organized for the purpose of operating and controlling illicit enterprises or, at times, to take over and operate legitimate business ventures through the use of illicit means. Organized crime is simply a criminal conspiracy which attempts to perpetuate its existence and its operations through making arrangements for immunity by corrupting law enforcement officers or political leaders or by imposing fear.

Organized crime is totalitarian in character. Rigid discipline is maintained within the ranks through fear. Defectors or double-crossers are dealt with summarily—through beatings, torture, extortion or death. Since 1919 there have been over 1,000 gangland type killings in the Chicago area alone. During a thirty-nine month period prior to July 1967, forty-four gangland type murders occurred in Eastern Massachusetts.

Competition is eliminated and a monopoly maintained through threats, extortion and violence or frequently through collusion with corrupt law enforcement officials, political leaders, labor union officials and segments of the legitimate business community, and always there is present the element of fear.

Efforts are made to insulate the top echelon of organized crime from the actual day to day illicit operations which are carried on by underlings. This insulation or removal from day to day operations makes it difficult to develop concrete evidence against the top leaders of organized crime that will form the basis for criminal prosecution. And in the background, usually are lawyers and accountants who give constant advice designed to make it difficult to detect, and even more difficult to successfully prosecute the big-wigs of organized crime.

It is important to note that the rank and file of organized crime are not set apart from the general criminal population. For the most part the ranks of organized crime are filled with burglars, holdup men, extortionists and murderers. Revealing was the list of guests attending the wedding of Chicago gang leader Tony Accardo's daughter a few years ago. Geographically, there were hoodlum representatives from California, Michigan, Wisconsin, Indiana and Illinois. Present were a brother of Al Capone; a former state representative who was a leader in waging a fight against all anti-crime legislation in the state legislature for many years; and a physician who founded a hospital and was subsequently convicted of a three-million dollar counterfeiting plot. The guest list was virtually a Who's Who in Chicago's powerful organized underworld. And many of the invited guests had been convicted in the past of such offenses as burglary, bank robbery, armed robbery, bombings, gambling and other serious crimes.

During the past several months a substantial number of top flight crime syndicate hoodlums have been convicted in Federal Court in Chicago. The concentration of investigative activity by the FBI in particular and by the Internal Revenue Service agents, as well as other Federal investigative agencies, has been highly productive in the development of evidence against many of the crime syndicate leaders in the Chicago area. The men have been vigorously prosecuted by the United States Attorney.

Although many of the individuals convicted have been important cogs in the gambling, loan shark, vice, and narcotic rackets—the principal sources of revenue to organized crime—their activities embrace almost every type of criminal activity.

Among those convicted was Sam Battaglia, one of the most powerful underworld bosses in the Chicago area and the owner of a nightclub, tenement building and a several-hundred acre farm on which he raises thoroughbred race horses and Hampshire hogs. Battaglia and his chief aide, Joseph Amabile, received fifteen year prison sentences for extortion from a building contractor (conspiracy to commit extortion affecting interstate commerce). Also convicted on similar extortion charges were Rocco Pranno, west side syndicate boss, and two politicians, a former alderman and a former building commissioner of suburban Northlake,

Illinois. In another case the mayor of Northlake was also convicted. Marshall Caifano, long a crime syndicate big-wig, and three others were sentenced to prison for using forged and counterfeit stock certificates as collateral in a scheme involving interstate fraud. At the time of this conviction, Caifano was already under a ten-year Federal prison sentence for an extortion plot that had its inception in a Nevada gambling casino. James (Cowboy) Mirro, gambling boss of Chicago's west side and southwest suburbs, Frank Santucci, Ernest (Rocky) Infelice, and Americo DePietto, all powerful crime syndicate figures, as well as criminal defense lawyer Robert J. McDonnell, have received prison sentences for an interstate conspiracy to pass money orders stolen in a burglary of a supermarket. DiPietto was also one of several individuals involved in a huge narcotics ring and was serving a twenty-year Federal prison term at the time he was convicted in the money order conspiracy.

Rocky Infelice and seventeen other defendants, many of whom were important in the crime syndicate's gambling empire, were indicted in connection with interstate hijacking conspiracies in which silver bars, silver, silver alloy, rare bullion and photographic equipment worth several hundred thousand dollars were stolen. Sixteen of the eighteen defendants were convicted and received stiff prison sentences. Two other crime syndicate hoodlums involved in these hijacking conspiracies were Guy Mendola, Jr. and Angelo Boscario who were killed in gangland warfare before the trials. Milwaukee Phil Alderisio, one of Chicago's most vicious crime syndicate leaders, and his pals from Las Vegas gambling casinos, Ruby Kolod and Israel (Ice Pick Willie) Alderman, are under prison sentences for extortion from a disbarred Denver attorney. James (The Monk) Allegetti, near north side vice lord, and three associates, all important crime syndicate characters, were sentenced to prison in connection with a large interstate whiskey hijacking. The stolen liquor was delivered to several crime syndicate night clubs operated by these individuals. The criminal defense lawyer who represented this group was subsequently convicted of an income tax violation. Rocco Potenzo, powerful suburban crime syndicate boss, was convicted of filing false and fraudulent tax returns regarding the ownership of two night clubs. Gang leader Tony Accardo's pal Anthony Pinelli, was convicted of income tax evasion. Another Accardo associate, Dr. Giulio Bruni, physician and founder of a hospital in Northlake, is serving a Federal prison term after he was found guilty of involvement in a three million dollar counterfeiting plot.

Other individuals with crime syndicate affiliations have been convicted of business frauds including violations of the National Bankruptcy Act. Numerous others are awaiting trials in Federal indictments returned against them. And in the local courts the leaders of a vicious crime syndicate loan sharking ring, Willie Messino, George Bravos and Joseph Lombardi, were convicted and sentenced to long prison terms.

The evidence produced at the trials of those convicted in Chicago emphasizes that organized crime is not composed of individuals set apart from the general criminal population. Members of Chicago's crime syndicate who have waxed fat in the gambling and vice rackets are also strongarm men, hijackers, extortionists, armed robbers, kidnappers, forgers, counterfeiters, burglars, tax evaders, loan sharks and dealers in narcotics. And important to their underworld activities were lawyers and politicians and even a physician who were convicted with them for implication in their varied illicit activities.

Gambling is always a principal source of revenue to organized crime, and closely related to the gambling racket is the loan shark business. Invariably hanging around gambling establishments are crime syndicate money lenders who offer their services to over-enthusiastic patrons who become indebted to the gambling house proprietor. The distressed patron finds it necessary to borrow from the loan shark to pay his debt to the crime syndicate gambling establishment or to raise funds with which to continue gambling. Of course, the interest rate is exorbitant and if the loan and interest are not paid at the designated time the borrower faces physical violence, torture and sometimes death.

With vast profits accruing to the crime syndicate, primarily from gambling, almost unlimited funds are available for loans to those whose credit rating is shaky. Testimony at public hearings in New York revealed that 121 of high echelon members of five recognized criminal syndicates operating in that area were engaged in the loan shark racket. The connections between bookmaking and the narcotics racket with loan sharking were clearly documented. Steerers for the loan sharks included doormen, elevator operators, bartenders, hat check girls, cab drivers and cigar stand operators. They received a small fee for referring prospective borrowers to the loan sharks. It was established that stockbrokers who became

indebted to underworld money lenders lost control of brokerage houses and were forced into high pressure stock sales involving the sale of thousands of shares of worthless stock. Even a few banks, whose loan officers cooperated with loan sharks, were virtually ruined through losses totaling millions of dollars. In the Chicago area some builders became hard pressed financially. They borrowed \$150,000 from well known crime syndicate loan sharks. During the course of a year they had paid back \$165,000 but the juice racketeers insisted that they still owed \$124,000. Two of the borrowers were kidnapped and held for fifteen hours while they were kicked and beaten. They gained their release only when they agreed to sign an obligation reflecting that they still owed \$200,000. In desperation the borrowers finally went to the authorities. The loan sharks, long identified as members of Chicago's crime syndicate, were convicted and given long prison terms.

The impact of organized crime on business, particularly small business, and on the overall economy has been tremendous. In many instances organized crime elements have gained control over small businesses through the loan shark route. Businessmen who have made loans from crime syndicate loan sharks have found themselves in the clutches of organized crime. They are compelled to follow the dictates of syndicate hoodlums who take over the business, milk its assets or use it in furtherance of some fraudulent scheme.

Examples of the detrimental effects of organized crime on business are legion. In the Chicago area Manny Skar and Rocco DeStefano, long-time associates of Capone gang big-wigs, succeeded in borrowing \$5,840,576 from the Marshall Savings and Loan Association in Riverside, Illinois, to build two motels. There were strong indications that a substantial amount of the money advanced for motel construction was actually siphoned to crime syndicate figures for their benefit. When Manny Skar got in trouble with the Federal Government over his income tax returns, he threatened to divulge where the money actually went. He was killed in a typical gangland type slaying. The motel venture suffered huge losses. The Marshall Savings and Loan Association, not only lost heavily on the loans to the Skar and DeStefano combination, but the unfavorable publicity resulted in shaking confidence in this financial institution. The State of Illinois took over the savings and loan association and closed its doors.

On numerous occasions crime syndicate figures have gained control of businesses after which they have milked its assets for their benefit and before long the establishment goes out of business.

In a Berwyn, Illinois shopping center men with crime syndicate connections took over a discount business. They purchased huge quantities of merchandise on credit without intending to pay for it, sold the merchandise, pocketed the money and the establishment was thrown into bankruptcy. Creditors were swindled out of \$100,000. This type of "skimming" operation by the organized underworld has become commonplace.

In April 1965 Alan Robert Rosenberg, a front for important crime syndicate figures, walked into a travel agency in Chicago and offered to buy it for \$60,000. He paid down \$15,000 and was to pay the balance of \$45,000 later. While he operated the travel agency a number of important crime syndicate big-wigs including Milwaukee Phil Alderisio frequented the establishment and appeared to have an interest in the place. Within a period of a few weeks, the new operators of the travel agency obtained \$236,000 from the sale of the agency's accounts receivables to a commercial factoring or credit banking firm, \$100,000 in commissions from the sale of airline tickets and cashed bogus checks issued by the travel agency totaling about \$35,000. The losses amounted to almost \$400,000. Rosenberg who engineered this deal, as well as scores of others, reportedly had a falling out with his crime syndicate associates and in March 1967 was killed in a typical gangland slaying. Rosenberg and his associates had engaged in fraudulent business dealings in Oklahoma, Iowa, New York, Indiana and other places. Skimming operations by the organized underworld are far too commonplace.

Organized crime has also been involved in the manipulations of stocks in a number of major American cities. There have been reports that underworld figures have compromised certain stock brokers in Chicago, New York City, Los Angeles and Cleveland. Brokers thus controlled by the underworld were ordered to "push" the sale of marginal stocks in which the mobsters had acquired large holdings. Through artificial market activity generated in these stocks, the gangsters made huge profits. In one underworld scheme, allegedly masterminded by Milwaukee Phil Alderisio, two businessmen were reportedly swindled out of \$100,000. In this case through phony bidding the price of over-the-counter stocks not listed on major stock exchanges had been forced up. And the beneficiaries were the underworld figures who had acquired large holdings of the stocks.

Organized crime has also entered various phases of the insurance industry. A Chicago insurance broker who became associated with important underworld figures and wrote insurance for them and at their direction was ruined. Fraudulent insurance claims were made and when the crimes were detected an effort was made to execute the insurance broker by having a bomb attached to the ignition in his car.

The infiltration of organized crime into legitimate business is very wide spread. And almost every type of business has at one time or another felt the insidious effects of organized crime. It creates a problem that is extremely costly to our economy and presents a threat to the welfare of the public.

Certainly there should be full agreement with the observation made in the report of the President's Commission on Law Enforcement and Administration of Justice that "Law enforcement's way of fighting organized crime has been primitive compared to organized crime's way of operating. Law enforcement must use methods at least as efficient as organized crime's. The public and law enforcement must make a full-scale commitment to destroy the power of organized crime groups."

APPENDIX III

THE RESEARCH INSTITUTE OF AMERICA STAFF RECOMMENDATIONS RE THE LOAN SHARK RACKET, APRIL 15, 1968, PAGES 15-17

THE LOAN-SHARK RACKET

Loan-sharking—the lending of money at usurious rates—is a major underworld occupation, so lucrative that it ranks as the second largest source of revenue for organized crime. This multi-billion-dollar activity is financed largely from gambling proceeds and is a principal weapon by which organized crime batters down the doors of legitimate businesses. So lethal is this weapon that one can say, without qualification, that accepting loan-shark financing is equivalent to cutting your *throat* later, rather than cutting your *losses* now.

Few businessmen would disagree. But this is one trap *no one* ever expects to fall into. Yet there are two basic situations which lead to businessmen finding themselves face to face with loan-shark collectors. Most common are the variety of improvident actions which lead an employee to turn to a loan-shark as his "only way" to bail out of a financial dead-end. Sometimes the employee doesn't even know that he has fallen into this trap. He may think he's taken an emergency loan from a "friend of a friend." Or he may be unaware that his gambling debt has been turned over or discounted by the creditor bookie.

The infinitely more dangerous breach may involve the business itself. Not all trusted executives are immune to the sickness of compulsive gambling or of other indiscretions which can be financially costly. There have also been instances where the principal of a business who has exhausted the legitimate sources of credit faces an emergency and, confident of the ability to turn around given "a little time," reluctantly turns to a lender who is all too eager to provide the funds.

Any one of these "openings" may prove useful to the mob, by providing access to records or a warehouse, or even direct power over the corporation itself.

What makes matters worse, as far as the businessman is concerned, is that loan sharks take particular joy in finding corporate "accounts." As one crime study pointed out, "Loan sharks have constantly used corporate borrowers as a cover, or concealing device. Typical was the instance in which a loan shark took his vigorish (interest payments) in the form of a salary check from an automobile dealer whom he had loaned money. The hoodlum appeared on the corporate books as an outside salesman."

Company accounts are even more attractive in those states whose usury statutes do not apply to corporate borrowers. For example, at the time when New York's usury statutes did not so apply, loan sharks catering to company borrowers were brazenly setting up operations under such covers as First National Service Discount Corp.

Business owners and employees (white- and blue-collar) can be subjected to a variety of demands by loan sharks, who are determined to collect one way or another:

A Wall Street stock clerk is coerced into a plot to peddle stolen securities.

A trucker is forced to ship stolen property.

A \$20,000-a-year V.P. embezzles \$200,000 to pay off a loan shark from whom he borrowed in order to gamble.

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%-2¼% 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

purpose of opening a restaurant and lounge. The note they signed was for \$54,000, \$24,000 being added as "pre-computed interest" and, as it was explained to them, the interest was at the rate of \$3,000 a year. I have been attempting to salvage something for my clients and have delayed foreclosure proceedings for the moment in an attempt to sell the property.

When I asked for a pay-off figure on the \$30,000 loan, I was advised that the pay-off was \$31,500 based on the so-called 78 formula, in spite of having paid \$18,000 in three years. This figure was arrived at by the investment company granting a rebate of about \$4,500 against the unpaid interest for the balance of the eight year term of \$15,000.

I discussed this matter with the New Hampshire Banking Commissioner and his deputy, and was advised that it is all perfectly legal. If you wish any further details or documentation, I shall be glad to furnish the same.

I hope you are successful in legislation to limit this type of activity which causes more personal grief than anyone can realize. My clients are a classic case.

Sincerely,

JOHN J. WHOLEY,
Attorney at Law.

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