New York Times

—NEW YORK, FRIDAY, MAY 18, 1979—

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An F.B.I. Ruse May Cost U.S. Huge Lawsuits

By SELWYN RAAB

Operation Frontload looked to the Federal Bureau of Investigation like the perfect undercover plan for penetrating organized crime in the construction industry in New York and elsewhere.

The principal player was to be an informer who was an insurance expert, through whom Federal agents would try to gain access to construction companies with mob ties.

But there was little or no infiltration of organized crime by the informer, Norman Gregory Howard. Instead, Mr. Howard apparently deceived the F.B.I. while working for it, and he may have made off with hundreds of thousands of dollars in insurance fees.

The undercover investigation ended abruptly last fall with no indictments. Instead, it severely embarrassed the F.B.I. and resulted in lawsuits that may cost the Federal Government millions of dollars.

'It Was a Fiasco'

"It was a fiasco," said a Justice Department official who asked not to be identified.

Mr. Howard is now accused in civil suits of having taken almost $300,000 in fees from companies and of having issued worthless insurance "performance bonds." Insurance companies issue such bonds to guarantee that a construction project will be completed even if the contractor defaults.

Operation Frontload provides a rare look at techniques used by the F.B.I. to uncover organized white-collar crime, now a priority for the bureau. According to court records and persons familiar with the case, it has also led to these developments:

¶Damage suits in five states against an insurance company, the New Hampshire Insurance Group, charging that Mr. Howard's issuing of fake performance bonds to construction companies cost them and insurance brokers more than $60 million in business losses. More suits are being planned, and lawyers said the total of claims would probably top $100 million.

¶An acknowledgment by the Justice Department that the Government may be responsible for the financial losses because the F.B.I., as part of the undercover plan, persuaded the New Hampshire company to provide credentials for Mr. Howard to sell bonds. The company, a major insurer in the construction business, contends that F.B.I. agents misrepresented Mr. Howard when they asked the company to give him the credentials.

¶An assertion by a contractor in Union City, N.J., Rudolph Orlandini, that Federal agents harassed and threatened him after he began the first damage suit last September, a move that threatened to expose the unsuccessful undercover plan.

¶Complaints by contractors and insurance brokers in New York, New Jersey, Illinois and Florida that they paid Mr. Howard $295,929 in premiums for construction performance bonds last year that were never delivered. The money is missing.

Howard's View of the Matter

Mr. Howard denied in an interview that he was responsible for the missing funds, the issuance of the fictitious bonds or the collapse of Operation Frontload. He refused to say what had happened to the insurance premiums, and he suggested that F.B.I. agents had known he was writing the bonds.

"If I could talk it would be one of the most shocking stories ever told about the Government," Mr. Howard said in a telephone interview. "If I wanted to steal, would I take F.B.I. agents as partners? They were with me 90 percent of the time."

Mr. Howard, who is 53 years old, is scheduled to begin a one-year term in Federal prison next month on a fraud conviction in Illinois that is unrelated to Operation Frontload. So far, no criminal accusation has been brought against him or anyone else in connection with the unauthorized issuance of performance bonds.

Plan Began Early Last Year

Officials in the Federal Bureau of Investigation and the Justice Department said that because of the lawsuits they could not discuss Mr. Howard's role or any other aspect of Frontload. The New York Times obtained details of the plan from Federal court records, from state insurance department records in New York, New Jersey, Illinois, Indiana, Florida and Louisiana and from persons knowledgeable about the case.

Early in 1978, F.B.I. officials in Washington authorized Operation Frontload as a major drive against organized crime in the construction industry, especially in relation to Government-financed contracts. The project was proposed by agents acquainted with Mr. Howard who were working with a Justice Department antirackets task force in Chicago.

Agents said that Mr. Howard, who had nationwide contacts in the insurance business, was instrumental from 1975 to 1977 in obtaining evidence about insurance and banking frauds and that he had testified as a Government witness at several trials.

However, a confidential report by the Illinois Insurance Department in 1978 characterized Mr. Howard this way: "He is a man of many faces and places. His history of fraud and flimflam is uncontested."

After having been a Chicago police officer for six years, Mr. Howard went into the insurance business in 1960. In 1975 he had already been convicted of one insurance fraud when he was indicted in Indi-

Continued on Page B16, Column 1

ana on Federal charges of counterfeiting bail bonds to get four narcotics dealers released from prison. It was at this point that Mr. Howard said he agreed to become an informer, in exchange for probation on a sentence of nine years in prison and a $10,000 fine.

Agents said Mr. Howard was considered necessary to Frontload because of his knowledge of the complex performance-bond business. The Federal bureau believed that Mr. Howard's expert knowledge would provide agents with a way of meeting contractors suspected of being controlled or influenced by organized-crime figures.

Meeting With 2 Executives

In March 1978, Mr. Howard, accompanied by two F.B.I. agents, George Spinelli and Leroy Heimbauch, met in New York with the presidents of two insurance companies — Maurice R. Greenberg of the American International Group and Carl P. Barton of the New Hampshire Insurance Group, a subsidiary of the American Group.

According to a report prepared by the insurance companies for the Justice Department; the agents identified Mr. Howard as "Norman Reed," whom they described as a former police officer, a licensed insurance agent in Illinois and "a straight arrow." In court papers the insurance executives said they had been unaware of Mr. Howard's criminal record when they agreed to assist the F.B.I. by certifying him as an agent of the New Hampshire Insurance Group with the power to issue bonds.

The insurance company excutives contended that the Federal agents had assured them that Mr. Reed would issue bonds only after getting approval from both the insurance company and the F.B.I., so that "there could be no risk" to the company.

But from March to June 1978, the New Hampshire company said, dozens of bonds issued by Norman Reed without its knowledge began appearing. Moreover, the company contends that many of the bonds appeared to be forgeries, with "horribly excessive" premium charges.

During this period Mr. Howard, under the name of Reed and with F.B.I. financing, established an insurance company called the Northfield Organization in an expensive suite of offices in Chicago's "Magnificant Mile" section.

Mr. Howard, whose insurance license in Illinois had been revoked, used the name of a dead insurance broker, Donald A. Engel, improperly to obtain a license for the Northfield Organization, according to the Illinois Insurance Department. In the first half of 1978, Mr. Howard traveled around the country with the two Federal agents, meeting with contractors and insurance brokers seeking business for the Northfield Organization.

After numerous complaints and questions to the F.B.I. about the activities of "Norman Reed," the New Hampshire Insurance Group revoked his certification as an agent of the company last June 1. The company also refused to honor many of the bonds or commitments issued by Norman Reed, describing them as "unauthorized."

Indemnification by U.S. Asked

Five suits, including two by New York City companies, have been filed against the New Hampshire Group for disavowing bonds allegedly issued by Mr. Howard, and lawyers said more suits were being prepared. The multimillion-dollar suits led the company to ask the Justice Department for full idemnification.

After a meeting last March between Attorney General Griffin B. Bell and Mr. Greenberg, the president of the American International Group, the Justice Department advised the company to "implead," or involve, the Government as a "third-party defendant."

Michael J. Egan, the Associate Attorney General and third highest official in the Justice Department, said in a letter to Mr. Greenberg on April 11: "Attorneys from this department will then assume full responsibility for the defense of these cases, and any adverse judgments or compromise settlements could be paid by the United States."

"What the F.B.I. did was a disgrace," said George Foundos, president of Charter House Insurance Brokers Ltd., in Chicago, who is suing for $40 million. "They're worse than Howard — they've ruined us."