

## Troubled Loan Firm

# Possible Links In Arkansas, I

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NEW ORLEANS—The collapse of two publicly held finance companies here and in Arkansas has touched off a Federal investigation of possible links between organized crime and prominent state and local politicians, including Jim Garrison, the controversial district attorney of Orleans Parish.

The companies are Louisiana Loan & Thrift Corp., New Orleans, and an affiliated concern that helped establish it here, Arkansas Loan & Thrift Corp., Van Buren, Ark. Ernest A. Bertlett Jr., a 29-year-old former Arkansas used-car salesman, was chairman of both, and money flowed freely between the two organizations.

The widening inquiry is being conducted by a Federal grand jury here and by the Securities and Exchange Commission. Criminal indictments may result. Some Federal men hope the case will expose how organized crime had a role in dissipating the more than \$6 million in assets of the finance companies. The assets came largely from more than 3,000 savings accounts solicited from the public.

The best loan customers for the companies were distributors and operators of coin-operated amusement machines. One of the customers had clear Cosa Nostra ties.

### "Collateral Was Sound"

William A. Glennon, a lawyer who helped organize the Louisiana company and was a paid counsel, argues, "There was no racketeering influence at the company." As for the nature of its borrowers, he says, "We weren't interested in who the people were as long as the collateral was sound."

Both the Arkansas and Louisiana companies went into Federal receivership earlier this year. The investigation that followed already has involved Louisiana's Gov. McKeithen and Attorney General Jack P. H. Gremillion, former Arkansas Attorney General Bruce Bennett and Mr. Garrison, the powerful New Orleans district attorney who has made headlines with his attempt to prove that President Kennedy was the victim of a broad conspiracy.

Company records indicate that Mr. Gremillion and Mr. Bennett received fees as lawyers from the finance companies while issuing official opinions that benefited the concerns. Mr. Gremillion helped stave off a 1966 SEC investigation of the Louisiana company. He gave an opinion that the company was exempt under Louisiana law from Federal supervision. Both the attorneys general and Mr. Garrison were stockholders of the finance companies in their respective states and borrowed from them, according to audit records.

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organizer and director. He also acknowledges his role as agent for Sho Bar Inc. But he denied in an interview yesterday that he had any investment in any Marcello enterprises, and he dismissed as "poppycock" the criticism by the crime commission of his alleged ties to any rackets figures.

Laws of both Arkansas and Louisiana don't prohibit attorneys in public office from continuing a private law practice. The questions being raised in the current investigation concern whether some officials abused the power of their offices for personal gain.

Both finance companies lent money at interest rates that generally ranged from 8% to 10% or higher—and lured depositors with 5¼% to 6¼% yields on savings. Though they acted much like banks or savings and loan associations, they were considered neither by state banking authorities and generally escaped any outside audits or other official scrutiny, Federal men assert.

### Investigator's Viewpoint

"The complete breakdown of state regulation of these companies is part of the importance of this case," says one Federal investigator. He adds, "The involvement of organized crime and politicians is another of the reasons we're most interested in the case."

Another company, Savings Guaranty Corp., went into receivership with the two finance companies. Savings Guaranty was set up by the same organizers who ran the loan-and-thrift concerns and was advertised as the company that backed the safety of deposits up to a maximum \$25,000 per account. In reality, Savings Guaranty never had enough assets to protect depositors, the SEC charged in a civil complaint filed in Federal court in Fort Smith, Ark., earlier this year.

The complaint resulted in a permanent injunction barring Arkansas Loan, Savings Guaranty and certain of their officers from further violations of the antifraud and registration provisions of the Securities Act of 1933. The complaint alleged that Arkansas Loan & Thrift fraudulently sold stock and solicited deposits in interstate commerce; made loans to its own directors and officers at interest rates below the interest paid to depositors, and paid dividends to shareholders out of capital—a necessity because it never made a profit.

The Arkansas company and Savings Guaranty, which began operating in early 1965, were declared insolvent a few weeks ago by the U.S. district court in Fort Smith and will be liquidated. A court-ordered audit found the loan company's internal controls "grossly inadequate" and said liabilities exceeded assets by \$3.2 million.

Gov. McKeithen's role, according to sworn testimony of the concern's chairman, Mr. Bartlett, in a deposition to the SEC in August, included appointment of a special state legal counsel to write the opinion that Mr. Gremillion signed, removing Louisiana Loan & Thrift from SEC scrutiny. The governor, in a letter to the U.S. Attorney in New Orleans, labeled the testimony "rank perjury" and is offering to testify himself.

#### Other Roles in Concerns

A host of other state and local officials played various roles in the finance companies. One particularly prominent man was Salvador Anzelmo, an influential Louisiana state legislator who often speaks for the city of New Orleans in the state capitol. Rep. Anzelmo received large legal fees from the Louisiana company and was a major stockholder and borrower, according to an audit filed in New Orleans Federal District Court.

Rep. Anzelmo has been the target of criticism from the Metropolitan Crime Commission of New Orleans, a citizens' watchdog group. Crime commission officials assert that he has done legal work for gambling figures in this area and they point to 1965 incorporation papers of Sho Bar Inc., a big burlesque night club on Bourbon Street. That document shows Mr. Anzelmo as "registered agent" of the company along with Peter J. Marcello, its president. Mr. Marcello is a brother and chief lieutenant of Carlos Marcello, identified in Senate testimony before the McClellan committee as Cosa Nostra chief in Louisiana and the Gulf Coast.

Mr. Anzelmo agrees that he had a key role in Louisiana Loan & Thrift as a stockholder,

#### Frustrating Audit Task

Louisiana Loan & Thrift will be reorganized with a court-appointed trustee under Chapter 10 of the Federal Bankruptcy Law. An audit by Peat, Marwick, Mitchell & Co. recently disclosed a \$160,000 "shareholder deficit" in the surplus account. The audit itself must rank as one of the most frustrating ever to confront an accounting firm.

Stock-certificate books and the certificates themselves were missing, Peat-Marwick said. It couldn't even determine how many shares were outstanding or whether all were paid for. It quoted one employe as saying the missing books were "taken to Arkansas." The audit commented: "Loan files did not contain sufficient information to permit an evaluation of the loan collateral or to arrive at an estimate of reasonable reserves for losses. . . Debtors owing substantial amounts failed to respond to requests for confirmation of balances shown to be due. . . The company's records were lacking for certain disbursements classified as organizational and other types of expenses." The auditor then refused to certify the financial figures.

The most intriguing result of the audit was the identification of borrowers from the Louisiana company. More than one-third of loans receivable were due from corporate insiders—present or former officers, directors and stockholders or organizations in which they had a beneficial interest. The other major category of loans—some 134 for \$222,452—consisted of those made to amusement companies in which the collateral was pinball machines, juke boxes and the like. About half of such loans were de-

linquent at the audit date in May. All the amusement-company loans were endorsed by Operator Sales Inc., a New Orleans amusement-machine distributor that was also a stockholder in Louisiana Loan & Thrift.

The audit disclosed two loans totaling about \$29,000 in 1967 to Jefferson Music Co., a key corporate vehicle of the alleged Mafia chief, Carlos Marcello, and his family in operating amusement devices in Jefferson Parish near New Orleans. Mr. Marcello was convicted last month of assaulting a Federal Bureau of Investigation agent and was sentenced to two years in prison, his first conviction since the 1930s. He is free on appeal.

The crime commission here alleges that certain coin-amusement companies in the New Orleans area have links to organized crime. Pinball-gambling machines—a special type of expensive pinball machine widely distributed here and often used for illegal gambling—are worth a minimum of \$10 million yearly to local racketeers, according to Aaron Kohn, managing director of the commission.

#### Denied by Garrison

District Attorney Garrison has denied vehemently that any organized crime exists in his city. His long feud with the commission on this issue is sure to be continued in light of Mr. Garrison's alleged ties to the finance companies. Mr. Bartlett testified that he negotiated a \$25,000 loan to Mr. Garrison from Arkansas Loan & Thrift to permit Mr. Garrison to buy stock in the Louisiana company. The minutes of the Arkansas corporation note that Mr. Garrison attended a board meeting Feb. 28, 1966, when the Louisiana corporation was being set up. The minutes of that meeting also note that Mr. Garrison "has offered his assistance in any possible way."

Mr. Bartlett in recent testimony denied that the district attorney took an active part in the Louisiana venture, except for being "very congenial" in arranging hotel rooms and transportation for the loan-company chairman.

Whatever Mr. Garrison's services were, it is clear that Attorney General Gremillion had a substantial role. He declared in his opinion to the SEC in 1966 that Louisiana Loan & Thrift was, in effect, a bank and under state banking law. Yet the company's charter clearly said it couldn't engage in banking. Mr. Gremillion attended at least two board meetings (though he wasn't a director) to give legal advice, according to corporate minutes. The minutes indicate he even traveled to Georgia with Mr. Bartlett on an unsuccessful expedition to enlist the aid

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of Georgia officialdom in setting up a company there.

Mr. Gremillion's compensation included a \$10,000 legal fee from the Louisiana company. He also borrowed \$192,500 from it and deposited a \$700 dividend check on 10,000 shares carried in his name on company books, according to the Peat-Marwick audit.

The attorney general concedes he received the loans (since repaid) and the legal fee, but he denies ever owning the stock, even though minutes of one annual meeting show him voting the 10,000 shares by proxy. "There is no conflict of interest," he said in a recent statement. "I had no interest in the company and no stock in it."

### Reprimanded by Ethics Board

The state's Board of Ethics for elected officials, a statutory body, thought otherwise and reprimanded Mr. Gremillion several weeks ago. The board investigated his involvement at the urging of the crime commission. The willingness of the finance company to pay Mr. Gremillion \$10,000 "should have indicated fairly to the attorney general that the promoters were seeking benefits from his involvement as an attorney beyond the technical legal services rendered," the board said.

The board refused to hold a public hearing on Mr. Gremillion's activities, as the crime commission had requested. Yesterday, the commission disclosed that it asked Gov. McKeithen to call a special session of the legislature to consider removing Mr. Gremillion from office.

Mr. Bennett, the Arkansas attorney general

until early 1967, concedes he was a major stockholder in Arkansas Loan & Thrift—or at least his wife was—during the time he held office. He upheld the legality of the company's charter after the governor had a special counsel appointed to review it. Much of the attorney general's stock came to him as a result of his sale of an insurance company to Arkansas Loan & Thrift. Mr. Bennett, an unsuccessful contender for the Democratic gubernatorial nomination this year, also borrowed from the Arkansas company. But he denied in an interview that he was a paid counsel while attorney general and added, "I don't recall attending any directors' meetings."

The minutes of the Arkansas corporation contradict him. They refer to legal expenses paid to Mr. Bennett in 1965 and to an April 14, 1965, board meeting where Mr. Bennett is listed as a guest.