

Insolvent Mensik firm left open by state — ex-aide

By Ray Brennan and Max Sonderby

A former state official has conceded that he and others permitted the City Savings Assn. to remain open for more than three months after it was hopelessly insolvent.

During that period, unfortunate depositors were deluded into putting untold thousands of dollars, which they now have lost, in the institution, it was learned Saturday.

The admissions in the case came from Joseph E. Knight, Downstate Democratic politician, who was Illinois director of financial institutions under Otto Kerner, governor at the time.

The state eventually closed City Savings after it was proved that it owed \$28 million to depositors.

Knight, 60, made the statements under questioning in a 95-page U.S. District Court deposition, a copy of which was obtained Saturday by The Sun-Times.

Court records disclosed that City Savings had a \$14-million capital impairment while deposits were being accepted in 1964.

Offered premiums for accounts

Many of the depositors, including widows, old-age pensioners and factory workers lost their life savings in the financial disaster.

The City Savings president, C. Oran Mensik, subsequently convicted for mail fraud, encouraged the depositors by offering premium prizes for new accounts, The Sun-Times has learned.

(Mensik escaped last Monday from a federal prison camp near Allenwood, Pa., where he was serving prison sentences of 10 years for a Maryland mail-fraud deal and jumping bond.)

Mensik never has been prosecuted in the City Savings case. Knight and other responsible state officials made no recommendation for prosecution, it was learned.

The record shows that Mensik, even after the state belatedly took custody of City Sav-

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ings, was promising depositors that they would be paid 100 cents on the dollar for their savings.

Testifies Hulman knew of assurances

Knight said in the deposition that he and Justin Hulman, then the Illinois commissioner of savings and loan associations, knew of the assurance given by Mensik to the depositors.

"I didn't think any knowledgeable person would have believed it," Knight added.

Q. (by attorney Steven L. Bashwiner). Do you know who told you that (about the 100-cents-on-the-dollar promise)?

A. I suppose Mr. Hulman.

Q. Did you ever take any measures to correct those statements by Mensik?

A. Well, how could I correct him? You can't correct a liar.

Q. When did you first learn that City Savings had a capital impairment of several million dollars?

A. Probably in March (1964) . . .

At that time, Knight said, he and Hulman received a report from Peat, Marwick, Mitchell & Co., an accounting firm, showing Mensik's institution to be in trouble. However, it was not until June 26, 1964, that the state took custody of City Savings, Bashwiner brought out.

Q. Did you think . . . in March of 1964 that an emergency existed at City Savings (then with offices at 1656 W. Chicago)?

A. We had a sick baby.

Q. Did you conclude that drastic action was required?

A. I did.

Q. Then can you tell us why you waited until June 26 to take custody of the association?

A. No.

Knight testified last Aug. 5 and 27 in a lawsuit seeking to collect \$34 million damages from him, Hulman and others on behalf of the depositors. Attorney Bashwiner was trying to show that state officials were derelict in their duties when they failed to take over City Savings when they first learned of its financial debility.

Instead, the institution was allowed to remain open for more than three months and to receive thousands of dollars in deposits, Bashwiner brought out.

Moreover Mensik and other City Savings officials reportedly put about \$3 million of City Savings money into efforts to bulwark certain real estate deals, the record shows.

Knight recalled under Bashwiner's interrogation that he resigned as director of financial institutions in April, 1968.

Almost immediately afterward, Bashwiner established, Knight was appointed by Hulman to be receiver for two closed Chicago savings and loan associations, Apollo and Lawn.

About the same time, Kerner, who had appointed Knight to his state job, resigned as governor to become a U.S. Court of Appeals judge.

Q. (by Bashwiner). How did you come to be receiver (for Apollo and Lawn)?

A. I don't know.

Q. Did you ever receive any receivers' fees?

A. \$15,000.

Q. From Apollo?

A. From both of them.

Q. You subsequently resigned, correct?

A. No, the government (Federal Savings & Loan Insurance Corp.) took them over, and I was out.

Records show Knight was removed as receiver after a court fight in which he insisted on appointing a Chicago lawyer, Albert E. Jenner Jr., as receivership attorney.

Knight said he alone was responsible for appointing the controversial Theodore J. Isaacs' Chicago law firm as counsel in the City Savings case.

Isaacs subsequently filed claims to collect more than \$556,000 in legal fees and expenses. U.S. District Court Judge William J. Campbell in 1968 ordered an investigation of Isaacs' fees, but no action has developed in the matter.

