

Ex-Director Ties High SBA Officials to Wrongdoing

By Paul G. Edwards
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A former regional director of the Small Business Administration said yesterday that he delayed reporting evidence of wrongdoing in the SBA's Richmond office because of allegations that Thomas Kleppe, national SBA administrator, "or other high agency officials were involved."

The former director, Russell Hamilton, told the House Small Business Subcommittee that he finally gave memos about the Richmond lending operation to a deputy administrator of the SBA, Louis Laun, with the understanding that Kleppe would not see them.

Asked by Subcommittee investigator Curtis Prins if the memos contained "serious

allegations about Kleppe," Hamilton answered, "Yes."

Questioning of Hamilton was suspended for the day shortly after this response and no details of the memos were disclosed. He will continue his testimony today.

Information in the memos that Hamilton gave Laun was turned over to Kleppe the following day, Oct. 25, and Kleppe immediately referred the charges in them to the Justice Department. In announcing this action, Kleppe made no mention of charges against him.

An SBA spokesman would not comment on Hamilton testimony last night. Kleppe is scheduled to testify later in the hearings.

As a result of the charges, Thomas Regan, former direc-

tor of the Richmond office of the SBA, has been suspended as a loan officer and temporarily assigned to Washington. The Justice Department has confirmed that it is conducting a criminal investigation of the Richmond office.

In two days of hearings, the Subcommittee has heard charges that the Richmond office made \$11 million in loans and lease guarantees to firms in which Regan's brother-in-law, Joseph Palumbo, had an interest, or to friends and insurance clients of Palumbo.

While the focus of the hearings has been on the Richmond office so far, Prins told the Subcommittee on Tuesday that there is evidence of possible criminal activity or lax management in 22 of SBA's 72 lending offices. He promised a

detailed report on these in six weeks.

The Subcommittee is holding up an increase in SBA lending authority pending outcome of its investigations.

Prins also told the Subcommittee on Tuesday that House investigators have found evidence of White House pressure on the SBA to make loans to a political supporter and to stop an investigation of criminal activities by a borrower in New York.

Yesterday, Hamilton told the Subcommittee of a Washington-ordered loan to another political supporter of President Nixon, citing it as an example of how national SBA officials bypassed regional officials in some cases.

Hamilton said that Anthony S. Stacio, deputy SBA admin-

istrator, approved a \$330,000 loan in 1971 to Photo Magnetic System Inc. of Bethesda, a company partly owned by William Rentschler, who headed President Nixon's campaign in Illinois in 1968 and 1972.

Rentschler recently was indicted on 23 counts of making false statements to federally insured banks and to the SBA Hamilton, who headed the SBA's mid-Atlantic region until Nov. 15, said the loan to Photo Magnetic Systems had been turned down by the Washington lending office, which was in Hamilton's region.

He said Stacio then directed that the loan be made. Photo Magnetics has since defaulted on the loan, Hamilton said, leaving SBA with a \$287,000 loss.

Rentschler also has served as special adviser to Mr. Nixon on the National Voluntary Action Program and was an unsuccessful candidate for the Republican nomination for the U.S. Senate in Illinois.

Hamilton was pressed by several Subcommittee members to explain why he had turned over information about possible wrongdoing in the Richmond office to the Subcommittee in September before giving the information to his SBA superiors in Washington. He told the Subcommittee that he felt Kleppe and other SBA officials were trying to move him out of the regional command so that Regan could have the job.

He recounted how he recommended that Regan be removed as director in Richmond in 1971 but was overruled by Kleppe.