

SBA Official In Va. Denies Loan Conflict

By Paul G. Edwards
Washington Post Staff Writer

The suspended head of Richmond's Small Business Administration office steadfastly denied in a House hearing yesterday that he has been guilty of conflicts of interests, but his testimony finally led on congressman to tell him bluntly, "You must have a conscience of stone."

The SBA official, Thomas F. Regan, told the House Small Business Subcommittee that he has borrowed large sums from at least two banks that have done business with his office and cosigned notes for friends borrowing from banks active in SBA loans.

It was Regan's assertions that his borrowing and other private business practices did not create a conflict with his job that prompted Rep. Frank Annunzio (D-Ill.) to suggest that Regan had a "conscience of stone."

"You get loans from two banks who do business with the SBA and you don't see any conflict?" Annunzio asked. "You're damn lucky you don't have to run for public office."

Regan's testimony began on the third day of the subcommittee's hearings on alleged lax management and possible criminal violations in SBA lending offices around the country. The SBA lends federal funds and guarantees loans by private banks to small businessmen who cannot qualify for conventional bank credit.

The subcommittee's chief investigator has testified that there is evidence of criminal violations or lax management in lending by 22 of the agency's 72 offices. The Richmond office, headed by Regan since 1967, has been characterized by witnesses as "the worst SBA office in the nation."

Regan was suspended as director of the Richmond office after his boss, Russell Hamilton, former director of the mid-Atlantic region of SBA, made a series of charges

SBA, From A1

against Regan to the agency's national headquarters.

In testimony before the committee, Hamilton said that his charges against Regan were made in memos that also reported "serious allegations" against Kleppe and other high ranking SBA officials.

Yesterday, at the end of his testimony, Hamilton said the SBA's former associate administrator for minority enterprises, Arthur McZier, resigned shortly after his memo was delivered to Kleppe and since has taken a job in the Virgin Islands with General Bahamian Cos., Inc.

The committee was told that General Bahamian is wholly owned by Robert Vesco, the Nixon campaign contributor who is fighting extradition from the Bahamas to face criminal charges in the U.S.

Curtis Prins, the committee's investigator, has testified that Regan has approved 13 loans and lease guarantees worth \$11 million to firms in which his brother-in-law, Charlottesville businessman Joseph C. Palumbo, has a direct or indirect interest.

Regan insisted yesterday that his office has approved only three loans to Palumbo companies. He conceded that other loans have been made to companies and doctors who are "clients" of Palumbo's financial services firm.

To the exasperation of some committee members, he refused to concede that Palumbo had an interest in these firms, even when he had acted as incorporator of the businesses who received the loans and re-

ceived some of the proceeds of the loans in fees.

The committee members showed their greatest interest yesterday in Regan's personal business and banking relationships.

In the course of his testimony, Regan revealed that:

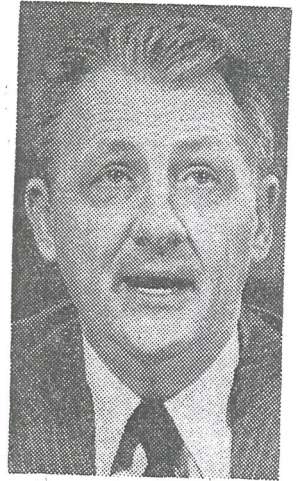
- He recently financed the purchase of a \$335,000 Virginia farm with the following loans: \$15,000 from two banks who had made loans through his office; and \$305,000 from a bank Prins said had received proceeds from an SBA loan to a Palumbo client.

- He took a \$5,000 fee from Richmond developer Jack Bernstein for consulting services. Bernstein later obtained a \$135,000 loan guarantee from the Richmond office to pay off a bank debt on a Danville motel. Regan said Bernstein had saved the taxpayers a \$500,000 loss by assuming a bad SBA loan on the motel.

- He borrowed \$15,000 from a bank and reloaned it to Charles (Buddy) Drago, former aide to Reps. William Whitehurst (R-Va.) and Stanford E. Parris (R-Va.), and later assumed liability for a \$51,000 Drago business debt to Virginia National Bank.

- Drago put Regan's SBA office telephone number on the stationery of a fledgling company, Diversified Business Services, that the two men set up for Regan's son. Regan insisted that Drago acted without his authority or knowledge and that the stationery was never used.

Regan's relationship with Drago has come into focus partly because Regan has had strong backing by Virginia's



THOMAS F. REGAN
... sees no conflict

congressional delegation in the past.

SBA Administrator Thomas Kleppe has said that he heard from every member of the Virginia House delegation in support of Regan when Regan was sent to Philadelphia for what Kleppe called "retraining" after an adverse assessment of his office was made by the agency.

Whitehurst said in a recent interview that he interceded for Regan because "he had done an outstanding job, particularly in making loans to minority businessmen in my district." He said he knew that his aide, Drago, had a small business, but did not know that Regan was involved in any way.

Regan said the \$15,000 he borrowed and reloaned to Drago was used to import "Chinese rugs" for sale in the U.S. He said that he signed the additional \$51,000 obliga-

tion to Virginia National to meet requirements for distribution of the rugs.

Asked by Rep. Edward I. Koch (D-N.Y.) whether he had ever done business with Virginia National before, Regan replied, "Of course, they are the biggest participator in SBA loans in the state."

Regan was not asked by the committee whether the \$15,000 loan first made to finance the rug imports was from a bank that had done business with the SBA. He refused to answer when asked by a reporter.

Regan said he has no financial interest in Drago's enterprise. "I value a friend as an asset," he said. "If I can help a friend, I do."