# San Diego Bank's Bad Loans Noted in '60s, Comptroller Says

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The comptroller of the currency testified yesterday that while bank examiners questioned certain loans made by U.S. National Bank of San Diego in the late 1960s and early 1970s it was not until 1972 that the magnitude of the bank's problems became evident.

U.S. National, the nation's 83d largest bank with assets of nearly $1.2 billion, failed on Oct. 18. Yesterday, at a House Banking subcommittee hearing, federal banking officials testified at length on their role in that failure, the biggest in American history.

Comptroller James E. Smith said his agency's desire to avoid a run on the bank, with concommitant losses to depositors and federal insurers, accounts for the delay in taking action to declare USNB insolvent.

An examiner from the comptroller's office first discovered serious improprierties in USNB's loans during a June, 1972, audit.

In response to a question from Rep. Matthew J. Rinaldo (R-N.J.), Smith testified that he had never been pressured by administration officials to give any "special consideration" to the bank. The principal stockholder is C. Arnholt Smith, a friend of President Nixon. Smith was chairman and president of U.S. National Bank until May 24, when he agreed to resign as part of a secret cease-and-desist order signed by the bank.

The order also required the bank to collect all of its outstanding loans in question. Those loans had gone to two companies also controlled by Smith, Westgate-California Corp. and British Columbia Investment Co. The outstanding credit involved both direct loans and letters of credit on which other banks—some domestic, some foreign—made loans to the two companies.

Smith, who was sworn in as comptroller July 5, said it became apparent that the bank would have to be declared insolvent after the Securities and Exchange Commission brought charges of self-dealing against Smith and Westgate on May 31.

In June corporations withdrew about $100 million in certificates of deposit from USNB. Another examination in July indicated that at least $45 million in loans to the Smith enterprises were uncollectible and an additional $98 million were doubtful. The bank had equity capital of $50 million.

In September Smith and Frank Wille, chairman of the Federal Deposit Insurance Corp., decided that the best solution was to split up the bank, selling off the "good" assets and deposits to another bank and keep in receivership the loans to Watergate and British Columbia.

On Oct. 18 that was accomplished when the comptroller declared the bank insolvent, the FDIC was named a receiver, and Crocker National Bank of San Francisco bought $1.07 billion in liabilities and $850 million in assets of USNB, all in three hours.