

Program Cut by Two-Thirds

SBA Probed for Corruption

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The Justice Department and a congressional committee are investigating charges that at least two offices of the Small Business Administration have made millions of dollars in corrupt loans in recent years, sources participating in the probe said yesterday.

Investigative sources declined to say how many SBA offices throughout the nation are under investigation, but Rep. Henry B. Gonzalez (D-Tex.) said congressional investigators have received com-

plaints of wrongdoing in Los Angeles, New York, Miami, Detroit, Chicago and Texas.

However, members of the House Small Business Subcommittee apparently consider the charges so serious that they have voted unanimously to permit a two-thirds cutback in the politically popular small business loan program for the life of the investigation.

Assistant SBA Administrator Randy Woods confirmed that the agency's regional office in Philadelphia and the district lending office in Rich-

mond are under investigation.

The Richmond office is in the Mid-Atlantic region, which includes the Washington area, and is supervised by the Philadelphia office.

Gonzalez, a member of the Small Business Subcommittee who exposed a SBA bribery scandal in San Antonio in 1969, said he was "shocked by the pervasiveness of the wrongdoing alleged in the Richmond office."

Gonzalez said that an estimated \$11 million in bad loans

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involving criminal violations have been made over recent years by the Richmond office, although he said he does not know how much of that money has actually been lost.

He said the SBA reports only a 2 per cent loss on loans in Richmond, but he contends that the low loss ratio reported there and in other cities is achieved only by the agency's refusal to classify many bad loans as uncollectable.

Gonzalez said that he will call for a full scale investigation of SBA practices at a meeting of the Democratic majority of the House Banking and Currency Committee today. He said investigators should be sent simultaneously to every SBA office where malpractices have been alleged to "prevent cover-ups made possible by delays."

One investigator said that evidence of corrupt loans has been found in every business assistance program administered by the SBA.

He said the abuses include alleged kickbacks from small

business borrowers to lending officials, loans made to borrowers in bankruptcy, loans made before completion of credit and criminal record checks and loans made without proper approval by the agency.

The only public charge of possible wrongdoing by SBA officials has been made by Russell Hamilton, deposed director of the Philadelphia regional office. Hamilton was quoted by the Associated Press on Monday as saying that corruption in the Richmond office involved millions of dollars and was "so wild nobody would believe it."

Hamilton was not available for comment yesterday. An SBA official in Philadelphia said that that office had been ordered to refer all questions to Washington.

Noting that the Philadelphia office has been the subject of a federal grand jury investigation "for nine months," Woods said that Hamilton rejected a request by SBA Administrator Thomas S. Kleppe that he resign in September. Woods said Kleppe has ordered Hamilton

transferred to the Washington office as director of policy and procedure, effective Thursday.

Woods also said that as a result of charges made by Hamilton and a performance review by SBA officials, Thomas F. Regan has been removed as head of the Richmond office and transferred to Washington effective yesterday.

Hamilton was quoted by the AP as saying that he recommended removal of Regan and other Richmond office officials in 1971. Woods said that an internal review committee did determine in 1971 that some of Regan's credit decisions "were not up to SBA standards."

He said that Regan was sent to Philadelphia for 90 days retraining and then restored to his post in Richmond.

Woods said that Hamilton made charges of loan irregularities against Regan to Deputy SBA Administrator Louie Laun on the evening of Oct. 24 and that Kleppe was notified of the charges on the following morning. Woods said Kleppe immediately sus-

pended Regan as a loan officer and relayed Hamilton's allegation to Henry Petersen, head of the Justice Department's criminal division.

Both the Justice Department and House subcommittee, however, had been looking into charges of SBA corruption for six weeks before Kleppe called Petersen.

Hamilton was quoted as saying he made his allegations of wrongdoing known to a member of the Subcommittee in September. U.S. Attorney Brian P. Gettings, whose Eastern Virginia jurisdiction includes Richmond, said, "We have been pursuing this matter since Sept. 6 when allegations came to our office from a government agency." Robert Stevens, a Justice Department spokesman, said that the department had not received its information about possible violations in the Richmond office from the House Subcommittee.

Woods said that the removal of Regan from the Richmond office "should not be taken to imply criminal violations."

He said the bad credit deci-

sions attributed to Regan by an SBA "portfolio review committee" resulted in loans made under a number of SBA's 16 loan programs and were not concentrated in any specialized program.

In addition to conventional guaranteed loans to small businessmen, SBA administers such special programs as low interest loans to victims of natural disasters and loans to promote minority businesses and business activity in low income communities.

The minority loan program has been the target of charges of both ineffectiveness and corruption. In February, the head of the SBA office in Albuquerque, N.M., was fired after a member of his staff was convicted of bribery in the making of a minority business loan, Woods said.

The charges of SBA corruption developed as Congress was considering a bill to increase the ceiling on outstanding SBA loans from \$4.3 billion to \$6.6 billion.

After President Nixon vetoed one bill increasing the ceiling because he objected to

other features in it, the House tabled another version after investigators began to uncover allegations of corruption.

Woods said that when the present loan ceiling is reached "before the end of November" the SBA will be able to make new loans only as old ones are paid off. "This will cut our loans by two-thirds," he said.

Rep. Robert G. Stephens Jr. (D-Ga.), chairman of the Small Business Subcommittee, said in a statement, "Members are

fully aware of the effect of tabling the bill . . ." but felt "it would be unwise for Congress to grant the agency more than \$2 billion of new loan authority until the problems are corrected and criminal investigations are concluded."

Stephens said the Subcommittee will begin closed hearings on the charges today. First witness will be Frank Nicholas, director of the SBA's office of portfolio review. Kleppe is expected to testify later.