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Controller Tried to Block
S.E.C. Suit on Smith Bank

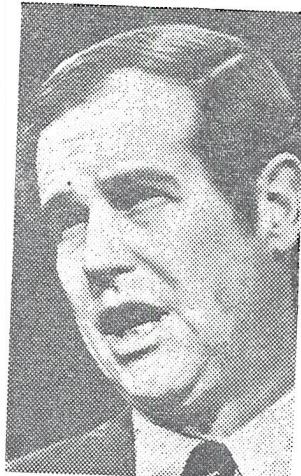
By EILEEN SHANAHAN

Special to The New York Times

WASHINGTON, Nov. 27—The head of the Government agency that inspects national banks testified today that he had tried to stop the Securities and Exchange Commission from taking legal action against the bank controlled by President Nixon's long-time friend, C. Arnholt Smith, although his own agency had evidence of numerous violations of criminal statutes by the bank.

James E. Smith, the Comptroller of the Currency, also said, however, that there had never been any interference from the White House or other parts of the Government in his agency's investigation or action in the case.

The bank was the United States National Bank, headquartered in San Diego. It was declared insolvent by the Comptroller's office last month. It



Associated Press

James E. Smith

was the largest bank failure in the United States.

Comptroller Smith appeared before a subcommittee of the House Banking Committee to explain why it took his agency so long to take action against Arnholt Smith's bank. The fact that there were questions about the soundness of some of the bank's loans, which were made to other enterprises controlled by Mr. Smith, first came to public attention in April, 1969.

Continued on Page 73, Column 4

Continued From Page 61

when The Wall Street Journal printed a lengthy article on the matter.

Comptroller Smith said that the records in his agency showed that there was no serious concern on the part of his bank examiners until September, 1972, when the results of a routine examination of the bank that had begun in June were made known.

The examination turned up "25 separate transactions which might violate the criminal laws of the United States," he said.

Nonetheless, his office, Comptroller Smith testified, on May 10 tried to get the Securities and Exchange Commission to leave out any mention of the bank itself in a fraud suit the S.E.C. was preparing involving stocks of companies also controlled by C. Arnholt Smith.

Comptroller's Reason

The Comptroller's reason, as disclosed in a letter to the S.E.C., part of which the Comptroller included in his testimony, was his belief that the affairs of the bank "can be corrected without a receivership and consequent losses to depositors and shareholders" unless there was "a sudden loss of public confidence caused by the naming of the bank in an S.E.C. fraud suit.

Two weeks later, Comptroller Smith, this time supported by Frank Wille, chairman of the Federal Deposit Insurance Corporation, again asked the S.E.C. not to involve the bank publicly in its fraud suit. Problems with banks are best settled "in private," Mr. Smith wrote the S.E.C.

DIVIDEND MEETINGS FOR...