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Report Says U.S. Forced Bank Director Out

Los Angeles

C. Arnholt Smith's resignation last month as chairman and director of the U.S. National Bank was forced by the U.S. comptroller of the currency, the Los Angeles Times has learned.

A source close to the Federal investigation of the financier said also that the bank earlier this year refused to allow the FBI to check its records and talk to its employees. This was done on the advice of the New York law firm of Mudge, Rose, Guthrie and Alexander.

The FBI later gained access to the records and employees of the bank by having federal grand jury subpoenas drawn, the source said. The stock of U.S. National Bank based in San Diego and with branches throughout Southern California, is publicly traded, but the firm is controlled by Smith.

Although the comptroller's office did not disclose it, Smith's departure was a condition of a cease-and-desist order under



**C. ARNHOLT SMITH
Friend of Nixon**

which Smith and the bank's directors agreed to liquidate millions of dollars in loans by the bank to Smith's other businesses.

Such a forced resignation is rare in the banking world. The order was brought about through cooperation with the Securities Exchange Commission.

The comptroller's order

was announced — but its detailed terms not publicly disclosed — on May 31 when the SEC climaxed an 18-month investigation by filing a far-reaching civil suit in U.S. District court in San Diego, against Smith and the publicly held conglomerate he controls, Westgate-California Corp., San Diego.

The SEC complaint alleges a fraudulent scheme was carried out under which millions of dollars of U.S. National's funds were used to finance dealings for the benefit of Smith and his friends.

Under the comptroller's order, Smith agreed personally to indemnify the bank against any losses in connection with such loans.

On Memorial Day weekend, several days before he had agreed to sell his National League baseball franchise, the San Diego Padres, to a Washington, D.C., group for \$12 million.

The figure, a record sum in major league baseball surprised some observers. One called it "awfully high for an ugh team going to an ugh town."

In addition to the SEC civil suit, the Times has learned, an auditor has been in U.S. National bank since late April. This is in connection with an investigation by both FBI and Internal Revenue Service intelligence agents to determine whether law violations occurred in Smith-related businesses.

Early this year the FBI tangled with Smith and with the law firm which represented Smith during his testimony in January at an

SEC private administrative proceeding. President Nixon, a friend of Smith, is a former partner in the firm, as is former Attorney General John N. Mitchell.

It was also learned that the law firm played a key role early this year in persuading the comptroller of the currency to overrule one of his own bank examiners on a major question in the affairs of U.S. National Bank.

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