

White House Tied To SBA Favoritism

By Paul G. Edwards
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The chief investigator of the House Banking and Currency Committee yesterday linked the White House to Small Business Administration loan favoritism and irregularities, including an alleged effort to block an investigation of possible criminal violations.

In testimony before the House Small Business Subcommittee, the investigator, Curtis Prins, did not name any officials in his testimony about White House involvement, but said the charges would be developed more fully by later witnesses in the Subcommittee's hearings on SBA practices.

An SBA spokesman said the

agency "has no knowledge of the charges and has no comment on them."

A White House spokesman said last night that there would be no immediate comment on the allegations made by Prins.

After giving prepared testimony, Prins was asked by Rep. Parren J. Mitchell (D-Md.) if he had found any evidence of White House pressure on SBA lending operations.

"Yes," Prins replied. When pressed by Mitchell, he detailed two instances:

• Investigators have found that an effort was made to

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stop an investigation of possible criminal violations after the White House was briefed on the probe.

• A company in which presidential aides reportedly have an interest has applied for an SBA loan.

In the case of the criminal investigation, Prins continued, an SBA auditor was called to the White House to describe the evidence he had uncovered and later received a call from an "extremely high-ranking SBA official" who asked "would he be willing to destroy his file" on the investigation.

Prins identified the man as Dr. Thomas Matthew of Queens, N.Y. He said that Matthew recently was convicted in New York on 92 counts of misusing funds.

Prins then asked the Subcommittee not to ask him any more questions on the subject of the White House because another witness would expand on it in later testimony.

"I'll certainly be eager to hear from that witness," said Mitchell.

Prins also told the Subcommittee that he had turned over the allegations of White

House involvement to the Justice Department.

In his prepared testimony, dealing chiefly with what he called questionable loan practices by the Richmond SBA office, Prins described White House pressure to obtain a \$100,000 loan for Bennie McRae, former professional football player and cochairman of Athletes for Nixon in the 1968 and 1972 presidential campaigns.

Prins said McRae, who was in the construction business, had \$110,000 in bank credit guaranteed by the SBA and was seeking another \$100,000 early this year.

He said office files in Richmond referred to phone calls and letters from the White House asking "what it would take to get this loan for McRae."

Prins quoted a memo from Thomas F. Regan, the recently deposed head of the SBA office in Richmond, as saying:

"Please get out the paper (the loan) to McRae as soon as possible. This is a White House case and the heat is on."

Prins testified that McRae was quoted in one memo as saying, "I have White House connections and I should be able to shake loose \$100,000."

Prins said the Richmond



CURTIS PRINS
... auditor called

files disclosed that Lewis Laun, SBA deputy administrator, called the Richmond office last June 26 to ask about the McRae case, and told loan officers not to give McRae special treatment. He said the Richmond officials should tell McRae to quit dealing through the White House, Prins testified.

United Press International reported that McRae said at his office in Newport News, Va., that he had gone through normal channels for his SBA loans. "This is the first I have heard of any White House pressure concerning the approval of loan guarantees," he said.

Prins's testimony was the first suggestion of direct White House involvement in SBA loan irregularities since the Subcommittee first disclosed two weeks ago that it was looking into reports of lax management and possible criminal violations in the lending operations.

The Subcommittee has refused to approve an administration request for a \$2.3 billion increase in SBA's lending authority to \$6.6 billion.

As a result, SBA's program of direct loans and guarantees of private bank loans to small businessmen is expected to be cut by two-thirds when the present ceiling is reached in a few days.

With bipartisan approval from Congress, the Nixon administration has greatly expanded SBA's loan program in recent years. About 56 percent of the \$6 billion in loans made by the SBA during its 20-year history were made during the first four years of the Nixon administration.

The program is so popular with Congress that even after the disclosures of irregularities were made, leading members of the Senate Small Business Subcommittee urged the House members to reconsider their refusal to increase the loan ceiling.

A large part of the expansion of SBA loans has gone to minority businessmen, and the National Business League, a predominately black business group, has criticized the ceiling freeze. The Black Caucus in Congress did not condemn the freeze but asked that the probe not slow down efforts to aid black businesses.

It is still unclear, however, how extensive SBA problems may be. Of 72 SBA lending offices, Prins said investigators have reports of "questionable situations" in 23. In addition to Richmond, the list he read included the Washington and Baltimore offices of SBA.

He said investigators should be able to make a detailed report on the nationwide SBA problem in "a month to six weeks."

Most of Prins' testimony was devoted to alleged conflicts of interest and SBA policy violations by Regan during his five years as head of the Richmond SBA office.

Prins described 13 loans and guarantees of lease payments by small businesses approved by the Richmond office in recent years that benefited Regan's brother-in-law, Joseph Palumbo, or some of his friends and associates.

Palumbo is a Charlottesville insurance agency owner and

former All-American football player at the University of Virginia. Regan married Palumbo's sister in September.

In addition to the loans to Palumbo firms and associates, Prins described four loans not connected with Palumbo that he said are representative of 40 or 50 questionable loans uncovered by investigators in Richmond.

One, Prins said, was a low-interest direct loan of \$30,000 in SBA funds to Arlington Armatures, owned by Gerald W. Spray, father-in-law of Regan's personal secretary. Prins said that the loan should have been made by the Washington office under SBA regulations and should not have been approved by Regan without a disclosure of his relationship to the borrower. He did not make such a disclosure, Prins said.

Prins said that in another case Regan approved a five-year maturity for a \$4 million disaster loan to Virginia Electric and Power Co. after tropical storm Agnes in 1972, even though Washington SBA officials had ordered the loan repaid in two years.

Prins said that the losses on bad loans in Richmond may eventually total "millions of dollars."