Sindona's $1-Million Offer To Nixon Group Examined

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Michele Sindona

The Internal Revenue Service is investigating an offer made in 1972 by Michele Sindona, the Italian financier who is the largest single shareholder in the troubled Franklin National Bank, to contribute $1-million to the Committee to Re-elect the President, according to information obtained from Government sources.

The I.R.S., it is said, wants to know whether or not the contribution was ever made and where Mr. Sindona, an international banker who controls an empire of banks, holding companies and other interests, planned to obtain the funds.

Interest Aroused

The offer was made public during testimony in the Mitchell-Stans trial earlier this year. Maurice H. Stans, former chairman of the re-election finance committee, told the court that Mr. Sindona wanted only anonymity in return for the gift but that he refused to accept it because the gift was offered on Nov. 2, 1972, a few days before the Presidential election and well after the April 7 deadline requiring disclosure of all political contributions.

The testimony aroused interest within financial and government circles in the political connections of Mr. Sindona, whose methods of doing business have been cloaked in secrecy and who was relatively unknown in this country before he purchased a 22 per cent interest in Franklin National in July, 1972.

Indeed, some of the focal personalities featured during the weeks after Franklin's troubles became public this spring form a mosaic of interrelationships with the Nixon administration.

Besides Mr. Sindona, they include Harold V. Gleason, who

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was recently replaced as chairman of Franklin National and has assumed the post of executive vice-chairman; James E. Smith, Controller of the Currency; and David M. Kennedy, former Treasury Secretary under President Nixon and now financial adviser to Mr. Sindona. President Nixon's old law firm, Mudge Rose Guthrie & Alexander, is also involved.

The troubles of Franklin National, the largest bank in the country ever to totter on the brink of collapse, were first made public in mid-May. The bank announced at that time that it would not pay the upcoming dividends on its stock, and subsequently disclosed massive losses in foreign exchange transactions and asked that trading in its stock be suspended. Trading has not yet been resumed. In recent weeks, the bank has disclosed that the losses totaled $83-million in the first five months of the year—considerably more than it had originally indicated—and has said it would not likely resume the payments of dividends soon.

On June 20, the bank announced a management shake-up and Mr. Gleason was replaced by Joseph W. Barr, a Democrat who served in the Treasury Department during the Administration of President John F. Kennedy and was Secretary of the Treasury during the last month of the Johnson Administration.

Mr. Gleason, during his many years with Franklin, which once ranked as the 20th largest bank in the nation, had close ties with the Nixon Administration. In 1969, the trust department of Franklin handled the sale of Mr. Nixon's New York apartment and made the President a 150 per cent profit, with Mr. Gleason, according to a source, playing a key role in the transaction. Mr. Nixon paid $126,000 for the Fifth Avenue residence in 1963 and shortly before the sale, he himself had put a published value on it of $166,860. It was sold for $315,000, the largest profit that had ever been made on an apartment in that particular building.

Mr. Gleason's son, Harold Gleason Jr., is an attorney at Mudge Rose Guthrie & Alexander, the firm in which President Nixon and former Attorney General John N. Mitchell were partners until they went to Washington in 1969. Mudge Rose is also counsel for Mr. Sindona's company, Fasco International Holding S. A., through which Mr. Sindona made his million-share investment in Franklin, and Franklin has recently turned over some of its legal affairs to the law firm.

Franklin's former law firm, Kaye Scholer Fierman Hayes & Handler, abruptly resigned when the crisis was announced in May because the firm said it had not been consulted about the bank's statement detailing the foreign exchange losses.

A source close to Franklin said Mr. Gleason Sr. had arranged the November, 1972 meeting between Mr. Stans and Mr. Sindona so that the Italian financier could make the contribution offer. The source said Mr. Sindona told associates he wanted to give the money in order to "show his faith in America."

At the time, the Federal Reserve Board was in the process of investigating Mr. Sindona's acquisition of Franklin to see if his company, Fasco International, "controlled" the bank in the official sense. Such a determination by the Reserve could have forced Mr. Sindona to divest himself of several commercial companies that Fasco owned in the United States.

Liechtenstein Concern

Under the Federal Reserve Board's regulations, Mr. Sindona, because he owned more than 5 per cent, but less than 25 per cent, of Franklin and also sat on the board of the bank's parent company, the Franklin New York Corporation, created "a rebuttable presumption of control" over the bank. If he could not successfully "rebut" this presumption, then the Fed would have designated Fasco International a bank holding company and a complex of legal difficulties could have ensued for Mr. Sindona.

Fasco International, during 1972 and 1973, was wholly owned by its parent company Fasco A. G. of Liechtenstein, which in turn owned three American companies—the Oxford Electric corporation (recently renamed the Seaport Corporation), Argus, Inc., and the Interphoto Corporation which is owned by Argus. Since provision in the Federal Bank Holding Company Act are designed to prevent common ownership of banks and industrial or commerical firms, Mr. Sindona could have found himself in violation of the law if he continued to own both the bank and the other companies.

Whether due to the persuasive powers of Mr. Sindona and his attorneys or not, the Fed did not issue a document asserting that Mr. Sindona has indeed created a "rebuttable presumption of control" after two years of investigation into the matter, still appears no closer to a decision.

The Fed argues that its regulations under the Bank Holding Act are only administrative precedures and even though a presumption of control has been created under the regulations, it does not bind the Fed to act.

"The regulations are for the board's use at its discretion," said a spokesman. "The seven members of the board have the right to decide whether control exists or not. As far as Fasco and Sindona are concerned, it's complicated and we just have not decided yet."

The lack of action on the part of the Fed surprised and angered some financial experts.

"Mr. Sindona quite definitely exercised control over Franklin," said Arthur T. Roth, the banker who built Franklin up from a tiny Long Island bank, but was ousted in what he calls a "palace revolution" in 1970—two years before Mr. Sindona bought into Franklin.

"Mr. Sindona brought officers into the bank, he caused Franklin to get involved in the massive foreign exchange trading from which their losses stemmed, traveled around with Gleason, and generally delegated authority," said Mr. Roth, who has been critical of Mr. Gleason and the bank management since he was ousted.

"Nobody ever did anything of importance without consulting Mr. Sindona," conceded one official inside the bank. "He has an office in the bank headquarters and remained very visible."

Mr. Roth pointed out that Laurence A. Tisch, chairman of the Loews Corporation, from whom Mr. Sindona bought his Franklin shares in 1972, had little to say about the day-to-day operations of Franklin and exercised much less control over the bank than Mr. Sindona did. Yet Mr. Tisch reportedly sold his shares in part because the Fed was about to issue a report finding that Mr. Tisch was in control of Franklin unless he could prove to the contrary. Mr. Tisch also owned commercial companies and thus faced the limitations of the bank holding company regulations if this ruling had been issued.

Representative Wright Patman, Democrat of Texas, Chairman of the House Banking Committee and a constant critic of the Federal Reserve Board, also expressed disgust with the laxity of the board on the Franklin National Bank issue.

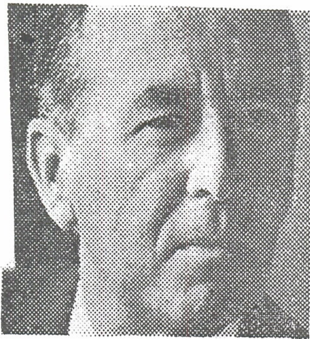
"There is no question that there has been an undue delay in determining whether Fasco International should be made a bank holding company," he said in an interview.

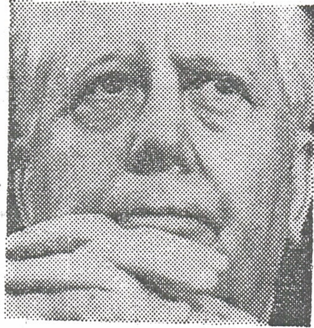
"It is obvious the Federal Reserve just did nothing."

Mr. Patman has written two letters to Dr. Arthur F. Burns, chairman of the Federal Reserve Board, since Mr. Sindona's 1972 purchase, asking why he was being allowed to own both an American bank and American commercial companies. Mr. Patman said the replies from Dr. Burns had been "evasive and did not really say anything by the time you got to the end."

"The Fed has done what is tantamount to doublecrossing the country in its lax interpretation of the Bank Holding Act," Mr. Patman said. "Companies have been using the boarding house reach, gobbling up banks as well as mercantile enterprises, and non-banking concerns, right and left and the Fed is not using its power to stop them."

Mr. Patman said his com-





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During the crisis at the Franklin National Bank, Harold Gleason, top left, was replaced as chairman. James E. Smith, top right, Currency Controller, and David Kennedy, at right, the former Treasury Secretary, have also become involved in bank's troubles.

mittee will hold hearings on the oversights of the Fed in relation to the Bank Holding Act sometime this summer. He expressed reluctance, however, to investigate and possibly "cause trouble" for a bank in such a precarious position as Franklin. "We'll probably concentrate on other banks first," he said.

While the Fed was investigating control at Franklin, Mr. Sindona came up with some solutions of his own. In October, 1973, he separated his Fasco International Holding from its parent company, Fasco A.G., so that Franklin and his United States commercial enterprises would be owned by separate corporations.

Technical Separation

Mr. Sindona's lawyer, Randolph Guthrie of Mudge Rose Guthrie & Alexander, said that the technical separation had solved the problem of Mr. Sindona's dual ownership of banking and commercial concerns. "We don't think Fasco International is a bank holding company, but if the Fed should rule that it is, we have fully complied with the law," said Mr. Guthrie. "Mr. Sindona might personally own both Fascos, but the banking regulations apply only to companies, not to individuals."

Shortly after separating the companies, Mr. Sindona tried to obtain Federal permission to merge the Franklin New York Corporation and the Talcott National Corporation, a large finance company that Fasco International controls. The merger would have brought Mr. Sindona's share of Franklin to 31 per cent, which would have put him well over the 25 per cent needed for the Fed to issue an automatic finding that he controlled that bank and require him to register Fasco International as a bank holding company.

In fact, at the time of the merger request last winter, Fasco International filed a formal application with the Fed to become a bank holding company. The application was declared to be "moot" by the board, however, when it turned down the Talcott-Franklin merger in May.

Nevertheless, Dr. Burns's latest letter to Mr. Patman, dated June 5, said the question of who controls Franklin continued to be under "active consideration" by the board.

Meanwhile, Mr. Sindona has increased his interest in his American industrial concerns. In February, Fasco A.G. of Liechtenstein bought shares that enlarged his holding in Seaport Corporation to 37.8 per cent from 21 per cent and in Argus Inc. to 12 per cent from 8 per cent.

Another personality who figures prominently in the Franklin crisis is James E. Smith, Controller of the Currency, the Federal regulator of national banks whose office supervises and certifies them as to their solvency. The Controller's office has been working closely with Franklin executives to try to save the bank since the crisis became public.

Mr. Smith, formerly a lobbyist for the American Bankers Association, was hired to do legislative liaison work for President Nixon's then Treasury Secretary, David M. Kennedy, in 1969. Mr. Smith was named Controller of the Currency in 1973. Mr. Kennedy, a close friend and mentor of Mr. Smith, is also a long-time friend and financial advisor to Mr. Sindona, and serves now on the board of Fasco International.

Thus, when Franklin's troubles became apparent this spring, the man who was responsible for regulating the bank and seeing that it complied with most laws was a man who was a close friend of the financial adviser to the bank's largest shareholder.

Moreover, after the public disclosure of Franklin's troubles, Mr. Smith announced that he had asked—and Mr. Sindona had agreed—to place the voting rights of Mr. Sindona's Franklin shares in the hands of Mr. Kennedy for one year because of Mr. Kennedy's reputation for "unquestioned integrity."

Aides to Mr. Smith insist that the position of the Controller was in no way compromised by the move. "On the contrary, Mr. Smith wanted to deal with someone whom he could trust and that is why he singled out Mr. Kennedy—so the Controller's office could secure more control over the bank," said one aide.

The aide said the move was also made to allay public suspicions of Mr. Sindona, who has gained the reputation of being a "mystery man" in his business dealings. "The public knows that David Kennedy cannot just wash his hands of the bank and walk off to Italy," the aide said.

Observers agree, however, that since Mr. Kennedy has represented Mr. Sindona's interests in the past and has been in accord with him on policy decisions involving Franklin, the move was mostly for appearance's sake.

Questions have been raised by some bankers about whether the close links between Mr. Kennedy, Mr. Smith, and Mr. Sindona have rendered Mr. Smith in the best position to choose a decisive and objective course of action for the beleaguered bank and its shareholders.

Some critics have questioned Mr. Smith's decision to back a remedial plan, devised by Franklin executives after the crisis was announced, under which Franklin New York would offer common stock to shareholders to raise $50-million. The plan was to be underwritten by Mr. Sindona who said he would purchase any shares that other stockholders do not buy. If the plan were to go through, it would give Mr. Sindona absolute control of Franklin at a bargain price.

"It seemed as though Mr. Smith was trying to save the bank for Mr. Sindona," said one critic close to Franklin. "And in any case, the infusion of only $50-million would not make a substantial difference in the bank's ability to survive."

Mr. Sindona could have difficulties in meeting even that pledge in light of recent indications that his financial empire abroad has come under strain. Last week, the Banca di Roma said it had made Mr. Sindona multimillion dollar loans to prevent a run on his major Italian bank, Banca Unions. In return, Banca di Roma took over effective control of the bank and partial control of Mr. Sindona's other operations. Banca di Roma said the money was earmarked for use in Italy only and not for Mr. Sindona's interests elsewhere.

The critics also take issue with the decisions to pump massive aid into Franklin from the Federal Reserve Bank of New York, reportedly about $1-billion in collateralized loans. They say that although it has been disclosed that Mr. Smith asked New York banks to submit proposals for possible merger or acquisition of Franklin last month, steps could and should have been taken much earlier on how to avert disaster by either merging Franklin with another large money-market bank or to pare down its operations drastically.

Mr. Sindona, who when he originally bought his million shares of Franklin said he was going to make it "a great international bank," is known to have been opposed to a takeover of Franklin or to any reduction in its size.

Aides to Mr. Smith counter criticisms that he did not act quickly enough by pointing out that the Controller took office in July, 1973, and was busy with other urgent bank problems up until Franklin's difficulties were brought to his attention at the end of the year.

"Mr. Smith mapped out plans for a curtailment of Franklin's operations in late 1973 and early 1974 and asked the bank to follow them," said Michael Burns, Mr. Smith's executive assistant. "We recognized at that time that Franklin had problems of competent management."

"Things cannot happen overnight and we have prepared contingency plans should Franklin become insolvent," he said. "As long as it is solvent—and right now, it is—then we cannot force the bank to merge. We cannot dictate to it."

Mr. Burns said the Controller's office was making a study of how it can modernize methods of Federal bank regulation and examination to keep a tighter control on banks so that problems such as the ones Franklin encountered could be prevented.

Mr. Patman has criticized both the Controller's office and the Federal Reserve Board for their "excessive and unnecessary secrecy" in the handling of Franklin's problems. He said both agencies had refused his committee's request for information on the matter and had contributed, through their silence, to the continuing rumors and public doubt about the bank.

Mr. Patman praised Franklin's new chairman, Joseph W. Barr, whom he said had been candid and open since he took over at the bank, in contrast to the two Government agencies.

Mr. Barr, who has been in Washington to seek support for a legislative plan that would permit an out-of-state bank to merge with Franklin, is regarded in banking circles to have brought the strong leadership to Franklin that it has needed since its troubles began.