

Inaction Told In San Diego Bank's Troubles

New York

Two investigative reporters charged yesterday that the office of the Comptroller of the Currency knew about the irregularities in the operation of C. Arnholt Smith's U.S. National Bank in San Diego for ten years before any firm action was taken.

The name of President Nixon crops up in the North American Newspaper Alliance account of the failure to act on the matter.

Reporters Robert Wagman and Sheldon Engelmayer of NANA said the comptroller's field staff made an investigation in 1962 and urged action but that no firm steps were taken by the comptroller's office in Washington.

Smith currently is under indictment for violating the federal securities laws. The assets of the San Diego bank have been taken over by Crocker National Bank of San Francisco and the federal government has spent almost \$200 million to indemnify depositors for their losses.

Wagman and Engelmayer said the story began when examiners Jack Coltrane and Donald Kline discovered in September, 1962, that a new branch of the San Diego bank in Pomona, Calif., for which an expenditure of \$710,000 was carried on the books, did not exist.

Coltrane was unable to get any satisfactory explanation of this out of Smith or the bank's officials but the \$710,000 eventually was traced through a maze of related Smith companies.

A fairly comprehensive investigation followed under the direction of A. E. Lar-

sen, regional administrator of national banks in San Francisco, the NANA article said. This inquiry found that 21 per cent of all the San Diego bank's loans were to related companies mostly under Smith's control.

(Larsen retired June 30 after 30 years with the comptroller's office, which is a bureau of the Treasury Department. He now lives in San Diego, where he is president of Southern California First National Corp., the holding company that owns Southern California First National Bank.)

Officials at the regional administrator's office in San Diego, in the allegations, referring inquiries to the controller's office in Washington. It was learned that examiners are under a court order not to discuss cases in which Smith is charged.)

Coltrane said that by the time the Larsen inquiry was finished everybody in the comptroller's office in Washington knew the whole story but then-comptroller of currency James J. Saxon and his deputy, Justin Watson, did nothing about it.

Mr. Nixon's name came up in connection with a dinner at a San Diego restaurant early in 1963. The NANA story said a number of examiners who had taken part in the examination of the San Diego bank were present.

One asked Larsen why the San Diego office had not received a formal copy of the

completed report on the inquiry. The article went on:

"Coltrane remembers Larsen smiling and saying, 'it's on the desk of the vice president.'"

"You mean Lyndon Johnson?" Coltrane asked. Larsen almost fell off his chair laughing and said: 'you've got the wrong vice president.'"

"It was obvious to Coltrane," the article said, "that he (Larsen) was referring to Richard Nixon, but he did not elaborate."

Mr. Nixon at that time had been running for governor of California.

The NANA article said it is not clear why a democratic administration should have alerted Mr. Nixon to the troubles of his banking friend in San Diego.

The article said that the comptroller's office did demand that Smith clean up the bank's affairs during the winter of 1962-63. Smith promised to do so and made some changes, it said. But the NANA article said Smith made only cosmetic changes and largely ignored the demands of the comptroller's office.

Coltrane was reassigned and later resigned. He is currently under indictment himself in a bank manipulation case, the NANA article said.