THE LOAN SHARK RACKET

A Report by the New York State Commission of Investigation

April 1965

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An Investigation of The Loan-Shark Racket

A REPORT BY THE
NEW YORK STATE
COMMISSION OF INVESTIGATION

APRIL 1965

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I

INTRODUCTION

Problems arising from money lending have vexed mankind from its earliest history. However, loan-sharking, the charging of unconscionably high and onerous rates of interest on loans of money, as an organized criminal enterprise, is a fairly recent development. The loan-shark racket as we know it today was developed by the same lawless elements that turned the streets of American cities to battlegrounds during Prohibition.

There was a time when a "respectable" racketeer looked down his nose at the usurious money lender. He was regarded with the same contempt accorded to the common procurer. The czars of the underworld and their highly organized minions were then engaged in other pursuits—protection rackets during the earlier part of the century, and bootlegging, after the passage of the Volstead Act. It was not until the repeal of the Prohibition Laws that the organized crime syndicates, with tremendous capital at their disposal, started looking around for new enterprises. Expansion of gambling, vice and the traffic in narcotics took up the slack caused by repeal. This produced new and greater profits. The underworld sought a racket to put this money to work and in a way that would produce "legitimate" revenue. They found it in loan-sharking.

By the end of the Thirties, crime syndicates were fully engaged in usurious money lending operations. This venture soon proved its tremendous potential for making money. Racket controlled money lending operations were not affected by governmental regulations of legitimate lenders nor was organized criminal loan-sharking ever encumbered by considerations of proper banking practices, procedures and ethics. Competition for business, in the normally accepted sense, was never a factor. In the years that followed, the racket flourished.

The Commission's investigation and hearing, conducted in 1964, revealed that loan-sharking, today, has become a major and most lucrative operation of the criminal underworld. Moreover, loan-sharking is a principal avenue by which crime syndicates have invaded legitimate businesses. These businesses, when taken over by loan-sharks, are used to further other criminal enterprises. With this growth of power, the loan-shark

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has become a serious threat to our economy and a menace to society.

Clearly then, the importance of this investigation and report is not only to alert the public to the ever-growing danger of loan-sharking, but to help bring it within effective control of the law.

A. THE INVESTIGATION

As part of its continuing program dealing with organized crime, the Commission had gathered substantial information regarding the activities of crime syndicate members in the money lending business. In the fall of 1963, the Commission, deeply concerned about the situation, authorized a full investigation into all aspects of the loan-shark racket.

Investigative leads were developed and witnesses who could provide direct evidence about the racket were located and questioned. Businessmen, laborers, doctors, lawyers, manufacturers, restaurant owners, real estate men, artists, bankers, liquor dealers, "finders," night club entrepreneurs, bakers and housewives —this is merely a sampling of those questioned at length, to determine the scope of loan-sharking.

But before testimony was secured, the ever-present obstacle of fear had to be surmounted—fear engendered by loan-shark tactics in collecting loans. Uppermost in the minds of so many witnesses was their personal safety and the well-being of their wives and children. Questions were often answered by such counter-queries as: "My son walks to school every day. Who's going to watch him?"; "My wife has already been hospitalized for a nervous breakdown over this. What will happen next?" Questions such as these were not lightly treated, and it was necessary to establish a relationship of trust and mutual confidence between the Commission and the witness before the truth could be recorded.

In some instances the Commission was able to obtain valuable testimony on a confidential basis from individuals who had been on the "inside" of the racket. Significant assistance was also provided by brother law enforcement agencies.

B. THE PUBLIC HEARING

The six day public hearing, climaxing the investigation, was held in the Commission's Hearing Room at its office in New York City, on December 1, 2, 3, 7, 9 and 10, 1964.

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The report which follows will detail the evidence presented at the public hearing. For completeness, additional material from the investigation and private hearings is included.

At their request, and for obvious reasons, the identities of several witnesses who testified publicly were not divulged. In this report, these and other witnesses afforded anonymity will be given a simple alphabetical designation, according to the order in which they appear in the report.

The Commission's statement upon the commencement of this public hearing, in pertinent part, outlined the scope and purpose of the hearing:

> "Law enforcement officials have long recognized that one of the principal and most lucrative operations of the criminal underworld is the loan-shark racket. Together with gambling operations, labor racketeering and trafficking in narcotics, loan-sharking, in its various aspects, has engaged the major efforts of law enforcement in the battle against organized crime. Yet comparatively little is known by the general public about loan-sharking. More disturbing is the fact that enforcement efforts in this area have been handicapped seriously by weak and confusing anti-usury laws—laws under which the most nefarious and vicious practices are often legal.
>
> Today, this Commission commences a public hearing which will expose this racket, and the problems in dealing effectively with it, to public scrutiny."

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II

UNDERWORLD OPERATION OF THE LOAN-SHARK RACKET

In the months of investigation that preceded the public hearing, it became clear to the Commission that the usurious money lending business had become a major enterprise, and a principal source of revenue of the crime syndicates. Loan-sharking, once considered of small consequence, was recognized by underworld leaders as having a number of highly attractive features.

A. CRIME SYNDICATES IN THE MONEY LENDING BUSINESS

The usurious money lending business was particularly adaptable to successful operation through existing underworld organizational structures. With potential for great profits, it presented an open avenue to the world of legitimate business and the means of turning racket avenues to usable legitimate capital. The absence of effective usury laws in New York State served to make these prospects all the more inviting.

These conclusions by the Commission were unanimously confirmed by a number of law enforcement officials who testified at the public hearing.

The Hoodlum Hierarchy

Organization of the loan-shark racket as a syndicate venture is composed generally of three principal echelons. On the first or top level is the underworld boss. He is the original source of money and the person to whom all others owe their absolute allegiance. Assistant District Attorney Frank Rogers of New York County, in testifying about the hoodlum hierarchy of loan-sharking, stated that the bosses distribute unlimited amounts of money; "millions of dollars" are entrusted to chief lieutenants and under-bosses who comprise the second echelon. The amount of money these men receive from the top is determined by their stature, past performances and volume capabilities. This second echelon pays one percent vigorish weekly for its money.* There

* Vigorish is the underworld term for interest and other penalties or charges imposed on a usurious loan.

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is absolute responsibility for the use of this money on all levels. This includes the distribution of funds to borrowers and the profitable return of capital and interest to each source. Each man is an independent contractor and knows that there are no excuses for failure to perform his part of the "contract".

The chief subordinates act as middlemen and loan monies to a third echelon comprised of the hoodlums who deal with borrowers—the ultimate victims of this underworld financial empire. Rates charged to the third level generally are from one and one-half percent to two and one-half percent weekly. The third level loan-shark lends money to the borrower at rates of interest usually not less than five percent per week (26-28).*

Distribution does not always follow the general pattern as outlined. In fact, there are several loan-sharks who, law enforcement officials agree, are chief lieutenants in the second echelon and who handle their own distribution. These are among the major loan-sharks in New York City who can loan a million dollars at a time to a borrower (29).

One such transaction was described at the hearing. In this instance, the borrower needed one million dollars to finance a construction project. In his conference with the loan-shark, a chief lieutenant of a syndicate and one of the most prominent loan-sharks in New York City, the borrower talked about credentials and collateral. The loan-shark clearly acquainted him with the facts of such a loan:

> "And the loan-shark quite frankly stated to him that he doesn't need any credentials, number one. The man who had sent the borrower, the prospective borrower into him, he was enough, his word that you, meaning the prospective borrower are okay, is enough for me.
>
> And the borrower also didn't require any collateral. The borrower couldn't understand this too well. He was simply told in no uncertain terms that 'Your body is your collateral.'
>
> The borrower then understood the type of loan that he was getting." (31)

The testimony adduced at the public hearing showed that one hundred twenty-one of the high echelon members of the

* All references to the transcript of the Public Hearing will be by page number only. References to the transcript of the Private Hearings will be preceded by "Pr. H."

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five recognized criminal syndicates operating in greater New York were engaged in loan-sharking.*

It appears that either membership in or affiliation with one of the syndicates is necessary in order to move money into the usurious money lending business. The "Newsboy" Moriarity case illustrates this fact. Moriarity, a professional gambler who operated a numbers or policy racket in Jersey City, was characterized as an "overlook." This term is applied to a criminal who operated on a scale larger than generally recognized and who escaped being absorbed by the syndicates. Consequently, ". . . . he couldn't move his money to hide it from the government and the tax people. He couldn't put it in banks and he couldn't move this money out without the assistance of the mob. Therefore, he had to hide it" (225). He did just that. In July, 1962, approximately 2.5 million dollars in cash were found crammed in a Jersey City garage and generally acknowledged to be the proceeds of Moriarity's illicit business.

There are also instances of top loan-sharks who are not recognized syndicate members. However, they cannot operate unless they have a direct connection with the syndicate. This usually comes in the form of a syndicate "partner" who supplies "prestige and brawn" (230).

Syndicate Discipline—"The Sit-Down"

One significant aspect of underworld control of the loan-shark racket is the desire to operate in a discreet and cautious manner. Syndicate money lenders have generally recognized the need for good "public relations" which will allow them to function with a minimum of police attention and public clamor. Rather than solve internal disputes by gang warfare or to resort unnecessarily to violence, the syndicates now tend to arbitrate differences by a more "civilized" technique known as the "sit-down." The full power of the underworld's absolute authority, iron discipline and enforcement machinery is behind such arbitration.

When disputes arise in connection with any aspect of the underworld lending business, the opposing parties will arrange for a "sit-down" with a mediator. There the matter will be peaceably settled as quickly as possible rather than engaging

* These syndicates are identified by the names of their alleged leaders, as follows: Vito Genovese, Carlo Gambino, Joe Colombo, successor to Joseph Profaci, Thomas Luchese, Joe Bonanno.

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in "open shooting wars which bring the hue and cry of the public and prosecutors on top of them . . . ." (203). A high ranking member of the underworld presides over every "sit-down" and his decision is final.

The "sit-down" is also used to adjudicate a claim against a borrower whose interest and penalty assessments have increased his indebtedness to a point where it is no longer collectible. In such cases, an amount will be decided upon in full settlement of the obligation.* This type of "kangaroo court," never requires a loan-shark to accept a sum less than the original loan. Invariably the arbitrated figure is three or four times that amount (46, 47).

Connection with Other Rackets

The close connection between loan-sharking on the one hand, and bookmaking and narcotics distribution on the other, was also revealed at the hearing. The bookmaker who sustained high losses as a result of the unforseen shut-out of the Yankees in the 1963 World Series, for example, obtained re-financing through the loan-shark (34). The narcotics importer who needs instant credit to meet an exceptionally large drug shipment also goes to the syndicate usurer. In another situation, the New York City Police Department arrested a narcotics "pusher" and found records on his person indicating that he was "not only pushing these doses of junk, but also shylocking them (the addicts) when they were unable to make their payments (for drugs)" (242,243).

Instances were found in which a racket union in the construction field actually used loan-sharking as a concession at construction sites. These concessions were sold or granted to others and operated by criminal underlings as a continuing source of revenue (232).

The Profit Incentive

Of all the factors that led to popularity of loan-sharking as a principal crime syndicate activity, its fantastic profit was undoubtedly the most compelling. Just how much profit was

* Fixing a final figure by arbitratin or a "sit-down" is known in the loan-shark racket as "stopping the clock," connoting the cessation of the accumulation of weekly vigorish and penalties. This only happens when the borrower has convinced the loan-shark that he cannot continue paying weekly vigorish. The loan-shark will stop the weekly accumulation of interest and penalties and settle upon a lump sum payment at a specific time.

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illustrated at the public hearing by Sergeant of Detectives Ralph Salerno of the Criminal Intelligence Bureau of the New York City Police Department:

"MR. SALERNO: A big racket boss could have a Christmas party in his home, to which he invites ten trusted lieutenants. He doesn't have to write their names down. He knows their names. They are friends of his. They can come to his home.

MR. VERGARI: They are part of the underworld, and in the underworld parlance, they belong to him.

MR. SALERNO: Yes. He can take one million dollars, which is not an inconceivable amount in cash, and distribute that one hundred thousand dollars per man to these ten men. All he has to tell them is, I want one per cent per week. I don't care what you get for it. But I want one per cent per week.

He does not have to record their names. He doesn't have to record the amount. These are easy enough to remember. And if you stop and think, that 365 days later, at the next year's Christmas party, the only problem this gang leader has is where is he going to find five more men to hand out half a million dollars that he earned in the last year on the same terms.

MR. VERGARI: In other words, he is making ten thousand dollars a week on his million dollars. Is that right?

MR. SALERNO: Yes. $520,000 a year." (207-208)

Carrying this illustration out along the succeeding echelons of the racket, a matter of simple mathematics, further underscores this great profit making potential. The third echelon lender charges, on the average, five percent weekly vigorish. Therefore, a million dollar "investment" at this level can produce as much as $50,000 a week or $2,600,000 a year. Of this amount, $15,000 to $25,000 a week, or up to $1.3 million a year in vigorish alone, is returned to underworld superiors.

Deputy Inspector Arthur C. Grubert, Commanding Officer of the Criminal Intelligence Bureau of the New York City Police Department testified that "there is far less risk with every bit as much profit coming from the loan-shark racket as there is in the gambling operations" (206). The expense involved in maintaining a lucrative loan-shark business is relatively less. Unlike the gambler, a loan-shark does not need a network of

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controllers, runners and bankers without which the successful policy operator could not operate (20). The bookmaker requires an office or a wire room and must be generally available at a fixed location with well paid sheet writers and the like on the payroll. Loan-sharks can get along without experience or specialized training, which are absolute necessities for professional gamblers.

Loan-sharking also has become a convenient vehicle for turning so-called "black money" into "white money," or legitimate funds. Major racketeers have great fortunes available to them, the proceeds of their illicit trade in narcotics and gambling. These underworld leaders have found that by loaning money out to their chief lieutenants, for further distribution in loan-sharking, they can gain control of many legitimate businesses. A business take over gives the hoodlum not only a corporate cover, but a new source of money—this time, legitimate.

Loan-sharks have constantly used corporate borrowers as a cover, or concealing device for themselves and other hoodlums. Typical was the instance in which a loan-shark took his weekly vigorish payments in the form of a salary check from an automobile dealer to whom he had loaned money. The gangster appeared on the corporate books as an outside salesman. He never sold a car. When questioned, he was able to claim legitimate employment, at least insofar as a weekly paycheck would indicate (238).

Opportunity to realize unusual profit in loan-sharking was also disclosed in the case of an heir to a large sum of money in trust, who attempted to sell his inheritance rights for a loan-shark loan, at one-third the actual value of the trust fund (233). The Commission also received testimony of an attempt by "the mob" to take over a bank which had as its objective the use of the bank as a cover for usurious money lending operations (234).

There was testimony at the hearing of yet another and little recognized advantage accruing to the criminal through loan-sharking. Money-lending has prestige value which feeds the gangster's ego and makes him a success in the eyes of his fellow criminals. The hoodlum enjoys the feeling that comes with making a loan to a member of the legitimate business or professional community. Not only has the loan-shark made a profit on his transaction, but there is "an additional profit in the sense of loyalty from this man (the borrower) to a racketeer (the

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lender)" (219). The unique position of the loan-shark in the underworld was summarized:

> "It is a demonstration of power. You have something which, I think is unique in criminal fields in loan-sharking.
>
> They have raised the status of loan-sharking to a height and to a degree in their own criminal circles that I have never seen duplicated anywhere.
>
> It seems to be an unwritten law that even if you are a criminal, even if you are a top guy, you always pay the shylock.*
>
> The Gallo gang, for example . . . . I know that this very same group which challenged the criminal empire, still very diligently paid the shylocks. Certainly not out of a sense of fear, but this is the status that it has achieved in their circles. You borrow money, you pay it back. They weren't afraid of the shylock. But they didn't know when they might need him again. So they very diligently paid the shylock." (220-221)

Ineffective Laws—An Invitation to Crime

Startling as it may seem, the Commission found, and all official witnesses agreed, that the absence of effective usury laws in this state was a significant factor in the underworld's move into loan-sharking. The criminal usurer can, and generally does, operate within the law. A reliable informant advised that "every hood in the world knows you can charge any amount of 'vig' you want on $800 or up." This is indeed the case.* This situation was pointed up by the testimony of Assistant District Attorney Rogers who testified that prosecutions for "pure loan-sharking" are rare. Police and prosecutors must look for other criminal violations in seeking to combat the loan-shark, including extortion, assault and other crimes of violence (19). However, as noted, arbitration through the "sit-down" was designed to avoid such problems. Overt and actionable violence is rarely necessary. The loan-shark's reputation alone, is generally enough to instill fear.

---

* The term "shylock" or its derivations "shy" and "shell" are generally used in the underworld to refer to anyone in the money lending business. As will be noted several witnesses used the expression "shylock" when referring to loan-sharks in their testimony.

* See pp. 80 to 84 for a discussion of the shortcomings in New York State statutes concerning usury which permit loan-sharks to operate within the law.

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Loan-Sharking—How Big?

The scope of the underworld's financial empire is described in this testimony of Assistant District Attorney Rogers at the public hearing:

"COMMISSIONER LANE: Mr. Rogers, can you give us an estimate in dollars and cents of this loan-sharking operation in the United States? I know that it is an estimate. Could you give us one for the United States?

THE WITNESS: It is very hard to say, Commissioner Lane. I can give you an idea from one particular loan shark that I was very familiar with. Perhaps you could get it from this.

From reliable information we know that in approximately 1959 and in 1960, there was made available by the leader to his chief subordinates approximately a half a million dollars, $500,000. Again, from reliable information, from the best accounting we could obtain of this, we now believe that that $500,000 has been pyramided to seven and a half million dollars.

COMMISSIONER SARACHAN: Seven and a half million dollars?

THE WITNESS: That this man now is worth seven and a half million dollars.

COMMISSIONER LANE: One person in New York County?

THE WITNESS: Yes.

COMMISSIONER LANE: It is reasonable to expect, there is roughly five hundred million to one billion dollars.

THE WITNESS: That would be very easy, sir. Here in New York City, in New York County, there is at least ten men who are comparable to him. A loan shark that we know of lent a million dollars in the morning and a million dollars in the afternoon.

COMMISSIONER LANE: So it would sound as if it were in the billion dollar class, if you take the entire United States.

THE WITNESS: Yes, very easily." (51-53)

B. JIGGS AND RUBY

At a private hearing before the Commission, a well-informed and reliable witness, who will be called *A*, was asked: "Who is

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the biggest loan shark in the City of New York?" His answer was quick—"Jiggs Forlano. I would call him the biggest in the five boroughs. The biggest. And Ruby Stein is his partner." He was referring to Nicholas "Jiggs" Forlano and Charles "Ruby" Stein (Pr. H. 4088-4089). "Jiggs and Ruby" may sound like characters in a comic strip, but they hold key positions in the intricate network of criminal usury operations in the New York area.

Nicholas Forlano is 48 years old and lives modestly in a semi-detached house in Long Island City, Queens. Few people know him by any other name than "Jiggs," and this alias is duly noted on the record of his criminal past. His record dates back to 1930. In 1935 he was sentenced to the Northeastern Federal Penitentiary after having been found guilty of trafficking in narcotics. He was also convicted on bookmaking and policy charges in 1943. Forlano and Stein were part of a gathering of notorious underworld figures picked up at a raid in January 1961 at a White Turkey Restaurant in Manhattan. Among others arrested in that raid and charged with consorting with known criminals were Carmine "Snake" Persico, Philip Gambino and Albert Gallo, brother of Joseph "Crazy Joe" Gallo.

Charles Stein has been connected with loan sharking and bookmaking for many years. Known as "Ruby" and "Charles Rice," he has a criminal record dating back to the 1940's, when he was arrested twice for bookmaking. In 1954 he was sent to the United States Penitentiary in Atlanta on a tax evasion charge. Stein gives a Jackson Heights address, but maintains a plush Park Avenue apartment.

A was asked to explain the way in which Forlano and Stein operate, particularly with regard to the sources of their capital. He outlined the chain of command in what he chose to call the "Mafia." Heading the syndicate, he explained, are the bosses, whose power is complete and absolute. The position of Forlano and Stein is such that they deal directly with the bosses.

The rackets are the life blood of the syndicates. It is generally known that bookmaking, narcotics, policy—all generate fantastic profits. As *A* put it, ". . . the boss must push it out to make profit with it, so that eventually this money can turn from no good money to good money" (Pr. H. 4090). "Now, how do they do that?" Mr. *A* answered his own question. "They go ahead and they give this kind of money to people like Jiggs Forlano" (Pr. H. 4090).

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Forlano, in *A's* terms, is a wholesaler of money, a "shylock's shylock." With the syndicate boss as his direct source of capital, he borrows vast sums at the rate of one percent weekly. *A* testified that Forlano loans out this money to other loan-sharks and "bookmakers, policy operators or businessmen with the type of operation he feels he could step into" (Pr. H. 4090). Forlano's vigorish rate to the lower echelon loan-shark is from one and one-half to two and one-half percent a week.

Forlano originally came out of the Brooklyn syndicate headed by the late Joseph Profaci. However, his sources of capital are not confined to his old syndicate. His reputation for moving money quickly and efficiently at great profit is generally known to underworld bosses. As a result, his capital sources have no bounds. Any syndicate chieftain will entrust Forlano with unlimited funds, confident that a return on his investment will be assured (Pr. H. 4103-4). Because of his reputation and contacts, Forlano is the decision maker in his partnership with Stein (Pr. H. 4105). "Ruby" Stein is the mathematician of the business.* He is also used as the contact man who actually handles the money. *A* has witnessed Stein handing packages of money to borrowers.

Bar and restaurant owners are favorite clients of Forlano because as part of the loan transaction they are required to permit him to set up shop on the premises. Invariably he acquires "a piece" of the business (Pr. H. 4095). Word goes out to the select clientele regarding the various locations where business is being conducted. According to *A*, Monday was the busy day in Forlano's operation. People who wanted money were told to come in on Monday, and vigorish was regularly due on the same day. "Everybody pays Monday," explained *A*, "Monday always comes" (Pr. H. 4096).

The site for transacting business has varied from a large cafeteria in midtown to a quiet, elegant East Side steak house (Pr. H. 4109). Operations were not limited to Manhattan. Forlano and Stein, for a time, were doing a thriving business right on Queens Boulevard, just a stone's throw from the Criminal Courts Building in Kew Gardens.

In addition to money, the successful loan-shark at any level requires an "enforcer" (Pr. H. 4124). Some usurers, such as Forlano, are feared in their own right because of their reputation. Forlano is not known "to do his own dirty work." He is too

* Stein is reputed to be a mathematical wizard capable of swift and accurate mental computation of complicated problems. This talent is particularly valuable in the bookmaking business in which he and Forlano are also engaged.

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big and above that, *A* explained (Pr. H. 4125). At one time, Forlano, to collect debts, used the services of the infamous Gallo gang of Brooklyn, on a contract basis (Pr. H. 4125).

Both Stein and Forlano were subpoenaed for the public hearing. They appeared but invoked their privilege against self-incrimination.

The Forlano-Stein business combination has reaped a vast harvest of ill-gotten gains. The magnitude of the profits to be made in loan-sharking at this level is indicated in *A's* considered estimate of the volume of this business. He stated that Forlano and Stein have had as much as $5,000,000 "on the sheet" at one time. And at an average of two percent a week return, these money wholesalers make for themselves and their underworld bosses at least $100,000 weekly.

C. FIRST NATIONAL SERVICE AND DISCOUNT CORPORATION—A TYPICAL UNDERWORLD LOAN-SHARK OPERATION

An individual approaching the doors of the First National Service and Discount Corporation* would never guess the real nature of its business. Tucked away in a Fifth Avenue office building, First National's title was a euphemism at best. The "service" it dispensed was intimidation and fear. Its "discounts" were limited to loans which called for the payment of five percent weekly vigorish as long as the loan was outstanding.

First National was a loan-shark operation and its principal operating force was Julio Gazia, alias Julie Peters. The names Gazia and Peters were used interchangeably by many witnesses and the Commission found that he was equally well-known by either name. In the text of this report, he will be referred to as Gazia; in the quoted excepts from private and public hearing testimony, his name appears as both Gazia and Peters.

The operation of First National and its hoodlum masters and employees will serve to illustrate almost every sinister aspect of underworld loan-shark operations.

"I am a Shylock—A Five Percenter"

The history of First National and details of its operation were provided by a witness, who will be referred to as *B*.** An attorney, *B* was retained by Gazia around 1955 to represent him

* Hereafter referred to as First National.

** This witness testified at the Commission's public hearing as John Doe.

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in a bankruptcy matter in Buffalo, New York. Gazia was referred to *B* by another attorney with whom *B* was associated at the time.

In time, the professional relationship between *B* and his client grew more friendly and personal. On one of their frequent flights together between Buffalo and New York City, Gazia spoke rather freely to *B* about the true nature of his business. *B* testified:

> BY MR. COMETA:
> "Q. It was at this time that Peters informed you as to the true nature of his profession, is that correct?
> A. Yes.
> Q. Did he characterize his profession in his own words?
> A. Yes, he said 'I am a shylock.'
> Q. As simple as that?
> A. A five percenter, he called himself.
> Q. A five percenter?
> A. Yes." (Pr.H. 1805)

Gazia went on to explain the various aspects of his business. *B*, interested and, of course, knowing that Gazia's claim against the bankrupt debtor was $80,000, asked about the source of his capital:

> "Q. Did you ask Mr. Peters where he got the $80,000 to loan this man?
> A. Yes. He told me that he had been shylocking all the time, or lending money at five percent, and then he told me that there were fantastic amounts of money that could be earned at this rate of interest, and that he had a clientele that couldn't be beat, going into doctors, stockbrokers, the highest people that you want to meet. They were paying him five percent on tremendous sums of money and there couldn't be a nicer existence to live on that kind of income.
> Q. Is that five percent a week . . .?
> A. That is five percent a week." (Pr.H. 1806)

B was to become a close business associate of Gazia's and an active participant in his money lending business.

The Corporate Cover

Some time later, Gazia and *B* established the First National Service and Discount Corporation. Records filed with the office

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of the New York County Clerk indicate that First National was incorporated on April 12, 1960 and that its certificate was filed on May 4, 1960 (Pr.H. 1811).

Soon after its incorporation, First National started business in a suite of rooms at 475 Fifth Avenue, New York City. Customers were no problem—in the country's largest city there is an abundance of those to whom the traditional channels of credit are closed. First National proceeded to loan money, at first only to corporate borrowers. *B* testified:

> "Q. The corporation proceeded to loan money?
> A. Yes.
> Q. To individual borrowers?
> A. No, it lent money to corporate borrowers and later it went into individual cases.
> * * * *
> Q. Was there any particular reason for this?
> A. Because there is no usury statute with respect to corporation." (60-61)

Gazia's Underworld Sources

While a substantial clientele of borrowers was acquired readily, the sources of First National's capital were unorthodox, to say the least. *B*, who was active in the management and affairs of the corporation explained:

> "Q. When this corporation . . . was established, did Peters actually bring into it a certain amount of capital?
> A. Not as capital. As loans he did, yes.
> * * * *
> There was never any capital in the company.
> Q. He, Peters, was borrowing from other sources?
> A. Yes.
> Q. And in turn he would loan out the money that he borrowed from other sources?
> A. Yes.
> Q. What were the sources that he borrowed from?
> A. The sources were Ruby Stein* and Thomas Eboli**.

* Discussed in detail in a prior section of this report.

** Eboli, who is alternately known as Tommy Ryan, Tommy Rye and Tommy De Rosa, lives comfortably in Englewood Cliffs, New Jersey. Together with Gerardo Catena, also a New Jersey resident, Eboli acted as an underboss in the Vito Genovese syndicate. It is generally believed that in the absence of Vito Genovese, Eboli is acting chief of the Genovese criminal empire.

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Q. Is Mr. Eboli also known as 'Tommy Ryan?'
A. Yes, he is.
Q. In addition to these two people, were there others also involved—Mike Genovese and Joe Ross?
A. Yes, Mike Genovese* gave his money and Joe Ross gave his money on isolated occasions.
Q. What is Joe Ross' real name?
A. Joseph De Nigris."** (Pr.H. 1813)

The monies which were thus loaned Gazia, were in effect the investment made by these underworld figures in First National.

Money wasn't always on hand to cover all borrowers' needs. In the event that Gazia needed additional financing to make a particularly large loan, he would borrow accordingly from Ruby Stein, Tommy Eboli and others. These individuals charged Gazia a rate of interest of one and one-half percent to two percent a week. (66) This proved to be an ideal way to make money, especially since Gazia risked no capital of his own. He succeeded in making an average profit of three percent a week on this money.

It was hardly expected that the testimony of First National's principals would present a complete picture of the manner in which it was doing business. Accordingly, pursuant to service of a subpeona, a number of corporate ledgers and other records such as checks, statements and assorted index cards were produced for examination by the Commission staff.

The records clearly indicated the relationship of Genovese, Eboli and Stein to Gazia and First National. Although these individuals loaned sums of money to the corporation from which they reaped the rich return of two percent per week, they were, in fact, capital investors in a loan-shark venture. Because of the constant flow of this money in and out of the corporate treasury, by way of loans and repayments, *B* found it difficult to testify with regard to the indebtedness of First National to any of these men at one particular time. Typical weekly debit entries relating

* Relatively little is known about Michael Genovese, brother of Vito Genovese. He is referred to, in inner criminal circles, as the "wise man" (Pr.H. 1835). When questioned at both private (June 8, 1964) and public (December 1, 1964) hearings, Genovese invoked his constitutional privilege against self incrimination in answer to all questions.

** De Nigris, alias "Joe Ross," is known as a reliable old "soldier" in the Vito Genovese syndicate and a close aide of "Tommy Ryan" Eboli. His criminal record, dating back to 1914, includes convictions for larceny, burglary, forgery and counterfeiting.

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to "Tommy Ryan" Eboli, carried on the books as "TR" and to Stein, referred to as "R.S.", were discussed with *B*:

> Q. By the 'books,' you are referring to the blank indexed ledgers which you also submitted to the Commission . . .?
> A. Yes. If you will look at the card of June 19th you will find it is written in ink up to a certain point, and everyone of the payments in ink were payments that were received by check and entered by me. You will find payments in pencil and they were the cash payments that were turned over to Julie (Gazia). And he would supply that to me. In the same week you will find another payment to Tommy Ryan of $300 and you will find a Ruby Stein, 'R.S.,' $300 both of them.
> Q. On the calculation of two percent of the outstanding indebtedness per week, how much money would have been outstanding with regard to Tommy Ryan at that time, based upon that $300 vig payment?
> A. Around $15,000.
> Q. And the same would be true with regard to Ruby Stein, is that correct?
> A. Yes.
> Q. Based upon that computation, which you just made, could you give us any indication of how much money was outstanding on a monthly or weekly basis from these two payments? Was that the usual amount? I am talking now about borrowings from either Tommy Ryan or Ruby Stein.
> A. No, there was nothing unusual about it. The money would be taken as it was needed for a specific loan. There was nothing that was ever carried as just carrying of a loan as such." (Pr.H. 1821-22)

Gazia and his investors met at a variety of Greenwich Village restaurants. *B*, present on many of these occasions, "heard them discussing money and payments of money that were due between them" (72). On other occasions, Eboli was seen in the offices of First National. *B* testified that on one occasion he saw Eboli hand Gazia a substantial sum of money. Gazia explained to *B* that the business needed capital for a particular loan and that Eboli brought the money for that purpose (Pr.H. 1826).

The Delinquent Loan-Shark

Gazia's relations with his financial bosses were not always smooth and untroubled. Gazia was, of course, bound by stern

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racket discipline which, on transactions between Eboli and Gazia, required prompt and full payment of vigorish—in this case two percent weekly. *B* had numerous conversations with Gazia about his weekly obligations and actually observed Gazia making payments of money to Eboli (Pr.H. 1823).

Like many other borrowers with "vig" obligations, Gazia himself fell behind in his payments to the underworld leaders. Eboli, in keeping with the code, was not one to let arrears pile up. According to *B*, he applied immediate and constant pressure on Gazia for payment.

Gazia was a heavy gambler and loser—a fact which was largely the reason for his periodic failure to pay weekly vigorish to his racket sources on time. It was as a result of Gazia's gambling losses that *B* met the notorious "Jiggs" Forlano. The witness found Forlano going through Gazia's desk at First National. *B* was not sure who the stranger was at that time and ordered him to leave, but not without asking the purpose of the search. Forlano told him that Gazia owed Ruby Stein some money and that he was sent to get it.

When Gazia returned to the office, *B* asked for an explanation and at that time was told who "Jiggs" was. Gazia confessed that he was heavily indebted to Stein as a result of a baseball gambling system which Gazia had devised and which was supposed to be foolproof. Gazia apparently picked the wrong teams and ended up a big loser, owing Stein between $125,000 and $150,000. When Gazia realized that Stein was pressing for the money, "he beat it for one or two days, and then went running to Mike (Genovese) for protection" (Pr.H. 1830-31). Later, a compromise was arranged under the auspices of Michael Genovese.

Uncle "Mike" Genovese

The name "Genovese" is woven throughout the fabric of First National's story. Julio Gazia is related by marriage to Vito and Mike Genovese. The corporate books clearly indicated that "M.G.", code for Mike Genovese, invested money in First National and profited handsomely on his investment.

Further evidence of Gazia's connection with and subservience to the crime syndicate headed by Vito Genovese was obtained during the investigation. Michael's brother, Vito, was arrested by the federal government on a narcotics charge, tried, convicted and sentenced to serve a fifteen year term at Atlanta Penitentiary

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in April 1959. The cost of Vito's defense was substantial—a great deal of money was spent on legal fees. At one point during the lengthy litigation, Michael Genovese discussed this matter with the principals of First National. The corporation, as a syndicate enterprise, was assessed $5,000 as a contribution to the defense fund.

A Cadillac—Gratis!

Mike Genovese, who referred to First National as "our business" (Pr.H. 1836), received other dividends for his investment in the company. It was agreed at the inception of the corporation that he was to be a one-third partner in the business although he received no share of corporate profits as such (Pr.H. 1836). However, one of the rewards for his financing the company was a new Cadillac convertible purchased ostensibly for the corporation and used solely by him. *B* testified that First National purchased the car for Genovese and paid for garage and mainteance costs with corporate funds. Shortly after its purchase, at Mike's direction, the car was sold. *B* was instructed to transfer title to the automobile. He did so and testified that thereafter, he saw neither the car nor the proceeds of the sale (88).

The Borrowers

What of the unfortunates who were desperate enough to borrow money from the Gazia operation? The case of an independent photographer who found himself caught in the loan-shark's iron grip serves to illustrate the high-interest payment exacted from borrowers. Some time ago, the photographer, who shall be called *C*, met Gazia and borrowed $200 from him.

C had no collateral of any kind and was unable to secure a loan from any reputable financial institution. *C* was asked about the terms of the loan:

> BY MR. COMETA:
> "Q. What did you agree to pay him?
> A. He wanted me to pay him an interest of ten dollars a week.
> Q. Did you understand that this ten dollars a week would have any effect on the two hundred dollars you owed him?
> A. None whatever.
> Q. None whatever?
> A. That's right.

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Q. So that, in fact, you were obligated to pay ten dollars ad infinitum?
A. As long as I keep the $200.

* * *

Q. Did you, in fact, thereupon, begin to pay him weekly ten dollars?
A. I did." (127)

C found it impossible to keep current with his "vig" payments. Upon default, he immediately heard from Gazia, who threatened him with bodily harm if he didn't pay what Gazia said he still owed him. The witness testified that his weekly $10 payments for a period of over two years totaled between $1,000 and $1,500. None of this was applied to payment of the principal amount (130). *C* admitted that he was fearful "most constantly" (131) and that he was "always aware that something could happen to me" (132).

The Easily Accessible Loan-Shark

One might well wonder how a borrower like *C* finds a loan-shark. Criminal usurers do not advertise nor are they listed in any business directories. Their seeming ubiquity and ready accessibility to borrowers is attributable chiefly to one other cog in the underworld money lending apparatus—the "steerer". This individual, normally not a syndicate member or employee, refers borrowers to the money lender. According to law enforcement officials and other reliable sources the number of steerers who stand ready to recommend a loan-shark is legion. These are found in the vast army of doormen, elevator operators, bartenders, hat check girls, cab drivers, cigar stand operators and others who have daily contact with many people.* Such people usually earn a small fee for their service.

The case of an East Side restaurant owner, *D*, is in point. *D*, after years of working in the restaurant field in a number of capacities, finally accumulated enough money to become sole owner of a fine French restaurant. His business was successful by most standards, but in making the jumps from employee to partner to sole owner, *D* became financially overextended. Not being able to obtain a loan at his bank, he found a "temporary

* In certain instances a "steerer" may be held liable as a guarantor on the loan. This usually occurs when the "steerer," as a friend or business associate of the borrower, urges the granting of the loan and an understanding, express or implied is reached, that he will make good on the loan in the event of a default.

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solution" which he has long since regretted. When examined at a private hearing, he readily admitted borrowing money from First National. *D* dealt with Gazia, who loaned him $5,000 for which he agreed to pay $250 a week vigorish as long as he held the money. However, to repay the loan in full, he was obligated to pay back to Gazia the sum of $6,000 regardless of the amount of vigorish previously paid (Pr.H. 452).

It is interesting to note the route which *D* traveled to get to the loan-shark. He testified that he had become friendly with a doorman at an expensive East Side night club. At one point, *D* confided to the doorman that he was in need of quick cash. The doorman referred him to a cab driver, who, in turn, recommended First National.

Borrowers Live in Fear

Typical of all loan-sharks, Gazia was able to instill great fear in the minds of his borrowers. These individuals lived in dread that defaults in payment of vigorish would bring abuse and violence down upon them.

The criminal in the money lending business doesn't ask for collateral, but he is a secured creditor in the most dramatic sense of the term. The health of the borrower is his security, and upon every default, no matter how short in time, the possibility of bodily harm is brought home to him. *D*, the restaurant owner, testified regarding his fears:

> "Q. Are you fearful of these individuals, as far as what might happen to you if you did not pay them?
> A. Not to myself . . .
>
> * * *
>
> . . . but suppose they try to harm my children or my wife or my business.
>
> * * *
>
> . . . I am fearful of the whole bunch of them, not just one shylock." (Pr.H. 461-462)

Another borrower, *E*, went to First National for a small loan. His fortunes became progressively worse and he found himself falling behind in his payments. Gazia began a blitz campaign of telephone calls to *E* and his wife. Mrs. *E* testified that Gazia cursed her and generally subjected her to abuse and humiliating and filthy language (181). She once found an obscene note in her mailbox (183). An asthmatic, Mrs. *E* found all of this so

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sickening, she was stricken by a serious attack and was hospitalized for two weeks (187). Believing that Gazia was "crazy enough to do anything" Mrs. *E* lived in dread that "my son would be in any way subject to harm or my husband or myself" (190, 191).

The Gazia operation employed two hoodlums as its collectors, Anthony Scala and Anthony "Junior" De Franco. De Franco has two convictions for violation of Section 1751 of the Penal Law, which deals with the possession and use of narcotic drugs. His partner, Scala, likes to be called "the leg breaker."

The Business Takeover

The loan-shark is very anxious to accommodate the impecunious business corporation. There are several reasons for this, one of them being that if he and his henchmen can actually gain control of a company in legitimate business, they obtain important benefits beyond financial gain. The underworld is constantly looking for "cover," that is, a front which will serve to mask criminal activity. Known criminals are most anxious to appear as employees on the payroll of any going enterprise so that they may show some legal source of income. When the loan-sharks take over a business, the gates are opened and hoodlums become non-working "salaried employees."

Money, however, is the prime consideration. When a corporate executive approaches the loan-shark, the company itself will be subjected to a thorough scrutiny, for today's usurer is a sophisticated man, and if he cannot size up the possibilities of a business, someone who can is just a phone call away. If the business is beyond recall, it will be run into the ground at a profit to the loan-shark. This method of corporate rape, known as the "bankruptcy caper" will be discussed in a subsequent section. If the business can make money, the loan-shark will see to it that he receives his weekly vigorish from the executive borrower and also a sizeable share of the proceeds of the business itself.

F was a fairly successful business man in the optical field before he met Gazia. In need of quick cash for corporate development, he was referred to First National by a New Jersey businessman.

First National agreed to loan $22,000 to *F* for which he was obligated to pay vigorish at a five percent weekly rate. Usually a loan-shark is not primarily interested in repayment of the principal. He is content with indefinite weekly vigorish pay-

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ments. This was undoubtedly true in *F*'s case. No matter how many times he paid his $1100 weekly "vig", he still owed the entire principal of $22,000. When asked how he came to agree to such an exhorbitant rate, *F* simply replied ". . . I needed the money" (Pr.H. 654).

Three weeks later, *F* borrowed an additional $6500 without reducing the principal of the first loan. Now he found himself burdened by a $1425 weekly vigorish payment. In a short time, his fortunes hit rock bottom and he found himself running from friend to friend in an effort to borrow money to meet the loan-shark's demands (Pr.H. 661).

Gazia's patience ran short when *F*'s resources completely disappeared. The men at the top were also becoming concerned about their investment return and efforts were initiated to salvage what they could. To plot their future course, Gazia met with Eboli and one Don Ferraro* at a Greenwich Village restaurant. Witness *A* was also in attendance and testified about the details of the ""sit-down". At this meeting, which *A* referred to as a "kangaroo court", the future of *F*'s corporation was decided.

Ferraro was assigned to operate the corporation's plant in West Virginia and *F* was required to relinquish virtually all control over the fortunes of his company to him. In fact, he did not even have the authority to co-sign checks under the Ferraro regime. Eboli, as top man at the "sit-down" decreed that *F* was to be held to complete repayment according to their terms. The entire principal and as much interest as could be squeezed out of *F* and his company was to be recovered.

Numerous other meetings were held concerning the fate of the company. Notorious underworld figures such as Santos Trafficante were present. Some of these meetings took place in Miami, and at least one was held at the Englewood Country Club, Englewood, New Jersey, one of Eboli's frequent haunts. Another participant in this series of meetings was Louis P. Coticchia*, better known as "Lou Brady." who was presented to *F* as the "cure-all" who might possibly effect the merger of *F*'s company with another enterprise (149, 150).

* Dominick Ferraro has an extensive criminal record. He was convicted for armed robbery in New Jersey early in his career and in 1936 was convicted on a felonious violation of the U. S. Postal Laws, in that he operated a fake lottery known as the Montreal Post Graduate Hospital Fund Sweepstake.

* Coticchia's criminal record includes convictions for the crimes of receiving stolen goods and assault with intent to commit rape. His criminal record reflects entries from such varied cities as Hot Springs (Arkansas), Los Angeles, Miami, Baltimore and Dallas.

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Not too many months elapsed before the inevitable bankruptcy came. The company was completely drained and liquidated under the auspices of the loan-shark and his underworld cronies. *F* had not only paid back $25,000 in interest (152), but lost his business as well.

Gazia's Testimony

Gazia did not testify at the public hearing, Subpoenaed to appear on December 1, 1964, he entered Columbus Hospital for minor surgery three days before the hearing commenced. However, he appeared at four private hearings conducted in the earlier stages of the usury investigation. The fourth of these private sessions was on the occasion of his release from Civil Prison, where he had been remanded for his contumacious refusal to answer certain questions put to him by the Commission.

During each of his four private hearings, Gazia frequently indulged in emotional outbursts and was, for the most part, beyond the control of his attorney. Rambling incoherently, it was nearly impossible to obtain a direct answer to most of the questions asked of him. He denied that he was ever a principal of First National, that he made decisions as to the operation of the company, that he borrowed from Thomas Eboli, Ruby Stein, Michael Genovese, or others for the lending business. He did state that he worked as an investigator for the company.

The Profit Picture

First National's books and records were the subject of an extensive analysis. An accountant on the Commission's staff testified at the public hearing regarding his detailed examination of approximately six thousand entries, covering a two year period. Ninety-four borrowers transacted 410 separate loans for a volume of $400,000 in business during a twenty-five month period (112). The accountant's analysis further indicated a profit to First National on this business of about $150,000.

He was questioned about the very high profit margin of this operation. Using a ledger page from the corporate books as an example, he explained one instance of First National's extraordinary money-making techniques. In that case, a borrower received a loan of $2,500 for which he agreed to pay weekly interest of $125. He managed to pay the interest at first, but thereafter could not pay for several weeks. At a time when he had already repaid $2,375 in interest, the borrower made a

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$3,000 payment toward principal—a total payment, at that point, to First National of $5,375 in principal and interest. However, as a result of his failure to make all weekly interest payments on time, he was penalized to such an extent that his ledger sheet indicated a balance due of $1,750. If the unhappy borrower paid this last amount in one lump sum, he would end up by paying the loan-shark $7,125 on an original indebtedness of $2,500—all in a period of less than one year!

Under corporate cover, well-financed by the upper echelon of the underworld, and being able to operate within the law, the Gazia venture prospered for several years. Using fear as a method of enforcement, large profits were made at the expense of human suffering and abasement. Evidence adduced at the Commission's public hearing put a powerful spotlight on the actions of Gazia and his ilk. First National Service and Discount Corporation has ceased to operate.

D. SYNDICATE DISCIPLINE AND CONTROL OF LOAN-SHARK OPERATIONS

Direct ties with organized crime syndicates are clearly manifested in loan-shark businesses as conducted by Julio Gazia and the First National Service and Discount Corporation. The disclosure of Gazia's sources of capital and underworld superiors and his established allegiance to the Vito Genovese group definitely place him in the high echelons of syndicate money lending operations.

The investigation revealed that the strong arm of the crime syndicates reached out to control, influence and discipline smaller and more obscure loan-sharks, operating in the seeming backwaters of the usurious money lending business.

I. The Case of the Timid Bookie

Witness *G* was a neighborhood bookie in Yonkers, New York. For many years he operated out of a small smoke shop front, taking bets on horses (425-426). Information about *G* came to the Commission's attention during its investigation of gambling and law enforcement in Westchester County. Bookie *G* was noted for being a very careful, if not timid, operator. In sixteen years of bookmaking at one location, he was never arrested. He handled his own bets with known bettors, made minimal and discreet use of the telephone, avoided lay-off complications and

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paid all his obligations promptly. *G* had substantial "cash on hand" from the proceeds of his bookmaking business. In about September, 1961, he decided to put some of it to work (427). Through an intermediary, he gave $8,000 in cash to one Thomas Manzo as an investment "to make money with it" (427-428). Manzo was a loan-shark.

The Local Loan-Shark

If one needed a case in point that loan-sharks thrive at every level of our economic, business and social life, Thomas Manzo would serve admirably. He resides in a small private home in a moderate income residential area of Yonkers. His "cover", while not nearly as imposing as a fancy corporate name on a Fifth Avenue office door, was no less effective. Manzo was on the payroll of the Department of Sanitation of the City of Yonkers, with duties as an emergency repair man, on call between the hours of twelve midnight and eight o'clock in the morning. This, of course, left ample time for his money lending activities.

Information available to the Commission indicates that Manzo operated as a loan-shark in the Yonkers area. A borrower from Manzo testified that in 1962 he borrowed $1,000 from him at five percent a week interest (374). This witness, an admitted and inveterate horse player, was referred to the loan-shark by his bookmaker (372). Up to the time of the hearing in December, 1964, the witness had been paying $50 a week vigorish, more or less regularly. He was not able to fix the total amount of vigorish that was paid over the more than two year period. However, he still owed the principal amount of $1,000 (374-376).

Unlikely as it may seem, *G's* venture with Manzo was to create a conflict that was marked by shootings and threats and only settled finally through the imposition of syndicate discipline by a top underworld figure. The rather bizarre chain of events which ultimately led to an underworld "sit-down" was sketched by testimony obtained from *G* himself and from reliable information obtained through underworld sources. *G*, obviously frightened, was an extremely reluctant and evasive witness. Despite being granted immunity, he at first refused to testify. Contempt proceedings were brought and an order for his commitment to jail had to be obtained before he would give any testimony.

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The Dispute

Bookie *G* had turned over his $8,000 to Manzo without receipt or other evidence of the transaction. He denied that any specific agreement had been entered into respecting return on his investment. Nevertheless, every week between September 30, 1961 and February 10, 1962, he received regular payments which totaled about $2,000, indicating weekly vigorish to him of about 1.5 percent (433). After February 10, 1962, payments stopped abruptly. *G* stated that he waited until April, 1963 before he contacted Manzo directly in an effort to get his money. Never one to ignore "heat" *G* had closed shop during the Commission's gambling investigation in Westchester which was accompanied by county-wide raids in March, 1962. "Things were bad" according to *G* and his need for cash forced him to seek the repayment directly from Manzo. He was turned down.

Shortly thereafter *G* was put in contact with an individual named James De Masi, alias "Jimmy Dimps." "Dimps," previously convicted of larceny, gambling and assault charges, is a known hoodlum in Westchester County and a strong-arm man and enforcer for New Rochelle loan-shark and racketeer Joseph Calandruccio.*

At a meeting in a New Rochelle diner, "Dimps" agreed to try to collect the money. Such "contracts" generally call for the payment of a substantial fee to the collector. However, *G* denied such an arrangement:

> Q. Isn't it a fact, Mr. *G*, that you knew that this Jimmy Dimps was a strong arm man and a hoodlum from the New Rochelle area?
>
> A. No, I never heard of him. I didn't know any such thing.

* Calandruccio, known also as "Joe Cal" and "Joe the Baker," came under investigation as part of the loan-shark inquiry. His criminal record includes convictions for felonious assault and gambling. He is an associate of members of the Vito Genovese syndicate. A number of borrowers from Calandruccio were identified and questioned. No other group in the entire investigation were so patently in terror of speaking. In a few instances where witnesses admitted borrowing money from "Cal" they insisted that they had paid no vigorish and that the loans were given as personal favors. One borrower, severely beaten by "Dimps" and Bruno Capio, another strong arm employee of Calandruccio, would not identify them as his assailants. He explained "All I know is I found a note under my door. It said 'keep your mouth shut if you know what's good for you.'" Another borrower, urged to testify truthfully, replied "I'd rather go to jail for perjury. At least in jail I would be alive." Calandruccio fled to California a short time before the public hearing. Information was received by the Commission that he was directed to leave the jurisdiction by his underworld superiors. The exceptionally brazen and vicious manner in which he conducted his activities had made him "too hot" and the subject of concentrated attention by law enforcement authorities.

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Q. You still haven't answered the Commission, what was Mr. Dimps going to do to collect the money that you couldn't do yourself?

A. I don't know what he was going to do." (442-443)

Whether *G* knew or not, "Dimps" obviously started action. Shortly after the meeting, Manzo's wife received a phone call late at night from an individual who, using filthy and abusive language, demanded that Manzo pay *G* the money due him. Manzo returned the compliment with a phone call to *G*'s wife. *G*, frightened, sent $100 and a message to "Dimps" to "stop whatever he is doing" (445), but *G* had started a chain of events which he was powerless to stop. Within a short time, a shotgun blast was fired into the rear of his car which was parked in the driveway of his home. *G* continued:

Q. "Mr. (G), did you get a telephone call immediately after the shotgun blast in the back of your car?

A. Yes. They said the next time it would be me." (449)

"Dimps" had not ceased in his efforts to collect.

Some days later, *G* met Manzo, who was brief and to the point —"you better get this guy off my back. I work for Frank Sacco" (453). The connection of Manzo's lending operations with the higher echelons of the underworld were revealed for the first time to *G*. Sacco was a notorious hoodlum, convict and loan-shark with a reputation for viciousness surpassed by none.*

Frightened, *G* arranged through friends to meet with Sacco himself. The cutting of the electric power line leading into his home, which occurred about this time, added to his acute feeling of urgency. In a meeting at an automobile dealer's office in Yonkers, *G* asked Sacco for help. Sacco told *G* that Manzo owed him $12,000 and "when I collect mine, I will see what I can do for you" (455). Reliable information received by the Commission corroborates the facts indicated by the statements of Sacco and Manzo to *G* concerning their relationship. Sacco was Manzo's underworld superior and a source of funds for his lending operation.

Sacco, of course, had no interest in helping *G* to collect his money. However, with a hood's instinct for sensing weakness

* An associate of top members of the Vito Genovese syndicate, Sacco's criminal record includes convictions for felonious assault, forgery and interstate shipment of stolen securities and other property. He is presently serving a five year term in federal prison on convictions for interstate shipment of stolen property and bankruptcy frauds. Other loan-shark activities of Sacco are discussed at pages 38 to 41 and 43 to 45, infra.

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and a ready mark, he set up *G* for a shakedown. Another mobster was flushed out of the woodwork for this job—James Palmisano, alias "Jimmy Vee."*

G was called to a second meeting, this time with both Sacco and Palmisano, who took over. He told the bookie that for $1,500 he would "settle" the loan for $4,000. *G* agreed to this extraordinary proposition. "I got panicky" he explained (459). At this point, *G*'s prime interest was the safety of his hide; the money became secondary.

The $4,000 settlement proved to be a note in that amount, payable two years from date, and executed by Manzo. The note was signed "Thomas Manzo, Pres." yet contained nothing to indicate that it was in any way a corporate obligation. *G* recognized it for what it was—a worthless scrap of paper (459-462).

"BY MR. VERGARI:

Q. Are you telling us, Mr. (*G*), that you agreed to give $1,500 in good hard cash for this note payable two years later?

A. Right.

Q. And this was to satisfy your entire claim with respect to the eight thousand dollars?

A. Right.

Q. And you agreed to that?

A. Yes.

* * *

Q. So far as you are concerned, what is this note worth to you?

A. What this thing is worth to me, nothing.

THE CHAIRMAN (Commissioner Grumet): Did you pay him fifteen hundred dollars for that note, for that?

THE WITNESS: Yes.

THE CHAIRMAN: On top of the eight thousand dollars?

THE WITNESS: Yes, sir." (462-463)

G had indeed panicked. The manner in which he paid the $1,500 "fee" further evidenced his fear. He was instructed to go that evening with $1,500 in cash in an envelope, to the lounge of the Town House Motel in Yonkers. There, he was to leave the envelope under a table at which Sacco would be seated. Following his instructions, *G* appeared with the cash at the appointed place and time and found Sacco seated at a table with

* Palmisano was convicted of grand larceny, growing out of assault and robbery charges and of O.P.A. violations. He, like Sacco, is a known associate of the Vito Genovese syndicate.

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one Anthony Plata.* He sat down briefly, dropped the envelope under the table and left without a word (464-466).

G fully realized that he was playing in a league that was far over his own timid head. However, the game was not over for him. There were innings to be played.

G did receive something more for his money at the meeting in the auto agency. Palmisano gave him a telephone number in Florida to call "in case there was trouble." The trouble came (468).

Apparently the word had gone out in the underworld that this bookie, with ready cash, was a push-over for a shakedown. Some time after dropping the $1,500 cash "fee" at Sacco's feet, *G* was called from his home to a meeting on a Yonkers street corner. Two men, described by *G* as rough looking characters, attempting another shake-down, offered to protect *G* and to help him with his problems for a fee of $15,000 (470-475).

The now distraught *G* called Palmisano in Florida who instructed him "to see a fellow by the name of 'Joe The Wop'** on Mulberry Street and have him call me" (478).

G visited Gennaro at a coffee shop at 121 Mulberry Street, in New York City, and as instructed, asked him to call Palmisano in Florida (479). Gennaro placed the call and later told *G* that "everything would be all right" (482).

In spite of *G*'s request that he cease and desist, James "Dimps" De Masi continued his efforts to collect from Manzo. Information indicates that "Dimps" and his boss, "Joe Cal" did not wish to give up their valuable "contract" to collect the $8,000 from Manzo. *G* testified:

> Q. After the meeting with Gennaro, what happened to you?
> A. What happened to me?
> Q. I am talking about specifically on November 3, 1963.
> A. My house got shot up.
> Q. Tell us what happened.
> A. I was sleeping and the dog got shot at.
> Q. Somebody fired shots through your front door?
> A. Yes." (484)

* Plata, known as "Tony Plate" has been indentified as a member of the crime syndicate headed by Carlo Gambino. Plate, known as an enforcer, has been convicted of assault and armed robbery.

** Joseph Gennaro, with aliases "Joe the Wop" and "Pete Russo" is known for long and unsavory criminal associations. He is a suspected loan-shark and is reported to have taken over Carmine Lombardozzi's activities during the latter's incarceration. Lombardozzi is a leader in the Carlo Gambino syndicate.

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According to a reliable informant, this shooting brought an end to syndicate patience with the entire affair. *G*'s venture into the world of loan-sharking had to be brought to a final conclusion. A "sit-down" was called at a restaurant in the lower East Side of New York City. The presiding officer was drawn from the top ranks of the underworld, Thomas Greco, alias "Tommy Palmer". Palmer, identified as a group leader in the Vito Genovese syndicate, called for the attendance of Sacco, Plate, Manzo, "Dimps." De Masi, representing Calandruccio, and *G*. The decision was predictable and perhaps, by underworld standards, appropriate. "Dimps" was to cease all efforts to collect on behalf of *G*. Sacco, Plate and Manzo were to leave *G* alone. For his part, *G* was told that he must abandon any claim to his $8,000 investment. The $1,500 paid by *G* to Sacco and Plate was to be marked off as a fee for their services in arranging the temporary settlement. And perhaps as a final lesson, *G* was required to pay $1,000 to Palmer in appreciation for his achieving the final settlement.

Nothing has happened since 1963 to indicate that this "injunction" handed down by Palmer has been violated in the slightest respect.

2. A Matter of Priorities

The disciplined and peaceful settlement of racket disputes growing out of opposing loan-shark claims was reflected in another case which involved extreme provocation—a brawl and shooting fracas. In conflict were two loan-sharks, Frank Sacco and John Massiello.* Each had made separate loans to a restaurant owner referred to as *H*** and each claimed a prior right of payment.

In 1957, Witness *H*, with a parcel of real estate worth $13,000 and personal and family cash resources of an equivalent amount, built a modern restaurant and banquet facility in Yonkers, New York. An additional $60,500 was raised by first and second mortgages on the property placed with legitimate lending sources (Pr. H. 3897-3900).

* Sacco is discussed in the preceding section of this report, concerning Witness *G*. Other activities of Massiello, also a leading loan-shark, are treated in detail at pages 71 to 73, infra.

** Reference's to *H's* dealings with loan-sharks will be principally to private hearings and statements given to investigators in private interviews. At the public hearing *H* became highly emotional and sought to deny the accuracy or truth of much relevant testimony given by him in private.

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The initial capitalization proved to be insufficient and in the latter part of 1957, *H* borrowed an additional $10,000 from one Maitland Brenhouse (Pr. H. 3901). *H* did not seem to be sure of the rate of interest on this loan which was secured by an additional mortgage on the property. However, he did admit paying $125 a week on the loan with only "very little" applied to principal (Pr. H. 3902).

H opened the restaurant in May, 1958 and business was good. Nevertheless, his debt load was so great that he had difficulty in meeting his obligations. Defaults in payment led to threats of foreclosure and general harassment from creditors. One of the creditors was Brenhouse who told *H* "Don't worry about your money, when you get on your feet, you will pay me" (Pr. H. 3914). Brenhouse, a loan-shark himself, was obviously not acting out of kindness. Unpaid interest and penalties were added to the mortgage and compounded so that within a year, the principal amount owing had increased from $10,000 to $25,000 (Pr. H. 3914).

In September, 1959, Brenhouse advised *H* that he had to assign the mortgage to Frank Sacco with whom he was associated in a money lending firm known as Yonkers Factors, with offices at 900 Nepperhan Avenue, Yonkers, New York.* Another principal in that firm was one Simon Geller. Sacco, with strong syndicate connections, was the undisputed boss of that lending operation which included at least two other firms known as Valbretto Factors and H M R Realty, located at the same address. *H* testified that he knew of Sacco's reputation and voiced strong objections to the assignment of the mortgage to him. Brenhouse told *H* that he had no choice in the matter (Pr. H. 3906-3908). Sacco was "calling the tune" (Pr. H. 3907). Call the tune he did, with *H* paying the piper most dearly. Within three days of the assignment, the loan being in default, Sacco demanded full payment and threatened *H* with foreclosure. Unable to make any payment, *H* accepted an alternative offer by Sacco. He signed notes for a further increase in the principal amount of the loan to $29,000 (Pr. H. 3915). By March, 1960, the principal amount was raised to $35,000 through further imposition of interest and penalties (Pr. H. 3916). This was done in spite of the fact that *H* received no additional capital over the original $10,000 and had paid some

* Maitland Brenhouse, who had been involved in the money lending business with Sacco for many years, was found dead of a gunshot wound in the head, at his home at Hastings, New York, on April 5, 1962. The matter is carried as an open homicide investigation by Westchester County authorities.

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$18,000 in vigorish during the period. This unconscionable treatment of a borrower is typical of loan-shark transactions.

However, of major interest in this particular matter was the conflict which developed between Sacco and John Massiello. It was in testifying on this part of his experience that *H* became highly emotional and agitated. Some time in the early part of 1960, *H* borrowed $2,000 from Massiello. He would not discuss the interest rate on this loan, insisting "Massiello did not shylock me" (Pr. H. 3929).

On the evening of June 1, 1960, Massiello and his henchmen held a large dinner party at *H*'s restaurant. At about ten that night, Sacco came into the bar and asked *H* for a vigorish payment (Pr. H. 3933). Not having the cash, *H* went to the dining room and asked Massiello for part payment on the dinner party bill. Massiello asked why and *H* explained his problem with Sacco. *H* was instructed to tell Sacco that Massiello wanted to see him in the dining room. Sacco accepted the invitation and a brief but heated argument ensued between the loan-sharks. Priority of their respective claims was the bone of contention. Sacco was apparently annoyed that part of the cost of the party was to be applied to the Massiello loan, money that he might otherwise have collected himself. The argument was taken to the street. Massiello and several henchmen walked out with Sacco. When they returned a few minutes later, Sacco appeared to have taken a rather severe beating. In a rage, Sacco went to *H*'s office and used the phone. *H* testified that Sacco called his associate, Simon Geller and overheard him order Geller to "bring over my piece" (Pr. H. 3935). Extracts from a statement made by *H* to a Commission agent follow:

> Shortly thereafter, Sy Geller appeared at the restaurant and handed Sacco an automatic pistol. Sacco and Geller, followed by *H*, went into the back room where Massiello and several of his men were sitting. Sacco threatened Massiello with the gun. At one point, he had the gun buried in Massiello's stomach but it failed to fire when he pulled the trigger. Sacco then levered a fresh round into the chamber but must have had his finger on the trigger when he worked the slide. During the ensuing brawl, a wild shot was fired which struck a radiator and ricocheted into the hand of one of the group.

Cooler heads apparently prevailed. Although the police were called, no complaints were made or charges placed. The shooting was reported as an accidental discharge of a weapon by

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Geller who was licensed to carry a gun. All agreed that any criminal prosecution growing out of the meleè could imperil the restaurant license, as well as present personal difficulties for those involved.

Such an incident, a near murder, might well have started a shooting war. Quite the opposite occurred. Apparently syndicate discipline and influence once more asserted itself and underworld policy for peaceful settlement of disputes prevailed. Within a few days, Massiello's claim was merged with the total debt to Sacco who was charged with collecting on the entire account and paying Massiello his proportionate share (Pr. H. 3939). Some time later, the two loan-sharks who had once nearly killed each other, showed up together dunning *H* for payment (Pr. H. 3933-3934). At this point *H* had been removed from his restaurant business and was operating a bar and grill owned by him at another location. During that visit, the loan-sharks demanded that *H* sell this business in order to pay their claim. *H* refused. Three days later a shotgun was fired through the window of these premises. This shooting occurred ten minutes to two o'clock in the morning, when *H*, alone in the premises, was preparing to close.

A postscript should be added. *H* was finally forced into bankruptcy. He lost the restaurant and the bar and grill and all other assets.

E. BORROWERS COERCED INTO CRIMINAL ACTS

> "To enforce a debt, they will go very far—I have known them to go as far as hanging a man out of a window by his feet, fifteen stories—he got the money up in one hour—after you are frightened, you will come up with it—the only time a man gets killed is when he has defied their law completely —when he has it and just doesn't want to pay it—then it pays to make an example of him."

This sworn testimony was given by an individual who had been inside the underworld as a friend, confidant and some-time employee of well known racket figures. That it was stated in a calm, matter-of-fact way, made it no less frightening. Investigation clearly indicated that "to enforce a debt" they will, indeed, "go very far." One extent to which they do go has most tragic consequences on the lives of borrowers. Through intimidation

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and harsh, unyielding pressure, borrowers are virtually forced to commit criminal acts to provide money to meet vigorish payments. Ever ingenious, loan-sharks devise criminal ventures that fit the borrower's particular situation and capabilities.

Sergeant of Detectives Salerno of the Criminal Investigation Bureau, New York City Police Department, testified of a hairdresser who operated a beauty salon in a fashionable area of New York City. His clients included wealthy women who possessed jewelry of great value, a fact which did not escape the loan-shark. When it became apparent that the hairdresser could not meet his substantial vigorish payments, he was pressed into service as a "fingerman" for a burglary ring.

The hairdresser was able to identify those clients who owned gems, to ascertain their value and to obtain addresses and apartment numbers. Casual conversation during a coifing session would elicit information such as a husband's working hours, the maid's day off and other facts vital to the planning of a burglary. After each successful jewel theft, the hairdresser's share of the proceeds of the crime was given to the loan-shark as a vigorish payment (243-245).

Another case which also demonstrated loan-shark ingenuity involved a prominent sports announcer. This individual had become so hopelessly in debt to several racket lenders that a "sit-down" had to be held. The indebtedness was consolidated and two of the loan-sharks were entrusted with devising a means of collection. A crooked dice game was set up. The broadcaster, with numerous friends and contacts among affluent and "sporting" people, was required to act as a "steerer" for the game. A percentage of the proceeds of this "razzle-dazzle" was applied to satisfy his indebtedness (245-246). Investigation by the Commission disclosed similar instances.

1. A Trucker Forced to Ship and Store Stolen Property

Witness *J** is the Secretary and Vice-President of a small trucking and warehouse corporation in the Bronx, New York. This corporation is family owned and *J* and an elder brother operate the business. Serious illness in the family adversely affected management efficiency. This problem, together with

* The letter *I* is not being used in this report as a witness designation. "*J*" testified as Jane Doe at the public hearing.

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high medical costs had completely drained cash resources. The usual sad pattern of events developed. Credit with legitimate lending sources was exhausted.

In 1957, the firm started borrowing from loan-shark Frank Sacco. Over a period of four years, through 1961, the firm borrowed a total of $40,000, paying and receiving loans averaging about $10,000 a year (495). These loans were ostensibly obtained from other Sacco "cover" firms, Hub Factors and Certified Discount Corporation. Most transactions were negotiated with Simon Geller and *J's* direct dealings with Sacco during the early years of their relationship were limited. *J* claimed that she did not at first fully realize who and what Sacco was. This may have very well been so, but she eventually learned.

On Election Day 1961, *J's* brother was arrested on a charge of receiving stolen property. New York City Police found a truck, belonging to *J's* firm and parked in *J's* garage, loaded with stolen transistor radios. *J* and her brother, who had handled the shipment, claimed innocence of any knowledge of the nature of the truck's cargo, although the brother eventually entered a plea of guilty to the charge. They would not implicate Sacco or his men and as late as the hearings in 1964, both continued to insist that Sacco had nothing to do with the stolen property. Information from reliable sources indicates that quite the opposite was true. Principals of the *J* firm were coerced into transporting and storing the stolen property out of fear of Sacco.

This fear and their reluctance to testify against Sacco is readily understood in light of an incident which occurred in about April, 1962. *J* saw Sacco's picture in a newspaper and read that he was questioned and being held on bail as a material witness in the Maitland Brenhouse homicide investigation (499).* She told Sacco that she wanted to discontinue their lender-borrower relationship and asked that he stop visiting the office. An argument ensued, in which Sacco claimed that the *J* firm owed him substantially more than *J's* books then indicated. *J* testified:

"Q Did he claim in this argument that you owed him a much greater amount than you, in fact, believed you did, or knew you did?

---

* See p. 39, supra.

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A He did claim I owed him much greater than I knew that I did.
Q Did you express to him rather clearly that you had no—
A I not only expressed it to him, but I showed him in black and white.
Q You expressed it to him much clearer, that you wouldn't pay this great amount that he claimed you owed him?
A Yes.
Q Did you have any heated exchange about that?
A No. I was the one who was heated at all times in this particular discussion.
Q All right. But you were firm about that?
A Yes, sir.
Q You weren't going to accede to this demand on his part?
A Definitely not. That's right. (501)

A short time later, Sacco sent an emissary demanding immediate payment of vigorish (502). Still angry, *J* refused to pay and ordered the collector out. Her testimony continued:

Q What happened?
A That evening I received a telephone call, stating that—just stating that—I believe—to the effect that I should see my car outside, and whatever happened to that was going to happen to me next.

And it just so happens that I didn't own a car then, but the car that I had previously owned I had given to my brother-in-law.

My brother's car was directly outside of my home. I looked outside and there was nothing wrong with the car. So I laughed the whole thing off.

However, the following morning, my brother-in-law, who then was the owner of a car that I originally owned, came into my home, and, of course, told me that the car, supposedly mine, was bombed.
THE CHAIRMAN: Was what?
THE WITNESS: Bombed.
COMMISSIONER LANE: Blown up?
THE WITNESS: Well, the windows were shattered and the seats were shattered, et cetera.
Q Were you able to recognize the voice of the person who called you and told you, in effect, see what happened to your car, the next time it will be you?

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A Yes. The voice that I recognized was Frank Sacco." (502-503)

J paid off the debt to Sacco in full.

2. A Luncheonette Owner Enmeshed in Bookmaking

Perhaps the most pathetic of all witnesses who testified at the public hearing was Mrs. *K*. The long ordeal she suffered with loan-sharks was a tremendous strain and both her physical health and mental well-being had been affected. Her willingness to testify "to help" was an admirable display of courage.

In 1960, Mrs. *K* and her husband, both around forty, quit their jobs and put their life savings into a small luncheonette in North Babylon, Long Island. The business prospered for a while and the couple were "making a good living out of it" (577). After more than a year of successful operation, a road widening construction project, right at their front door, resulted in the loss of a substantial part of their trade.

In the latter part of 1961, they began borrowing from a local loan-shark, Max Lowenstein. This unsavory character, aptly known as "Max The Weasel" also ran an ice cream vending business and two concrete construction firms.*

By the middle of 1962, the *K's* were completely "hooked" by Lowenstein, who was charging them as much as twenty-five percent a week interest for cash to meet even day-to-day expenses (569). Borrowing from Lowenstein also put them directly in the path of expanding loan-sharking and gambling operations of elements of the old Brooklyn-based Profaci-Magliocco syndicate. They were to be given over to the syndicate by Lowenstein and made a part of its gambling operations.

Syndicate Expansion in Long Island

In 1962, Lowenstein was contacted by one Felix "Phil" Vizzari, a convict and hoodlum underling of John "Sonny" Franzese. Franzese, a leading figure in the Profaci-Magliocco group, was heading a move to expand loan-sharking and gambling op-

* Lowenstein, with aliases "Max The Weasel," "The Weasel," "Max Weiser" and "Max Levine" has a criminal record which dates back to 1926. He was an admitted member of the Dutch Schultz mob and a known associate of members of the old "Murder Incorporated." His criminal record, which includes convictions for possession of burglar's tools, burglary, larceny, liquor law violations, sodomy and pornography, also contains entries for homicide, robbery and bail jumping.

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erations in the eastern Long Island area.* "Max The Weasel" testified:

Q I want to go back to my original question, did Phil Vizzari tell you that in connection with gambling, bookmaking and loansharking activities, that he was working for Sonny Franzese?
A Yes, he told me that.

* * * *

Q Did Vizzari also tell you that it was part of his operation with Franzese to move into Suffolk County, to set it up and take over various rackets, including gambling and loansharking?
A He did.

* * * *

Q Did Vizzari have some henchmen that were helping him in this business on the Island?
A I believe so.
Q Who were they?
A Well, one guy was Pat, I know.
Q Pat who? Do you know his last name?
A No.
Q Mr. Lowenstein, did you, in fact, on occasions, ride around with Vizzari and these people, his henchmen, as they went around, collecting on loans or attending to their other interests?
A Yes, I rode around with them, yes.
Q Did these rounds also include visits to places where they were trying to take over an operation?
A I believe so.
THE CHAIRMAN: As a matter of fact, you know that is so.
Q You were with them on occasions when one man would go in and they would come out and he would bring out the money to Vizzari?
A Yes, but I don't know what the money was for.

* Oray L. Edwards, Chief of Detectives of the Suffolk County Police Department, testified at the public hearing. He discussed various problems of his Department in dealing with an influx of racketeers which followed the great population increase in his area. He also identified the following as loan-sharks operating in eastern Long Island: Salvatore Musacchio, alias "Sally The Sheik," a principal lieutenant in the Profaci-Magliocco syndicate; Felice Falco, alias "Philly"; Benjamin De Martino, with aliases "Benny The Bum," "Juke Box Benny"; Vincent "Jimmy" Giordano; Felix "Phil" Vizzari; John "Sonny" Franzese and Max Lowenstein (514-538).

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Q These were at various bars and grills and legitimate businesses?
A Yes." (558-560)

Lowenstein, an ex-convict with old underworld ties and an operating loan-shark, was a logical tool to be used by the syndicate. His accounts, connections and business enterprises were sought by them to further their design for expansion. At the public hearing, as indicated, Lowenstein was evasive as to syndicate activities. He sought to cast himself in the role of victim. In a very real sense, he was. Vizzari demanded a "piece" of his concrete business (562). Lowenstein testified:

"THE CHAIRMAN: How much of a piece did they want?
Q How much did they want? Fifty per cent of the business?
A Yes, half of the business.
BY MR. VERGARI:
Q What did you want for your end? Did you ask them to pay you anything?
A Yes.
Q What did you ask them?
A I asked for half of my investment.
Q Which was what?
A Well, it was about $25,000 in receivables. So I wanted ten thousand dollars.
Q In cash?
A In cash. And the receivables, you know, what I mean, would make up whatever it was.
Q Yes.
A But there was no money came up.
Q They refused to give you any money?
A Yes, sir.
Q What did they say about that?
A Well, that it would work off.
Q What do you mean, 'work off'?
A Well, that the money that came in, like their half, would be put back into the business.
Q Was there anything else attached to this proposition, apart from their taking over the legitimate end of the operation—was there anything else involved?
A Well, they wanted to use the back for—that is where I had the ice cream place—for horses and gambling.

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Q In other words, as part of this proposition, they would not only take the legitimate end, but use the business office there as a headquarters for gambling?
A Yes.
Q And shylocking, too?
A Yes, whatever was, the back.
Q Were you supposed to share in this thing, financially?
A I guess I was going to get a percentage.
Q How much?
A I don't know. About thirty per cent.
Q Of the illegal operation?
A Yes.
Q You said you wanted him to put ten thousand dollars into the business and they refused, saying, well, we will get it out of the business itself, is that right?
A Yes.
Q Eventually, what happened to you as far as this business was concerned?
A Well, I had to turn the business over to them, and I lost it and they turned around and had me saying I got arrested and I lost everything.
Q In other words, you were just pushed out?
A That is right.
Q Muscled out, is that right?
A Well, whatever word you want to use.
COMMISSIONER LANE: What do you mean, they had you framed?
THE WITNESS: I was fooling around with a girl, and they got to her and this here girl started to work for them. So she called—she said I had a gun, so they turned around, she called the police and they found the gun in the car. I was held—I was indicted. Now, I had to take a plea to—
COMMISSIONER LANE: The Sullivan Law?
THE WITNESS: No, attempted assault and I am to be sentenced the 18th.
COMMISSIONER LANE: In other words, they set you up?
THE WITNESS: That's right.
BY MR. VERGARI:
Q In short, you were just muscled out, you were out, and you never got a dime of money, is that right?
A Yes." (563-566)

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The Mob Moves In

It was in this pattern of events that Mr. and Mrs. *K* were taken over by Vizzari. He replaced Lowenstein as their loan-shark and immediately began using the luncheonette as a headquarters for bookmaking and loan-sharking. Mr. *K* had to assist in handling the bookmaking business (582-583).

The illegal gambling operation grew to such a large extent that Mrs. *K* became more and more deeply concerned (583). When she told her husband that she "wanted them out," he replied "there was nothing he could do about it" (584). On occasions, when the witness drummed up sufficient courage to ask Vizzari and his men directly to leave, she was told to "mind her own business" (584).

In about July, 1963, Mrs. *K* wrote a letter to Suffolk County authorities. Pertinent extracts from this letter follow:

> "I am and have been a nervous wreck. . . . . I do not like doing this bookie business and I want to get out of it and out of the store, too. The syndicate has now moved in and my life is not my own any more. Now we take orders. . . . . The bookie business my husband and I only started about six or seven months ago. I am willing to take the blame for my errors for doing this, but please get us out of this rat trap we are in.
>
> My husband never done anything like this before and we are being taking (sic) right and left. Please help us. I'd rather be on home relief than live like this.
>
> I might be killed or beaten for writing this, and so may my husband, but I'd rather die than live this way. I have no life anyway. . . . .
>
> Please help us. My husband don't understand. We are being bled to death. If it keeps on going, I'll kill myself. . . . . even if it means my life, they can have it because with people like this your life is not your own.
>
> I am not afraid to die, I would sooner be dead than live like this. I don't want to hurt my husband, but neither can I live with him this way. I have been honest and worked almost all of the twenty-five years we are married and we paid our bills somehow or other honestly. I can't help anymore because I am a nervous wreck and live in fear almost every minute.
>
> I am turning both my husband and I in. Just give us some peace." (585-587)

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Several days later, at about ten o'clock in the evening, at a time when Mrs. *K* was at home alone, two men whom she was not able to identify, came to her door. She testified:

"Q What happened?
A Well, it was—I don't know what time of the night it was. But a car pulled up and I had all the lights on. I was doing that for a while, I was getting extremely nervous. I would peek out of the curtains and everything. A car pulled up and there was a bang at the door and I opened it, it was two men. And I don't know who they were. I have never seen them before. And they banged my hand up against the closet door, the closet door in the front room.

* * * *

Q Did they say anything to you?
A They just told me, am I interfering at the store? Something to that effect. I can't recall it.

* * * *

Q What did they do?
A They took my hand and kept hitting it up against the closet and they said that was only a little bit.
Q How many times did they hit your hand and arm against the door?
A I don't know too much because I had a dog and she was down in the basement, and if I had the dog upstairs, I don't think it would have happened. But I was frightened and my hand the next day was all swollen up, black and blue." (588-589)

Within a week or two, Mrs. *K* in a complete state of nervous collapse, was hospitalized. Her husband had run away. The luncheonette was closed and the *K's* lost everything. They are now reunited and living and working in a small town outside New York State. At the Commission's request, cooperative local police are keeping a friendly eye out for them.

3. *Vigorish Paid with Embezzled Funds*

On a morning in August, 1964, a short, well-dressed, soft-spoken man, who will be referred to as *L*, stood before a Justice of the New York Supreme Court and was sentenced to a State prison for a term of one and a half to three years on a charge of

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grand larceny.* At the time of his arrest and prosecution, this individual, after many years of work in the garment industry, had risen to the vice-presidency of a leading sportswear firm and was earning from $20,000 to $25,000 a year. In this position he enjoyed the full trust and confidence of his employers. The seemingly sturdy fabric of his life, weakened by heavy gambling losses, was finally destroyed by the compelling necessity to meet staggering loan-shark obligations.

At the public hearing, he was examined about the genesis of his problem—gambling.

"Q. What kind of gambling had you been engaged in?

A. Well, as a compulsive gambler, I have been engaged in horses and sports, mainly.

Q. Did this habit drain you financially?

A. Yes, it did.

Q. Were you ever able to make enough money legitimately to support yourself, your family and your habit?

A. Well, I always made enough money legitimately to support myself and family. But never seemed enough to support my gambling habits.

Q. Was the initial contact with loan sharks made as a result of your needing extra money for your gambling?

A. Yes, sir.

Q. This gambling you described as compulsive, is that correct?

A. That is correct, sir. In my particular case, it is." (696-697)

L was questioned further about the extent of his gambling:

"COMMISSIONER SARACHAN: You must have been gambling on a very large scale.

THE WITNESS: I was.

* * * *

COMMISSIONER SARACHAN: How much would you bet in a day?

THE WITNESS: Whatever money I had in my pocket, and anything I could borrow at the time.

COMMISSIONER SARACHAN: In a rough sort of way, what would you say was your average towards the end?

THE WITNESS: I would say about a thousand dollars a day.

* To obtain the appearance of this witness, who was serving his sentence under the custody of the State Department of Correction, it was necessary to proceed by court order. The witness was referred to as John Doe III at the public hearing.

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COMMISSIONER SARACHAN: Were you still hoping that you would make a killing so that possibly you could get rid of your debts?

THE WITNESS: Still living in a fantasy world, yes, sir." (712-713)

In order to support this voracious habit, *L* borrowed increasingly larger amounts from various loan-sharks in the garment district. As the gambling losses and weekly vigorish payments mounted, he became more deeply enmeshed in a hopeless cycle of borrowing from one loan-shark to pay another.

A principal money lender to *L* was one Milton Kaufman,* a loan shark who operated out of the notorious York Hotel at 36th Street and 7th Avenue, in New York City. This building, also used for commercial offices, appeared to be a haven for professional gamblers, bookmakers, loan-sharks and assorted hoodlum parasites that thrive in the garment district.**

By the end of 1962, the borrower's obligations to loan-sharks had skyrocketed to almost impossible extremes. His weekly obligations to Kaufman and other lenders amounted to almost $2500. His take-home pay at that time was about $300 a week.

One of *L's* duties as vice-president of his firm was to receive and examine checks from the firm's numerous accounts all over the country. In explaining how he tried to meet his huge weekly obligations to the loan-sharks, *L* testified he began stealing his company's checks.

"Q. How did you come by paying them this amount of money—keeping in mind your weekly salary, your take home salary, which, you say, was three hundred.

A. Correct.

Q. How did you pay them?

A. Well, I was borrowing from—as we shall say—Paul to pay Peter, and this is one form of maneuvering that I was able to pay off those that were most pressing. And I started to take checks from the firm that I was employed by, business checks.

* Kaufman, alias "Myer," was a long-time loan-shark in the garment district. On the occasion of his arrest in 1960 on charges of conspiracy to commit the crime of extortion, for which he was later convicted, he was described as one of New York City's biggest loan-sharks. Kaufman's connection with syndicate operations was clearly indicated by his use of mob strong-arm men "Mike" Camporetto and "Lou" De Fillipo.

** Samuel "Augie" Weiss, the proprietor of the York Hotel and another were arrested for failing to obtain a gambler's tax stamp on June 17, 1964. The first three floors of the hotel were made a "raided premises" by the Police Department, City of New York on January 18, 1964.

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Q. When was the first time that you took a business check from your employer?
A. The latter part of 1962. I don't remember the exact time.
Q. When was the last time that you took a check from your employer?
A. In October of 1963.
Q. So that this taking, as you characterize it, of checks of your employer,—took place over a period of a year?
A. Correct." (707-708)

However, *L* explained that long before he began this last desperate attempt at extrication, pressure from the loan-sharks had forced him to overcome his compulsion to gamble. The money he stole from his firm was used almost entirely to meet his vigorish payments (698).

The pressure had become so great that on virtually a daily basis *L* would take a number of checks from the firm's receipts and deliver them to Kaufman. About 2,000 checks were thus stolen and turned over to this loan-shark. They totalled over $200,000.

L testified:
"Q. . . . . would you say that the bulk of this money went back to pay your loan shark obligations?
A. I would say at least 98 per cent of it went back to pay the loan-shark activities.
Q. Therefore, would you say that it logically follows that the main purpose of your larcenies was to keep current with your loan-shark obligations?
A. That is correct.
Q. And dispose of them eventually?
A. That was my fantasy in my dream world, that I would one day be able to see myself free and clear. . . ." (Pr.H. 4432)

At several points in his testimony, both private and public, the witness was asked whether he ever discussed the source of the stolen checks with Kaufman. *L* insisted that the only explanation offered to Kaufman was that he had "some business dealings of my own and that these were checks reflecting payments to me for private business transactions." (725)

However, in private hearing testimony he ventured the following opinion:

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"Well, my own personal opinion is, a man that has been in his type of business and associated with the type of people that he deals with, whether they be legitimate businessmen or any other kind of people, he should know, you know that,—*he should have known that something wasn't 100 per cent right with these checks.*" (Pr.H. 4436)

In light of the circumstances surrounding the disposition of the checks, this would appear to be something of an understatement.

According to the witness, the checks were turned over to Kaufman without endorsement. He stated that "on occasion" he saw Kaufman endorse the checks in the name of the firm (721-722). Kaufman cashed most of the checks and immediately took 10% of the face amount as a "service charge" (709). This amount was not applied to payment of principal or interest on the indebtedness. The proceeds of the checks, less 10%, was given to the witness, who then deposited the cash to his account and made vigorish payments by check. This procedure was demanded by Kaufman, who also instructed *L* to make his checks payable to fictitious names.

The loan-shark's obvious lack of innocence regarding the true source of the checks was accented by rather unusual arrangements with officials and employees of the bank through which these checks were processed. Both *L* and Kaufman maintained accounts at the same bank, located in the heart of the garment district. Kaufman introduced *L* to bank officers and employees and initiated him into ways of "guaranteeing" good service from bank personnel. This included obtaining on the spot approval of cash items and immediate payment on uncollected checks. Convenient absence of the banker's traditional sharp eye for such highly questionable transactions was also assured. At Kaufman's suggestion, *L* paid a teller $10 and later $15 a week in cash gratuities (714-16). The corruption of a bank employee, at Kaufman's suggestion, was also described by *L*.

"Q. Did you ever have a conversation with Mr. Kaufman about how this money would be paid over to the bank officer?

A. Well, he mentioned to me, I had a check to be cashed, just slide the money underneath the check and that was sufficient.

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Q. Would there be anything wrong with the particular check to be cashed, which would entail an additional hazard to the banker, and were you paying him for that reason?
A. In some cases, there may have been an additional hazard on a particular check.
Q. For instance, what would the occasion be?
A. Well, it could have been a check drawn on an out of town bank, and naturally, usually it takes a long period of time for a check to clear on an out of town bank than a local bank.
Q. Was this same bank officer handling Milton Kaufman's personal account?
A. To the best of my knowledge, yes.
Q. Was Milton Kaufman using this personal account at this bank for the transmittal of these monies which had originally come from these corporate checks which you were taking?
A. Yes, sir.
Q. Did you ever actually see Milton Kaufman transacting business in the bank with this officer?
A. Yes.
Q. Would you describe one of those occasions for us, please?
A. Well, he would make out a personal check, sometimes a considerable amount of money, and bring it over to the officer for an okay for cash, and then cash it and in time give me the proceeds of the check." (717-718)

* * *

"Q. Would the bank officer, which we were discussing in your previous testimony, the man to whom you paid about two thousand dollars, would he be the officer who would okay these checks?
A. He would okay Kaufman's checks.
Q. I am referring to that.
A. Yes, sir.
Q. Would Kaufman show him the bank deposit slip which he had just used?
A. Yes.
Q. That slip would denote what?
A. The amount of the deposit that he was making that particular day.
Q. Where would the proceeds of the deposit come from?

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A. From checks which I had turned over to him." (729-730)

At times *L* paid the bank officer directly. On other occasions the money was passed through Kaufman. During the period of about a year, when checks were being stolen, the witness paid this officer a total of approximately $2,000 (719).

By October, 1963, *L* realized that his "fantasy world" must end. Even the large sums he was stealing could not stem the tide of ever-pyramiding vigorish. He disclosed his thefts to the firm. Confinement behind prison walls finally provided him with escape from the loan-sharks.

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III

LOAN-SHARKS IN THE SECURITIES BUSINESS

Ever since the underworld realized that loan-sharking was a safe and highly lucrative enterprise, it has devised increasingly sophisticated ways of using loan-sharking to invade the business world. The loan-shark may no longer be stereotyped as an unshaven thug standing on a corner dispensing money by the traditional "six for five" formula.

In the development of our free enterprise system, we have become a nation of stockholders. Millions of Americans own countless shares of stock in business corporations. The "board" rooms of brokerage houses across the country daily are filled with anxious customers who watch carefully the progress or decline of their favorite securities. Our expanding economy has brought on a corresponding expansion of the securities business, especially in the organization of many new over-the-counter firms.* Occasionally, some of these brokerage houses are undercapitalized and find it difficult to meet the strictly enforced monetary ratio requirements of the federal government. Enter the loan-shark.

The Commission's investigation revealed several instances where loan-sharks were able to gain control of the operations of brokerage houses through usurious loans. Stockbrokers who became deeply indebted to the underworld money lenders, were forced into high pressure schemes involving the sale of thousands of shares of worthless stock resulting in great losses to the investing public.

The Tortorello Operation

The invasion of the securities business by the criminal loan-shark was clearly illustrated by the activities of Arthur Tortorello, also known as "Joseph Grasso" and "Artie Todd." This convicted felon was a longtime associate of the notorious Carmine Lombardozzi and is also reputed to be part of the criminal syndicate headed by Carlo Gambino.

* The term, over-the-counter, is generally used to designate a brokerage firm which specializes in unlisted issues, that is, the stock of companies not appearing on the boards of the New York, American or other major stock exchanges.

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Tortorello operated as a loan-shark for many years in the field of general merchandising. He last made his headquarters at 485 Madison Avenue. Evidence was adduced during the Commission's investigation which indicated that Tortorello, through his lending operations, was directly connected with a number of brokerage houses in the metropolitan New York area. These included Carlton Securities, Provincial American Securities, Philip Newman Associates, Inc., Harwyn Securities, Hilton Securities and J. C. Gray and Company. Tortorello's ability to dominate these firms is explained in some measure by the character of the man himself and his business methods.

Stock in Trade—Violence

During the Commission's study of his operation, several witnesses who had the misfortune to deal with him, testified privately about "Todd's" propensity toward violence. A witness, designated here as *M*, as an accommodation, once brought some checks to Tortorello's office for a friend, who had borrowed a substantial sum of money for the operation of a Long Island plant. *M* testified that Tortorello questioned him about the fact that he had brought only two checks instead of three. The witness attempted to explain that he was not a party to the transaction and that he was merely a messenger acting on the borrower's behalf. *M* continued:

> "Well, he started yelling about the third check . . . And he got up there and he started beating me, and—got in between us and he said . . . he is holding me . . . . I don't know why he held me instead of Artie . . . . that he could kill me.
>
> And I started to go out, he gave me a terrific kick in the backside that I really . . . . . I thought I was going to pass out . . . . . ". (265)

It is obvious, of course, that this vicious and demeaning assault was intended as a message to the borrower—a sample of what he would receive if he was again short in his payments. *M* had once borrowed from Tortorello on his own behalf. Late in making a payment, he soon heard from "Artie" who "threatened my son, that he would knock the devil out of him, kick him in the privates and so on. I happened to be in Baltimore. And a few days later I called Artie and I told him, I just wired him $500. And he said that doesn't even take care of the vig" (267).

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A former associate of Tortorello's, designated as *N* witnessed many acts of violence which he described to the Commission:

"Q. Did you ever witness an argument or an altercation between borrowers and this man, Todd?
A. On several occasions where—one occasion there was with. . .
Q. What did you see then?
A. Where he was supposed to bring him some money or something like that and he kept stalling him and finally I was in there and he went right—he had his glasses on and he punched him in the eye there.
Q. Who punched whom?
A. Arty Tortorello punched . . ., and he picked up a letter opener and I stepped between—
Q. Who picked up the letter opener?
A. Tortorello picked up the letter opener and he was going for .....
Q. Was the letter opener in his hand?
A. Yes, and he started kicking him and I stepped in between. Tortorello was twice my size and if he gave me a punch I'd fall down. I said, 'Stop this. If anything happens on the floor here, with this noise going on—it is not good for the building, it is not good for us,' and I took—out of there.
Q. What was this argument all about?
A. About moneys that he owed to Tortorello.
Q. He was in debt to Tortorello, too?
A. That's right." (Pr.H. 2057-2058)

This witness also recalled an incident involving an individual named Morton Rosenberg, who had been in the general merchandising business. Rosenberg's body was found in an outlying section of Brooklyn in 1961. He had been shot several times in the head. This homicide case remains unsolved. *N* testified:

"Q. Did you ever see any other altercation involving . . . . . any other person?
A. I saw another one there, I think it was with Morty Rosenberg.
Q. Was he also a borrower?
A. Yes.
Q. From Tortorello.
A. That's right.

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Q. What did you see with respect to Rosenberg?
A. That happened in my office.
Q. In your office?
A. In my office, yes, where he come out—he had some people in the office and he come out there and he was supposed to bring up some money or something like that, and the first thing you know I seen he went to work, he hit him with a pole or something.
Q. What was that argument about?
A. Money.
Q. Money again?
A. Yes.
Q. Did he strike him several times with that pole?
A. He kicked him. He kicked him and punched him. No, he hit him once, I think, with the pole. He opened up his lip.
Q. Did Rosenberg offer any resistance?
A. He couldn't offer any resistance. There was somebody else up there with me and we stepped in. I grabbed the pole away and this fellow was bleeding, and I got him a towel there to wipe the blood off his face. Then he went out and he got a couple of stitches in his mouth." (Pr.H. 2058-2060).

Tortorello's Sources of Capital

There can be little doubt about the sources of Tortorello's capital. In one case, the top money source sent his personal emissary to handle the actual transfer of cash but only after the risk had been found to be satisfactory by the "big man's" representative. Witness *M*, in this instance, recommended to Tortorello, the president of a transistor manufacturing company who was in need of funds. Having forewarned the manufacturer about the problems he might encounter if he borrowed from this particular loan-shark, negotiations nevertheless proceeded in the bar of a mid-town hotel.

At this meeting, it was agreed that the company president would borrow $10,000 at $200 per week vigorish, in addition to which the borrower would transfer 40,000 shares of company stock to Tortorello, as collateral, 20,000 of which Tortorello would keep outright. Tortorello insisted on looking over the manufacturer's plant in advance. Arrangements were made to drive out to Long Island, where, if the inspection trip was successful, the money would be forthcoming. *M* drove out to

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the plant with Tortorello and a third man who was picked up at his home on Shore Parkway in the Bay Ridge section of Brooklyn. This man, called "Minx" brought the $10,000 (Pr.H. 591). Tortorello confided in *M* that "Minx" was his money man." (Pr.H. 592)

"Minx" is the alias of Joseph Livoti, who is also known as "Tom Mix" and has a record going back to 1927. He is alleged to be a close associate of John Oddo, alias "Johnny Bathbeach," an underboss of the Profaci-Magliocco syndicate. Livoti invoked his Constitutional privilege against self-incrimination at the Commission's public hearing.

"The Boiler Rooms"

M's introduction to the securities field was an unusual one. He testified that he had borrowed $1400 from Tortorello personally and had arranged to repay him at the rate of $200 a week for ten weeks. When he became unable to pay his indebtedness, Tortorello arranged for him to work it off. He sent *M* to a Jersey City over-the-counter firm called Carlton Securities. "Artie" told him, ". . . . Go over there to work. Which I did. And every week Artie would take off a certain amount of monies out of my pay to pay back that loan that I owed him" (269). The witness was asked to explain how the payroll was handled:

> "Q. Who handled the payroll at Carlton Securities?
> A. It was handled by Dave Mandell (the president of the firm) but there was a runner that came there with the money from New York.
> Q. Who was he?
> A. He is a runner for Arthur Tortorello. In fact, when I used to see Arthur Tortorello at 303 Fifth Avenue, he was always sitting in the outer office there.
> Q. Was this the same Lou De Fillipo who handled the payroll at Carlton Securities?
> A. Yes.
> Q. Did the salesmen at Carlton Securities have to wait for De Fillipo to come to New Jersey with the money?
> A. Yes.
> Q. Before you could get paid?
> A. Yes. sure.
> Q. You said that Arthur Tortorello was docking you a certain amount every week?

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A. Yes. Well, of course, I asked Lou De Fillipo how come? Well, you know, Artie says you know all about it. He is taking off so much every week.

Q. As a result of this system of docking you every week, did you pay back the money that you owed to his satisfaction?

A. I paid him back to his satisfaction, and, in fact, I paid him back more because at the end they owed me $500 which he didn't want to pay. I asked him for it.

He said, 'I just don't want to pay it to you. What are you going to do?'

Q. How much did you pay back Tortorello on this original indebtedness? ($1,400.)

A. Between five and six thousand dollars." (269-271)

Carlton's "payroll clerk," Louis De Fillipo, has an impressive criminal record. It includes a conviction for larceny in 1943, two violations of his parole with subsequent imprisonment, assorted gambling charges, and his arrest on charges of extortion and conspiracy. On the latter, he was convicted for conspiracy and sentenced to a jail term.*

Carlton Securities was not an ordinary over-the-counter brokerage house. Its methods of operating soon became apparent in questioning *M*:

"BY COMMISSIONER LANE: I want to ask this question:

When you worked for Carlton Securities, were you operating a telephone?

THE WITNESS: Yes, sir.

COMMISSIONER LANE: In other words, you were touting these unlisted stocks?

THE WITNESS: Yes, sir. At that time we were selling C & F Electronics, and I think Belmont Oil.

COMMISSIONER LANE: How many people were working on the telephone?

THE WITNESS: We had about four or five working . . . But they also had people working in New York on those same things, I understand.

COMMISSIONER LANE: But the boiler room that you worked in was just a battery of telephones.

* This same individual was used as a strong arm man by loan-shark, Milton Kaufman whose activities are discussed elsewhere in this report. Kaufman and De Fillipo were co-defendants in this conspiracy-extortion case.

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THE WITNESS: There were about four or five people there.
COMMISSIONER LANE: You operated solely on the telephone with prospects?
THE WITNESS: On leads.
COMMISSIONER LANE: Who gave you the leads?
THE WITNESS: David Mandell, who was the manager, or, I think, the proprietor, he was the one that gave us the leads." (272-273)

One of the "issues" sold by Carlton was the stock of Belmont Oil Corporation. Tortorello and his associates defrauded investors of nearly $1,000,000 through the sale of 750,000 shares of this unregistered stock. In addition to the Jersey City brokerage house, these shares were sold through operations in New York City and California. Belmont was sold for more than $1.00 a share to people across the country and Tortorello's high-pressure salesmen promised buyers that the securities would advance to ten dollars a share within a year. Carlton also flooded the market with more than 1,000,000 shares of "C & F Electronics Corporation" stock, at $1.25 a share—all worthless.

In addition, *M* worked for a time with Provincial American Securities at 170 Broadway, in Manhattan, as a securities salesman. Provincial American was ostensibly headed by one Stanley Younger. *M* sensed trouble early in the game when it became apparent that Provincial's real chief was none other than Arthur Tortorello, who was on the premises regularly:

"Q. Did you inquire of anyone as to why Tortorello was at Provincial American?
A. Yes. I inquired and I found out that he made a loan to Stanley Younger, because Stanley Younger got involved in gambling in Las Vegas and he needed money to operate, and he was introduced to Arthur Tortorello and Arthur Tortorello put up all the money he needed. I understand it was around $75,000.

* * * *

Q. What happened after Tortorello came on the scene due to his loaning Mr. Younger this large amount of money?
A. Well, they didn't give a darn how they sold the stock. They just wanted to sell the stock. And the fact is that the men were instructed to say anything, a guarantee of anything, just to sell the stock.

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Q. Would you say that Tortorello was on the premises daily to, in effect, protect his investment?
A. Yes. He was there quite often. I don't know whether it would be daily, but he was there quite often.
Q. But on the—
A. But I was avoiding seeing him. Maybe he was there before, but I don't know. I was in a separate room.
Q. Did he assume a managerial part?
A. Yes, he acted like the boss.
Q. Stanley Younger certainly didn't?
A. No. not when he was there. He had all to say.
Q. Who is "he"?
A. Arthur Tortorello." (275-277)

Witness *N* visited Provincial American from time to time because his brother worked for Stanley Younger (314). *N* was familiar with Younger's predicament, which arose out of a $100,000 misappropriation of money Tortorello put in Younger's hands. According to *N's* testimony "Artie" loaned Younger $100,000 to "buy a deal up in Canada," but, instead, Younger used the money to pay off another loan-shark to whom he was heavily in debt (Pr.H. 2077-2078).

N was questioned about the underworld's reaction to the unauthorized use of its money:

"Q. What did Todd do as a result of that?
A. They had a little sit-down—and nobody knows where those sit-downs are—and some very big people were called in, and they figured out—
Q. Like who?
A. I don't know. A lot of the top people who handed out this money. 'The Moustaches'*—the people who lent out this money.
Q. What did they decide Stanley Younger had to do?
A. He was going to pay it back and the only way he could pay it back, if he was kept alive he'd go into another business. So, that is how Art started to go—said, 'All right. Get a deal and I'll get this money for the new deal and we'll take off the $100,000 first that you owe us.' " (Pr.H. 2078-2079)

As a result of this "sit-down" the Monarch Asbestos deal was born. Younger and his staff proceeded to sell a vast quantity

* A term applied to underworld bosses.

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of worthless stock in this "company" in an effort to satisfy the loan shark. It was, in effect, a life or death proposition.

Philip Newman Associates, Inc., another over-the-counter house, was also implicated in the sale of this same fraudulent issue. In a court action by the Attorney General of New York State against Philip Newman Associates, Inc., this organization was put out of business. An affidavit executed by an Assistant Attorney General in that action indicated to some extent, the potential loss to the unwary public, had not the State acted swiftly:

> "The rate of sales of Monarch Asbestos Inc. stock during the month of October, 1958, alone, indicated that a continuation of this business in the State of New York would have resulted in a million and one-half dollars being lost to the investing public in one year from the fraudulent sale of Monarch Asbestos, Inc."

Tortorello's Partner—Carmine Lombardozzi

While Witness *M* was still active in the securities business, he had occasion to meet underworld figure, Carmine Lombardozzi.* Early in his criminal career, Lombardozzi was convicted of unlawful entry. Between 1945 and 1951, he was convicted on five separate occasions of gambling charges. In 1960, he was arrested and later convicted of mail fraud. This charge was related to his operation of several stock swindles in conjunction with his partner, Arthur Tortorello. Together, they were sentenced to a Federal Pentitentiary in August, 1963, after violation of probation.

Another witness, who testified at a Commission private hearing, remembered Lombardozzi as an associate of Tortorello. The witness was a business associate of the deceased Tortorello borrower, Morton Rosenberg, and operated a business adjacent to the office of Princess Anne Creations at 303 Fifth Avenue, another Tortorello enterprise. Princess Anne Creations ceased operations after the New York City Police Department raided its offices in connection with arrests made as a result of Tortorello's stock swindles.

The witness met Carmine Lombardozzi on at least two occasions at 303 Fifth Avenue, and heard Tortorello and Lombardozzi arguing "about a lot of money . . . that Carmine Lombardozzi had invested. . . ."

* The Commission had Lombardozzi committed to prison as a result of his refusal to answer questions during the investigation into the Apalachin meeting.

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". . . The offices were next door to each other. They were small offices, my door was open and I heard this loud talk, you know. He was angry about something, because—I mean, I didn't eavesdrop but I couldn't help overhearing it from where I was . . . I know it was regarding money that he had invested with him or he owed him, and he was yelling about large sums of money that he claimed that he wanted his money." (Pr.H. 3459-3460)

M testified that he met Lombardozzi at Hilton Securities, an over-the-counter house located at 580 Fifth Avenue, in Manhattan and run by one Harry White. The witness was not certain as to the purpose of Lombardozzi's visit, but connected it with Tortorello and his loan-sharking (277).

Earlier, at a private hearing, *M* had testified that, while working at Harwyn Securities, 1457 Broadway, in Manhattan, Harry Weintraub, Harwyn's proprietor, had arranged to promote the sale of stock in the Chase Savings & Loan Association of Baltimore, Maryland, headed by one Charles Stahl. This name was deliberately chosen to mislead investors into thinking that the firm was associated in some way with the Chase National Bank. Stahl was constantly in need of cash, and *M* himself had brought him to loan-sharks on occasion (Pr. H. 576-579). It appears that Stahl was also heavily indebted to Tortorello. On one occasion the loan-shark dropped in at Harwyn to see how the sale of Chase stock was progressing. When told that "it wasn't good," Tortorello said "that bum (Stahl) owes me over three thousand dollars and I have to get paid. The way I can get paid, if you fellows sell the stock" (Pr. H. 641). When Weintraub decided to push Chase stock, he bought out the offices of Hilton Securities at 580 Fifth Avenue to have more operating space (278). It was at about this time that Lombardozzi was seen by *M* at the offices of Hilton.

Chase Savings & Loan Association

The Securities and Exchange Commission ordered proceedings to determine whether Harwyn Securities, Inc. made fraudulent representations in the offer and sale of Class A stock of Chase Savings and Loan Association Inc. The Harwyn corporation, through its president, Harry Weintraub, and certain salesmen, were accused of making false and misleading representations with respect to the operation and financial condition of Chase Savings, the payment of dividends on and future in-

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creases in the market value of its stock and the connection between Chase Savings and "Chase National Bank." Weintraub was permanently enjoined on February 8, 1961 by the United States District Court for the Southern District of New York, from engaging in and continuing "certain conduct and practices" in connection with the sale of securities.*

Harwyn also had its problems in the courts of New York State. On March 13, 1962, on the application of the Attorney General of the State of New York, a judgment of permanent injunction was signed by a New York County Supreme Court Justice, restraining Harwyn Securities, Inc., Chase Savings and Loan Association and its President, Charles Stahl, and Harry Weintraub, among others, from engaging in securities transactions within the State of New York.

N also testified about one James Gray who operated a brokerage house "somewheres on Maiden Lane" under the name J. C. Gray Company. The witness stated that Gray borrowed money from Tortorello in order to meet certain S.E.C. financial requirements. The federal agency questioned the source of the funds. Tortorello, in an effort to conceal the fact that he loaned Gray the money, asked *N* to go on record as the lender (Pr. H. 2084). *N* refused to comply with this cover-up scheme. J. C. Gray & Company was soon forced to close its operations.

The inroads made by the criminal underworld in the securities business is shocking testimony to the power achieved by loan-sharks through pressures on insolvent borrowers. The most sinister aspect of the Tortorello loan-sharking operation was the huge loss of money suffered by the investing public running to millions of dollars.

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* See, Securities and Exchange Commission News Digest, Washington 25, D.C., For Release, May 17, 1961, p. 11.

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IV

LOAN-SHARKS AND THE BANKS

To the average citizen, public banking institutions present an indestructible image of well-regulated reliability and conservatism in financial matters—the last place in the world one would expect to find the corrupting and destructive handiwork of the loan-shark. Nevertheless, the Commission's investigation and hearings revealed the shocking fact that in certain instances, bank funds were being used to finance usurious money lending operations. This was accomplished through indiscriminate and improper lending practices and the systematic discounting of unsecured and often worthless third party notes. Also disturbing was the revelation that one New York City bank was used by loan-sharks as a base of operations and a source of borrowers. These serious abuses were made possible by the corrupting of bank officials and employees.

A. A BANK—THE BASE FOR LOAN-SHARK OPERATIONS

"Immediate Credit"

The seasonal nature of garment manufacturing, the rapid turnover of cash and merchandise, as well as sudden demands of style changes, often create situations where immediate cash financing is necessary, over and above ordinary credit limits in the garment industry. Due to its unique character, this industry is a fertile field for the usurer. Legitimate garment manufacturers often turn to loan-sharks for ready cash to tide them over a transition period. Some law enforcement officials have stated that many garment firms in New York City are financially controlled by members of the criminal syndicates who engage in loan-sharking.

Another direct result of this condition is the development of what has been described as the "immediate credit" department in certain garment area banks.

According to a witness designated here as *O*, who ran such a department in an area bank, "immediate credit" service is designed primarily to permit depositors to draw against uncollected checks upon approval of a bank officer and payment of certain specified charges. Astounding as it seems, this bank-

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instituted service encourages a practice which plagues the banking business—the "kiting" of checks. *O* so testified and gave his own, quite accurate, definition of "kiting":*

> "Kiting of checks, there are several forms. The best form I know is drawing a check on one bank to cover a check on another bank, for which neither account has money. That is the best way I can describe it." (756)

Since the "immediate credit" department served bank customers who were habitually running short of funds, *O's* daily duties as head of that department made him familiar with the financial problems of depositors. His busiest time came between the hours of one-thirty and two-thirty in the afternoon. This period was characterized by the witness, and is apparently known in the garment district, as the "panic hour." It is at this time of day that checks, previously issued, are presented for collection. Thus operators who had insufficient cash on deposit to meet such obligations queued up at the "immediate credit" counter, desperate for help. This was the "panic hour"—the hour that loan-sharks appeared at the bank. There, with the aid of bank employees, they operated their own version of an "immediate credit" department.

O became friendly with a number of loan-sharks who kept accounts at the bank, transacted business during the day, and attended the "panic hour." Among these was Milton Kaufman, mentioned previously in this report as the money lender to witness *L*, who had embezzled some $200,000 from his firm to pay this loan shark.**

The Commission sought to determine just how Milton Kaufman and people of his kind could loiter about the bank conducting loan-shark transactions. *O* testified that while it was known that these persons were engaged in loan-sharking, they were never removed or even questioned about their activities (762-764). Moreover, he admitted that he actively assisted loan-sharks in contacting borrowers right in the bank. This was done by a signal system where *O*, by a nod of the head or a wave of the hand, would indicate to the loan-shark what customers, being refused credit by the bank, would be good marks for a usurious loan (Pr. H. 3158-60).

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* Webster's Unabridged New International Dictionary (Second Edition): "kite": 5. Com. A piece of fictitious commercial paper used for raising money or to sustain credit, as a check which represents no deposit in the bank, or an accommodation check or bill.

** pp. 50 to 56, supra.

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According to another witness who testified, *O's* activities went beyond mere head and hand signals. The witness stated that on an occasion when he was refused "immediate credit" at the bank, *O* actually introduced him to Milton Kaufman, telling him in advance that Kaufman loaned money on a "six to five" basis.

After the introduction by *O*, the witness testified that over a period of years he borrowed "anywhere from 15, 20, 25,000 dollars" at "six for five" from this loan-shark, with individual loans ranging from $500 to $1,000.

Corruption of Bank Employees

At the public hearing, *O* was asked to explain why he and other bank personnel not only suffered these conditions to exist, but actively participated in them. Understandably, his memory failed him. It was necessary to refresh his recollection by reading testimony given by him to the Commission in private session:

"Q. Have you ever on Christmas time, Easter or on your birthday, or any other time, received a gift from these shylocks?

* * * *

A. The answer is that they contributed to more than half of the gifts received by myself, or any other individual in the bank.

Q. These gifts would take the form of —

A. Particularly cash, and alcoholic beverages.

Q. Who would hand the cash to you?

A. Invariably it would be the depositor.

Q. You mean the individual who borrowed money from the shylocks?

A. Yes.

Q. Who would direct that the depositor hand you this money?

A. The shylock.

Q. So that you would actually be given the money by the 'shylock' through the depositor?

A. Right.

Q. So that if we took a figure, $2,000, that would be a close estimate of the money that you received during a year on the average?

A. In the better years, yes.

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Q. If you took that as an average year, you would say that better than half of that $2,000 figure would be coming from 'shylocks,' either directly or indirectly?
A. Yes." (Pr. H. 3165-3166)

O received a salary of eighty-eight dollars a week as head of the "immediate credit" department. The regular receipt of gratuities were described by him as "free and clear," and the reason he remained with the bank in spite of his low salary (Pr. H. 3167-3168).

Obviously, such flagrant abuses could not have continued with the complicity of *O* alone. He testified:

"THE CHAIRMAN: Let me ask you, so far as you know, what you may have heard, were officers of the bank doing the same?
THE WITNESS: That is correct. . . . They set the pattern, we just followed it.
THE CHAIRMAN: Just following the pattern?
THE WITNESS: That is right." (768-769)*

B. BANK FUNDS FINANCE LOAN-SHARK OPERATIONS

One facet of loan-shark operations uncovered by the investigation presented the gravest potential threat to the financial security of banking institutions. It was found that by various devices, loan-sharks were able to obtain and use bank funds as part of their capital for usurious money lending ventures. Simple mathematics makes obvious the extreme attractiveness of such an arrangement. The vast spread between legal bank rates of interest and the 260 percent or more a year vigorish charges that he imposes, is much too enticing for the loan-shark to resist. Here again, the loan-shark accomplishes his purpose by corrupting bank officials.

The Note Discounting Racket

One large-scale usurious money lending operation, using bank funds as capital, was conducted by loan-shark John Massiello. This individual, convicted in 1956 of the crime of conspiracy, is believed by law enforcement authorities to be a member of the crime syndicate headed by Vito Genovese. Massiello was called as a witness at the Commission's hearing. Richly tailored

* *O* and other bank personnel who participated in these activities have been discharged.

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and elegantly bejeweled and groomed, he looked every inch the top underworld figure. The nick-name, "Gentleman Johnny," by which he is known, seemed most fitting. His performance also ran to form. He politely refused to answer some forty questions concerning his activities, asserting his privilege against self-incrimination.

Other witnesses were not so reticent. Their testimony revealed a racket which put at least one and a half million dollars of the funds of a single bank branch to work for this loan-shark. A substantial part of the money will never be recovered. Evidence indicated that the operation was much larger.

An essential ingredient of the scheme was the corruption of the bank's loan officer.

One case illustrates how this racket operated. A businessman-borrower, unable to obtain credit, applied to this underworld money lender for a $6,000 loan. The loan-shark required the borrower to execute a promissory note payable to him for $8,000. This note was taken to the bank where it was discounted, with the approval of the corrupt loan officer at the bank rate of six percent. As in the case of most loans arranged by Massiello, the paper was worthless and accepted without collateral. Proper banking procedures relating to credit investigation and evaluation of collateral were never followed (862).

Primarily liable to the bank was the maker of the note who obligated himself to pay the six percent rate on the $8,000 and eventually to satisfy the note. The loan-shark pocketed $2,000 of the $8,000 and gave $6,000 to the borrower. In effect, the $2,000 retained by the loan-shark from the proceeds of the loan constituted his vigorish.

This was the basic scheme. It had much broader and more serious ramifications. In addition to the discounting of third party notes, Massiello himself borrowed substantial amounts from this same bank. These loans, obtained with the connivance of the corrupt bank official, were taken in the names of various dummy corporations. In each instance, Massiello paid the usual six percent rate. The operation was kept going by continually pyramiding or broadening the base of the amount of the bank loans. Prior obligations were kept current by the loan-shark with proceeds obtained by the discounting of new notes or by obtaining new loans in the name of a dummy corporation. The loan-shark had the continuing use of the ever increasing sum loaned by the bank, plus the constant turn-over of the exorbitant vigorish that this money was earning.

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In 1962, the bank discovered that the loan officer had been exceeding his authority in granting loans to Massiello and others. He was discharged immediately and is presently under indictment in a federal court. In May, 1962, an Assistant Vice-President of the bank was assigned to investigate the extent of the note pyramiding scheme and to seek recovery wherever possible. He found that between May, 1959 and January, 1962, the loan-shark had obtained bank loans, in the methods described, totaling close to one and one-half million dollars (860). At one point, when the pyramid hit its peak, he noted that this one branch had nearly $800,000 out on loan to the Massiello group (861). Up to the time of the hearing in December, 1964, the bank has been able to recover only one-half that amount. The prospective loss to the bank is close to $400,000 (866). The bank official stated that "several" other groups had conducted similar note discounting operations at the bank and indicated that they were connected with Massiello (868). While he declined to estimate the total amount of bad loans issued in connection with the other pyramiding operations, he characterized them as "substantial."

A typical borrower from Massiello was one R. Simon Rosenthal, the owner of two garment manufacturing companies. A large number of the notes which were discounted by Massiello had been issued to him by Rosenthal. Rosenthal was asked why he lent himself to this scheme and explained that he owed Massiello between $70,000 and $80,000 and had no choice but to go along (866). Rosenthal and his firms were stripped by the loan-shark and are out of business and bankrupt. He is but one of the many issuers of paper held by the bank on which never a penny will be recovered.

"The Finder's Fee"

The investigation disclosed another device through which bank capital was used to the great profit of unscrupulous money lenders. An actual situation clearly illustrates how such operators obtain what are, in reality, unconscionable vigorish payments on bank loans to bad risk borrowers.

In 1962, the president of a light bulb manufacturing concern, in debt to loan-shark Julie Peters Gazia* and in need of cash, was referred to one Peter D'Agostino. This individual headed a

* For a detailed description of Gazia's underworld financed loan-shark operations, see pp. 20 to 32, supra.

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money-lending business known as Norwalk Investors, Inc., with offices in Mineola, Long Island. D'Agostino, negotiating on behalf of the manufacturer, was able to obtain two loans for that firm. One loan from a bank located in Nassau County, Long Island, was made to the borrower in the amount of $50,000. Another $30,000 loan from the Crown Savings Bank of Newport News, Virginia, to the same borrower, was also arranged by D'Agostino. D'Agostino took approximately $10,000 from the borrower as a "finder's fee." Both loans were unsecured and given without investigation into the borrower's extremely fragile credit position. The so-called "finder's fee" actually was another form of vigorish earned by a money lender on capital improperly advanced by a bank.

The gross disregard for proper banking procedures which marked such transactions, was clearly shown in a loan made by this bank to First National Service and Discount Corporation, the firm used by Julie Peters Gazia as a front for his loan-shark operation. First National had loaned large amounts of money to one Joseph La Monica. In May, 1962, La Monica was convicted for his participation in a scheme to defraud the government by submitting false statements in loan applications under the Title I program of the Federal Housing Authority. Gazia, concerned about the pending sentence and likely incarceration of his borrower, pressed La Monica for full payment of vigorish and principal of the loan (Pr. H. 74). Notwithstanding La-Monica's difficulties with the law, D'Agostino had employed him as a "finder" for other "Norwalk deals" (Pr.H. 72). D'Agostino agreed to help LaMonica settle his outstanding obligations to the loan-shark by arranging for a $25,000 loan to Gazia's firm from the bank in Nassau County. The arrangement, of course, was most attractive to Gazia. Available was an additional sum of $25,000 to lend at 260 percent a year.

The loan investigation by the bank in this case might have been considered farcical. Witness *B*, as an officer of First National, was interviewed by the bank president. This interview was described as completely superficial. He was not asked even rudimentary questions about the earnings, business activities, officers or directors of the corporation or any questions relevant to the corporation's ability to repay the loan.

A credit report submitted by *B* to the bank concerned a corporation which was wholly separate and distinct from First

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National Service and Discount Corporation (Pr. H. 1877). The bank president was questioned about this:

> "Q. You will notice that the corporation involved on the (credit) report is the First National Service Corporation and the corporation applying for the loan is the First National Service and Discount Corporation. Now —
> A. That — I can truthfully tell you that didn't hit me.
> Q. In truth and in fact, both corporations are separate and distinct.
> A. They are?
> Q. One was in a dormant condition at the time the loan was applied for and had any follow-up been made with respect to the information contained in the credit report which is in question now, it would have easily been ascertained that the credit information had no bearing on the applicant for the loan.
> A. We were caught with our — I mean, I can't — what can I say? I don't—." (Pr.H. 1896-97)

Examination of the bank president and cashier, who was also involved in D'Agostino's loans, was continued in an effort to obtain some reasonable explanation for their extraordinary conduct in approving such loans. Again, the corruption of these bank officers by the money lender proved to be the answer. D'Agostino and the officers involved finally admitted a pattern of substantial cash and other gifts. The bank president was given an envelope containing $400 in cash just a few weeks before he was to appear as a witness before the Commission (Pr. H. 144-153). When these facts were brought to the attention of the bank officials, the officers responsible were discharged.

A Bank Goes Under

In addition to arranging deals involving "finder's fees" D'Agostino did a brisk business in discounting third party notes. Note discounting constituted the substantial part of the operations of D'Agostino's Norwalk Investors. The money realized by D'Agostino through discounting was used for the most part in financing his own money lending activities. The notes were discounted chiefly through the institution in Nassau County and the Crown Savings Bank of Newport News.

In December of 1964, the cashier of Crown Savings was indicted by a grand jury sitting in Fulton County, Atlanta,

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Georgia, together with five officers of money order firms based in Atlanta. These defendants were charged with defrauding hundreds of people in Georgia, Tennessee and South Carolina, who had purchased a million dollars worth of money orders drawn on the Newport News, Virginia, bank. The cashier was accused of making false entries in accounts maintained by the money order firms, which in turn allowed the co-defendants to drain off funds which should have been used to cash outstanding money orders.

In September, 1964, just three months prior to the filing of the federal indictment, inspectors of the Federal Deposit Insurance Corporation found that extensive kiting operations had been practiced at Crown and that the bank was carrying *more than one and one-half million dollars worth of high risk loans on its books*. These revelations led to a prompt closing of the bank by the federal government, and the institution's subsequent bankruptcy. This same bank had accommodated Peter D'Agostino in the discounting of notes of the following companies: Nine Gee Lanes, Inc. of Red Hook, New York, Arm Truck Leasing Corporation, Maspeth, New York, and South Eastern Technicals, Inc. of Norfolk, Virginia.

The quality of D'Agostino's clients is well summarized in a letter from the president of a New Jersey banking institution, who appeared to have much more discretion than did Crown Savings Bank officials. The letter, dated December 13, 1962, declined to make a $35,000 loan to a company referred to it by D'Agostino, because of the company's financial condition and further stated:

> "The bank is anxious to build deposits, but it appears that the companies and concerns which work through you are problem cases, which our bank cannot approve . . ."

* * * *

The irregularities in the various banks which were uncovered during the loan-shark investigation by this Commission have come to the attention of the Committee on Banking and Currency of the House of Representatives, as well as the United States Senate Permanent Subcommittee on Investigations. At the request of both committees, such information as was developed in this area has been furnished to them. At the date of the writing of this report, the Senate Subcommittee is engaged in public hearings on the infiltration of racketeers into the banking field.

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V

LOAN-SHARKING ON THE WATERFRONT

For many years, loan-sharking has been a serious problem among the approximately twenty thousand longshoremen who work on the vast piers and docking facilities of New York Harbor. As in other areas, the loan-shark racket on the piers is financed and controlled by the underworld. Thomas F. Jones, Chief Investigator of the Waterfront Commission,* testified at the public hearing about waterfront loan-shark operations.

Underworld money movers work through individuals whose employment provides them with credentials to go directly on the piers. These include pier guards, hiring agents, checkers and other longshoremen (882). The underworld financier provides the pier loan-shark with what is called a "book." This is an advance of lending capital ranging from $1,000 to $10,000. The loan-shark operating on the pier, known also as a money "pusher," is responsible for the "book" he receives and the vigorish it produces. Each week, the "pusher" must give his money supplier an accounting of profits which are determined by the current value of the "book." The profits from the enterprise are shared according to the terms of special arrangements made between them. As in other loan-shark ventures, the financiers are not concerned with the identity or reliability of borrowers. This is entirely the "pusher's" responsibility. The "pusher" also is held accountable for all loans which are uncollected.

While loans made to longshoremen are relatively small, the volume is large because of the great number of "pushers." According to Mr. Jones, the "standard" vigorish charged on the waterfront is about fifteen percent a week. As in other loan-shark operations, penalties for late payments are imposed.

Where the delinquency in payment continues, threats and even force are employed by strong-arm men to effect collection. Not only is the borrower subjected to threats and physical violence, but his immediate family also is exposed to such tactics (884).

* The Waterfront Commission of New York Harbor was created in 1953 to improve the conditions under which waterfront labor is employed; also, to provide workers with greater income security and to eliminate the unsavory element controlling the waterfront. Although much has been accomplished in that direction, loan-sharking still remains a major problem.

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These threats often drive the borrower to another loan-shark for money to pay off his overdue loan. If the second loan-shark knows of the borrower's difficulties, he will charge whatever the traffic will bear. At times, the borrower has to pay double the amount of the loan, plus vigorish.

Not content with threats and violence as weapons of collection, loan-sharks have developed other effective means of assuring timely payments. One such technique was explained at the hearing:

> "Because of the vast numbers of longshoremen working in the Port, and the transient nature of many of them, moving from pier to pier, the longshoreman is known to his employers almost exclusively as a social security number. So that when he is employed on the first day of the working week, he is given what they call a chit, or an identification card, a payroll identification card by the company that hires him.
>
> At the end of the payroll period, the monies that are earned by that particular individual are credited to him, and upon presentation of the payroll identification card, the salary due to that social security number is paid.
>
> Now, the man who possesses the identification card, or the brass chit, can pick up the salary, and as far as the employer is concerned, then it becomes his property. He can do with it what he will. Because they are, in effect, paying on the card, so that the loan-shark, if he has possession of this chit, or this payroll card, he can go and collect the man's salary. If it is in cash, he can extract from the payroll envelope what is due him, and he gives back to the victim what remains; if it is a check, we have found in some instances where the loan shark has endorsed it himself, forged the man's name and cashed the check, and others where he has taken it back to the individual, had him endorse it and then the loan-shark will cash it and give the man back what is due out of the payroll check." (886-887)

Loan-sharks also are known to station themselves outside of banks and stores where pier workers cash their pay checks. As these men leave the bank or check-cashier, they are dunned by the waiting loan-shark for their weekly payments.

The serious problem of cargo pilferage on the piers was also

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attributed, in part, to loan-sharking. This was pointed out in the following testimony:

> "Well, the loansharking in and of itself is a very vicious crime because of the nature of the — these men thrive on the adversity of their fellow workers, but primarily on the waterfront we have the aftermath of the crime itself.
> The victim is so hard pressed many times for money that he turns to pilferage of cargo, theft of cargo, in order to meet his payments to the loan shark.
> We have uncovered instances in our investigation where pier guards have fallen victims to a loan shark, and in order to meet the payments, have entered into agreements with thieves to turn their backs and not to do their duty.
> And, of course, as I pointed out at the beginning, longshoremen or checkers, or other waterfront workers, have from time to time, been forced to engage in thefts of cargo in order to meet their loan shark payments." (879-88)

A specific case is provided as an illustration. A hiring agent at one of the piers was operating as a loan-shark. Being in a position to hire men, he gave preference in employment to his borrowers to insure that they had enough work during the week to meet their obligation to him. Upon arrest of this individual, and in searching his home pursuant to a search warrant, approximately $70,000 in cash was found hidden. The attic of his home was described "as being something similar to a discount store." He had many commodities which were traced back to cargo at the piers. Subsequently, it was learned that this merchandise had been turned over to him by longshoremen for agreed credit amounts, which usually were a fraction of the true value of the merchandise, and which credit was applied as payment on the outstanding indebtedness of each such borrower.

There are undoubtedly many cases where borrowers freely lend themselves to such thievery. Nevertheless, loan-sharking remains the basic root cause of much pilferage. Such conditions exist primarily because borrowers are afraid to complain to law enforcement authorities. The Waterfront Commission of New York Harbor and local law enforcement authorities have been exerting every effort to rid the waterfront of loan-sharks. It is hoped that increased public awareness and legislation resulting from the Commission's hearing will help in attaining this goal.

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VI

RECOMMENDATIONS

On December 4, 1964, after the first three days of testimony at the public hearing, Governor Nelson A. Rockefeller issued the following statement:

> "The revelations of loan shark racketeering that have come to light during the hearings of the State Investigations Commission are shocking.
> I have requested Attorney General Louis Lefkowitz, my Counsel Sol Neil Corbin and Frank Wille, Superintendent of Banking, to review the testimony and to make recommendations on legislation which may be required."

The Commission's staff cooperated with the officials designated by the Governor, and after due consideration, a Bill was prepared for submission to the 1965 Session of the Legislature. The basic proposal calls for the enactment of a new section of the Penal Law defining the charging of more than twenty-five percent a year interest on a loan as criminal usury, a felony. Other provisions of the Bill would implement and strengthen this basic measure.

The memorandum which was prepared to accompany the Bill fully explains its provisions and the compelling need for its enactment. Accordingly, the contents of the memorandum are set forth at length.

"STATEMENT IN SUPPORT OF THE BILL"

"The recent public hearings of the State Commission of Investigation disclosed, for the first time, that the organized criminal underworld, its agents and other unscrupulous operators are conducting a vast and highly lucrative usurious money lending business in this State. This element charges unconscionable rates of interest of 260% per year and in some cases 2000% per year, and enforces its obligations by fear, threats and violence.

Loan-sharking has become a major source of revenue for the underworld and a principal avenue by which crime syndicates have invaded legitimate businesses, including, in some instances, manufacturing and merchandising firms, brokerage houses, res-

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taurants and night clubs. These businesses, when taken over by loan-sharks, are used to further other criminal enterprises.

Most shocking was the revelation that this racket has grown to tremendous proportions, producing millions in revenue, in large measure because of the serious vacuum which exists in the usury laws of this State.

Traditional organized crime operations such as narcotics, gambling and prostitution carry, in varying degree, substantial risks of prosecution and severe penalty. No comparable handicap exists for the loan-shark. He is, in a sense, invited into the money lending business by the lack of strong criminal laws against unconscionable usury.

The criminal loan-shark can, and generally does, conduct his business wholly within the law, operating under high-sounding business names, with offices and other trappings of legitimacy. The criminal usurer is fully cognizant of the laws' shortcomings and sets his business policies accordingly. An underworld "insider" and others have testified that the loan-shark knows that no criminal penalty attaches to loans made to corporations regardless of how onerous and unconscionable a rate of interest is imposed. He is also aware that this same absence of criminal penalty prevails in loans to individuals in excess of $800.

From the law enforcement standpoint, it is clear that existing statutes do not provide adequate weapons for attacking the problem. Laws against extortion and coercion are of only limited value, since the loan-shark rarely needs to resort to overt and actionable intimidation. His own reputation is usually enough to instill fear. Furthermore, when such acts become necessary, they are usually carried out by strong-arm underlings.

To seek out and prosecute usury as such, law enforcement authorities have available only two usury laws which carry penal sanctions. One is Section 357 of the Banking Law, the other, present Section 2400 of the Penal Law.

Section 357 is part of Article 9 of the Banking Law, which regulates the small loan business. Section 357 penalizes as a misdemeanor, loans of $800 or less bearing more than the authorized rate of interest, made to individuals by unlicensed lenders. This section is of some use only against the distinctly small-time "six for five" type of street corner loan-shark. It is less than adequate for that breed because its violation constitutes only a misdemeanor. Moreover, it provides no remedy at all against the higher echelon, underworld connected loan-shark

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whose activities constitute this major law enforcement problem and the principal threat to the safety and economic well-being of the community.

The other present law, Section 2400 of the Penal Law, penalizes usury as a misdemeanor only when tools, implements of trade or household goods are taken as security. This section is limited and its prohibitions in no way reflect any present day loan-shark activity. Loan-sharks do not find it necessary to trouble themselves with collateral of this nature.

Full consideration of the facts about modern loan-shark operations makes clear the urgent necessity to strike boldly at the heart of the problem—to legislate where the law is silent. The existing vacuum in law, in which the criminal loan-shark has operated with impunity, must be filled by meaningful and effective legislation. As previously stated this can be accomplished without modifying, in any respect, existing laws and regulations which limit and define lawful rates of interest in this State.

(1) The proposed bill would achieve these purposes by providing, in a new Section 2401 of the Penal Law, that the charging of interest at a rate greater than 25% per annum on a loan to any individual, partnership, association or corporation, shall constitute the crime of "criminal usury," a felony. Thorough study and careful consideration was given in fixing the criminal rate of interest at above twnty-five percent. Full discussion was had with representatives of major segments of the legitimate lending industry, both licensed and unlicensed. Clearly indicated was the fact that no legitimate lender, dealing at arms' length with any borrower who is a reasonable risk, charged or had to charge a greater annual rate. In the case of small loan companies who deal in higher risk and less profitable small personal loans, the law now permits an average effective annual rate of twenty-one percent.* Commercial factors, lending on accounts receivable, also charge up to twenty-one percent.

Twenty-five percent interest or less appears then to be a rate which is generally accepted by the community and does not unduly restrict the flow of legitimate lending capital in higher risk areas of our free economy. On the other hand, except in the area of high-cost small loans which are regulated by statute, a rate of interest greater than twenty-five percent is, by all

* In some instances, in loans of $100 or less, the permitted statutory rate for small loan companies is over 30%. This rate would remain lawful under this bill.

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standards, unconscionable. Declaring it such by a criminal statute hits that area in which the loan-shark operates—an area in which, as noted, the law is now silent.

The creation of the crime of criminal usury as defined above, constitutes the basic concept and approach in dealing with the loan-shark racket. Other provisions of the bill, described below, serve to implement and strengthen that basic measure.

(2) Enactment of proposed Section 2402 of the Penal Law would provide law enforcement with an additional effective weapon against the loan-shark. This measure would make possession of loan-shark records a misdemeanor. It was found that loan-sharks must and do maintain records of loan transactions which identify borrowers and set forth principal balances, interest due and paid, and charges and penalties imposed. Loan-shark records are identifiable and susceptible to proof as such by expert testimony to the satisfaction of a court. Analogous are cases involving the possession of bookmaking or policy racket records, which are now made unlawful by Sections 975 and 986b of the Penal Law, on which proposed Section 2402 is patterned.

Proposed Section 2402 is particularly beneficial in light of the fact that individual borrowers from loan-sharks are generally afraid to make formal complaints. With this section available, law enforcement authorities would be able to obtain information necessary to investigations and to seize loan-shark records while protecting the identity of an individual complainant. When such records are seized, the loan-shark may be successfully prosecuted under this proposed section, without necessity of borrowers' testimony in open court. It can reasonably be expected that in many cases, seized records will be sufficiently detailed to identify a number of borrowers. Further prosecution against the loan-shark for the felony of criminal usury could then be based on the testimony of subpoenaed borrowers, again without exposing the voluntary informant. It is clear that the section would materially encourage and aid enforcement efforts against the criminal usurer.

(3) Proposed Section 2403 provides for granting witnesses' immunity in criminal usury investigations. Such a provision would assist authorities in reaching higher echelon loan-sharks through the testimony of accomplices or borrowers who may seek to hide behind the privilege against self-incrimination. Proposed Section 2403 is patterned after other immunity provi-

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sions of the Penal Law (for example, Sections *81a, 381, 395, 584, 996 and 1752a*).

(4) When loan-sharks find physical persuasion necessary, they usually resort to roughing up tactics. Physical abuse sometimes falling short of inflicting grievous bodily harm but accomplishing the purpose of engendering fear, is employed to enforce payment of loans. The provision in the bill amending Section 242 of the Penal Law would define this aspect of loan-shark activity as felonious assault in the second degree.

(5) The bill would also provide that corporations may interpose the defense of usury in actions to collect principal or interest on loans given at interest greater than twenty-five percent per annum. This measure is vital in curbing the loan-shark racket as a complement to the basic proposal creating the crime of criminal usury. As noted above, loan-sharks with full knowledge of the present law, make it a policy to loan to corporations. The investigation also disclosed that individual borrowers were required to incorporate before being granted a usurious loan. This is a purely artificial device used by the loan-shark to evade the law—an evasion which this proposal would prevent. Furthermore, it would be most inappropriate to permit a usurer to recover on a loan for which he could be prosecuted.

The provisions of this bill encompass recommendations to curb loan-sharking made by representatives of the New York County District Attorney's office, Kings County District Attorney's office, New York City Police Department, Waterfront Commission of New York Harbor and the Suffolk County Police Department, who testified at the Commission's public hearing."

Additional Recommendations

As noted, the proposed Bill, provides for strong sanctions against the vicious and unconscionable manner in which members of the underworld conduct money lending operations. However, the business of money lending and related enterprises remain an attractive outlet for the investment of underworld funds and a means to obtain power and control in various areas of legitimate business.

What of the racketeer who would continue in the money lending business and conform his operations to the bare requirements of the law? This forced legitimacy, while in itself a splendid achievement, does not entirely cope with the problem.

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It is the considered view of the Commission that the credit, banking and lending business is so sensitive and vital to the economic well-being of the community, that insofar as possible, lawless elements should be excluded from participation in it on any terms. Further, racket revenues and methods should not be permitted to compete in this area.

Therefore, the Commission recommends that the Legislature and appropriate agencies of the State consider the licensing and regulation of all persons or business entities engaged in the money lending business in this State who are not otherwise licensed under existing provisions of law.

Such licensing should require the following:

(a) Full disclosure of all sources of both initial capitalization and subsequent investment;

(b) Full disclosure and identification of all parties with a proprietary interest in the business of the licensee;

(c) Investigation of the character and fitness of all such persons;

(d) Payment of licensing fees to cover the basic cost of administration of the program;

(e) Requirement that complete records be kept of all loan transactions and that such records be open for inspection;

(f) Provision for the power on the part of the licensing authority to deny licenses to those applicants who do not meet proper standards of character, fitness and legitimacy of capital sources;

(g) Provisions for revocation and suspension of licenses for proper causes.

These recommendations are necessarily broad in outline. The Commission fully appreciates that the licensing of lenders would require careful study and consideration in the context of the present licensing structure in this State. Nevertheless, the goal of excluding racketeers from the lending business, through licensing, is both necessary and capable of attainment.

ADDENDUM

During the investigation, the Commission's attention was directed to alleged improper methods employed by representatives of some small loan companies* in the collection of loans

* The small loan companies are organized under Article IX, Section 340 of the Banking Law. They are authorized to make loans not exceeding $800 at prescribed rates of interest.

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to borrowers. According to complaints received by the Commission, borrowers who were in arrears in repayment of their loans, were subjected to harassment by loan company employees in attempts to collect oustanding balances. Elliott Golden, Chief Assistant District Attorney of Kings County, testified at the hearing that his office had received and investigated a number of similar complaints (909).

Upon inquiry into this matter by the Commission staff, it was ascertained that the collection abuses complained of by borrowers, included the following: incessant telephone calls at home, often at late evening hours in which abusive language was used; telephone calls to neighbors and relatives concerning a borrower's indebtedness; personal visits to the borrower's home, where demands for payment, in loud and boisterous tones were made in public hallways or other public areas, for the obvious purpose of causing embarrassment; personal visits by collectors whose very appearance suggested a threat of possible physical harm; distribution of cards throughout a borrower's neighborhood stating that he was in default.

Following the Commission's hearing, the substance of these complaints was discussed with counsel and officials of the Association of the personal finance industry. This Association exercises some control over the conduct and practices of its members. These officials expressed great concern about this matter. They deplored the use of such tactics and promised to do everything possible to prevent such incidents. It was explained to the Commission that small loan companies have local offices, each in charge of a manager whose function it is to keep his office operating efficiently at a low loss ratio. The excesses in collecting from defaulting borrowers described above were apparently employed by some local offices to maintain a good record.

The Commission has included this matter in the report in order to lend emphasis to a further recommendation that all legitimate lenders, both licensed and unlicensed, guard against such abuses and take appropriate steps to prevent their occurrence.

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CONCLUSION

At the commencement of the public hearing, the Commission stated that a major objective of the hearing was to expose the loan-shark racket and the problems in dealing effectively with it. This has been accomplished. The disclosures of the loan-sharks' unconscionable loans and the ruthless methods of collection have, indeed, aroused the public to the need for remedial action.

This was reflected in editorials which appeared in New York City newspapers during and immediately following the hearing. These are excerpts from a few editorials:

> "This whole unholy business is usury — and it could be murder — but present law doesn't say so. It should. We hope the 1965 Legislature will make it so — with stiff penalties."
>
> * * * *
>
> "The seamy loan-sharking evidence already flushed out by the State Investigation Commission is proof aplenty that the state's usury laws are sorrily inadequate."
>
> * * * *
>
> "It is a pretty thought that the loan sharks should be brought under law. Make their social offenses a crime; exterminate them. But the problem goes even deeper, for loan-sharking is only one phase of the criminal operation set up with increasing skill as an invisible government. The SCI has performed an admirable service in letting in light, and there can never be enough exposure of any brand of vermin. By all means provide new laws with teeth, but let us also make them apply with real force to the organized masters of crime.
>
> For in the matter of loan sharks the SCI has made it clear that we are dealing not merely with random individuals but with an octopus for investing the profits of crime."

There is no doubt that the spotlight focused on loan-sharking has already produced new thinking and long overdue corrective measures in some areas affected by it—for example, in banking. It is hoped that the interest generated will result in the early enactment of the legislation already proposed, and other meaningful legislation as the situation may require. For it is abso-

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lutely essential that adequate and effective law enforcement tools be provided to combat and control loan-sharking and to safeguard the public welfare.

Respectfully submitted,

JACOB GRUMET,
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GOODMAN A. SARACHAN,
Commissioners.

April 1965.

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