

Builders Tell Gifts to FHA Officials

Bargain Homes, Outside Pay Listed; \$417,000 Windfall Profit Admitted

The FHA scandals blew wide open in Los Angeles, yesterday.

One builder, Arthur B. Weber, admitted "windfall profits" of \$417,000. He and other witnesses told of selling homes to FHA officials for thousands of dollars less than similar homes were sold to normal buyers.

Top FHA officials admitted "earning" as much as \$25,300 in "outside work" for builders blessed with FHA-insured loans.

Gifts Described

Witnesses told of a new Ford for one FHA official's wife, of liquor, "merchandise baskets," a \$5700 medical fund for one FHA executive's wife, a \$11,000 leukemia fund for one's daughter and of legal fees running into the thousands.

The testimony unraveled like an endless series of confessions before Sen. Homer Capehart, presiding at the Senate Banking and Currency Committee hearing in the State Building.

Yet most builders and FHA executives testified that they saw nothing wrong in their actions involving Los Angeles housing tracts.

Admits House Sale

Weber, of 6338 Wilshire Blvd., admitted selling a home in Beverlywood to John W. Salmon, FHA chief appraiser, for \$10,000 while a similar one next door sold for \$15,500. His partner had admitted initiating a

cancer fund for Salmon's wife with a gift of "\$500 or more." This fund reached \$5700 and \$4600 of it still is in the bank.

Salmon has been suspended. He said he knew nothing of the fund until 18 months later and never saw the bank statements.

Weber's testimony quickly explained how to make FHA money: The government guaranteed a mortgage of \$2,888,600 on Baldwin Gardens, \$277,154 more than the cost of land and construction of the homes at Jefferson Blvd. and Rodeo Road.

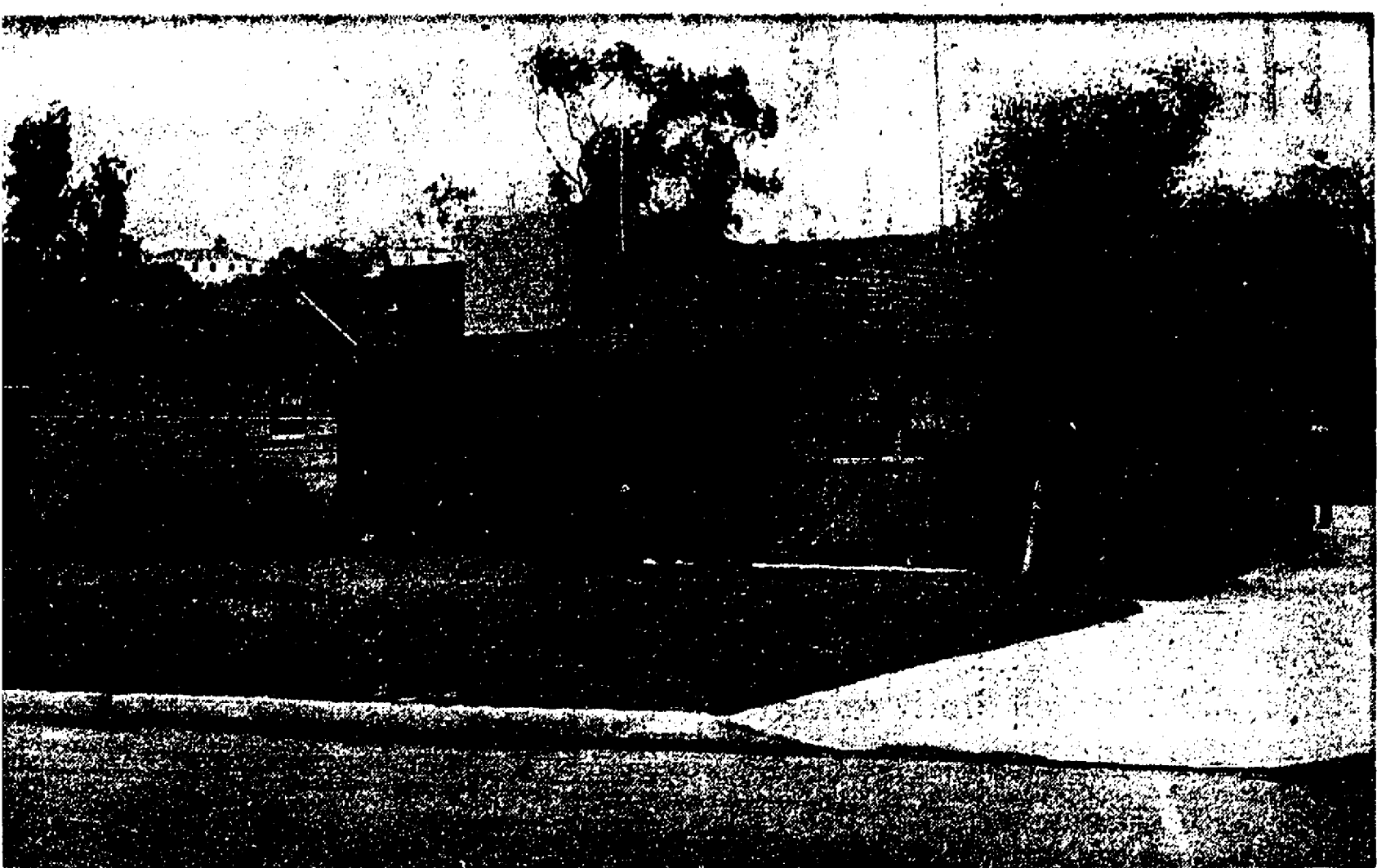
Many Other 'Windfalls'

There were many other "windfall" profits.

Weber said the Wilshire-La Cienega Gardens government-guaranteed mortgage totaled \$1,937,600, or \$110,389 in excess of all costs. The Montebello Gardens were government-insured for \$30,000 more than a cost of around \$530,000.

Weber's onetime partner, Richard Diller, was excused

Turn to Page 2, Column 2



FHA APPRAISER'S HOME—Builder Arthur B. Weber testified at FHA inquiry that he sold this house at

2145 Beverwil Drive to John W. Salmon, FHA chief appraiser, for \$10,000. One next door brought \$15,500. Times photo

FHA HEARING

Continued from First Page
dictments will grow out of the current hearing.

The only question is how many indictments will be returned and who will be their target.

Weber emphasized he was appearing voluntarily at the hearing but Sen. Capehart snapped that process servers had been unable to find him on repeated visits to his home because he had a habit of leaving without telling his servants where he would be.

William Simon, counsel for the committee, and Capehart accused Weber of withholding information from the committee in Washington.

\$417,000 to Take Home

"When you got all through and had all your costs paid on the Baldwin Gardens, Wilshire-La Clenega and Montebello Gardens projects, with none of your own money invested, you still had \$417,000 in mortgage money you were able to take home, didn't you?" pressed Simon.

"That is substantially correct," Weber replied.

"Did you know in 1948 that the law required a mortgage could not exceed 90% of the estimated construction cost?" asked Simon.

"No, I don't think I knew," Weber said.

Weber blamed the FHA evaluating department for setting the mortgage figure at 110% instead of 90% of estimated costs.

Evaluator Named

"Who was the evaluator?" Simon continued relentlessly. "A man whose last name was Crittenden. The chief evaluator was John William Salmon," Weber answered.

That led Simon to ask why a home was sold to Salmon for \$10,000 while the one next door went for \$15,500.

Weber insisted Salmon's home had a flood hazard. When Simon pointed out that both lots were identical in this danger, Weber argued the issue.

Admits \$1200 Payment

Simon then got the witness to admit he paid Mrs. Salmon \$1200 in 1947 for work as a rental agent on the Montebello project, an FHA Section 608 loan.

"Did you know your partner Diller paid her \$3000 in April this year?" asked Simon.

"No," Weber said.

Simon then read from Diller's testimony at the previous executive session.

This told of the \$5700 fund for Mrs. Salmon, most of it never spent but kept in a bank, and of liquor, merchandise baskets and other gifts to FHA employees and many others.

Another Home Sale

Simon had asked how a home was sold to Kenneth F. Mitchell, former chief land planner for the FHA in Los Angeles, for \$11,400 in June, 1949, while the house next door sold for \$16,300. A house on the other side sold for \$16,600 and others behind and nearby for \$15,250, \$15,950 and \$16,250.

"Why would you sell to an FHA man for \$5000 less?"

Weber said it was an experimental house on a slab. When Simon asked if it would cost \$200 less or \$5000 less to build, Weber said, "I wouldn't know."

"How long have you been in the building business?" asked Simon.

"Thirty-four years," Weber answered. And Simon gave up on this point.

When Salmon was brought on the stand Simon got testimony that he "really didn't know" why the Diller-Weber Co. would sell him a home for

\$10,000 and then sell the one next door for \$15,500.

"There was no justification for it?" asked Sen. Capehart.

"No," Salmon said.

The suspended FHA chief appraiser then testified that the Burgbacher Co., which built 268 houses under an FHA loan, had paid his wife \$13,400 for seven to nine months' work as a "selling agent."

Given Car for Work

The Cohen Bros., another building firm, gave Mrs. Salmon a Ford for "research work" like "digging up listings," he said.

Salmon's own brother Roger, a builder, paid him \$2000 in 1952, the witness admitted.

Simon finally added up a total of \$25,300 outside earnings for Salmon and his wife, plus the new car and \$5500 saving on their house purchase.

The \$25,300 includes \$13,400 from the Burgbacher Co., \$2000 from Roger Salmon, \$1200 from Weber in 1947, \$3000 from Diller in 1954 and the \$5700 "cancer fund."

Other Payments Told

Horace Irving Moses, FHA senior construction examiner in Los Angeles who was "put on annual leave" in another suspension a week ago, admitted earning \$9200 from one T. A. Newcomb in 1949 and 1950 while helping Newcomb do some work for builders and also earning \$1600 from Ernest Chambers, an architect on FHA projects.

"Do you think it was a perfectly proper thing for you to get \$9200 in two years from this man Newcomb while your Federal salary for the two years approximated \$10,000?" asked Simon.

"I think I earned those fees and did a proper job," Moses replied.

Sen. Capehart commented: "I think it was an improper thing and it was just as improper for people to give such money."

Assisted in Layout

Moses said he assisted Newcomb in layout drawing.

"Did the FHA know you were doing this?" asked Simon.

"No."

"Did you know there was a rule against outside activity?"

"No."

"Do you recall signing a statement that you had no outside activities in 1952?" Simon hammered.

"Yes," Moses said. "I had none at that time."

"But you didn't say anything about such activities in previous years," Simon said in a resigned voice.

The Small Property Owners of America had a small picket line during the day in front of the State Building.

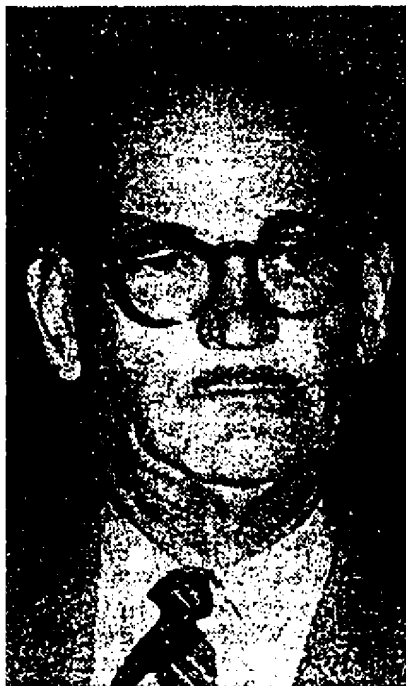
Ask Action on Slums

The pickets asked that the Capehart Committee take action on slums clearance.

Mitchell, the FHA's former land planning expert here, insisted that he paid Diller only \$11,400 for his home at 2129 Beverwil Drive because that



BUILDER — Arthur B. Weber admits \$417,000 windfall profit on FHA. Times photo



APPRAISER — John W. Salmon, FHA appraiser, admits getting bargain home. Times photo



EXAMINER—Horace Irving Moses, FHA examiner, tells of pay from builder. Times photo



PLANNER — Kenneth F. Mitchell, former FHA planner, tells of house. Times photo

was the price at which it was offered.

He dodged all questions regarding the prevailing price of similar homes near him being \$5000 more.

Kenneth J. Kadow, former representative of the Secretary of Interior in Alaska, testified that the Territory is "quite a rugged place."

Objects to 'Bribery'

"Do you recall anything about bribery?" asked Simon.

"I don't like to use that word at this time," Kadow replied, but he elaborated with lengthy testimony bordering on bribery.

It concerned Kadow's plans in July, 1950, to leave government service and go into home construction work.

Kadow said he asked the FHA Territorial director, Clinton C. Staples, now of Las Vegas, Nev., if he wanted a job.

Kadow explained that he was considering two projects of 150 houses each and "I mentioned a figure of \$100 a unit" for Staples.

Sen. Capehart quickly inter-

Turn to Page 11, Column 7

FHA HEARING

Continued from Second Page
jected: "Did you offer Mr. Staples \$100 a house or did he ask you?"

"I asked him if he wanted a job and he said all he was interested in was cash," Kadow replied.

"Did you actually offer him cash?" Capehart continued.

"In that conversation—yes," Kadow concluded.

Later, however, Kadow insisted the talk of a \$30,000 possible bribe for the big project never really materialized and he and Staples wrote about it to their superiors. In trying to fix blame on each other, Kadow said, they played a game of "cops and robbers."

Satisfied of Honesty

"I'm satisfied that Mr. Staples was an honest man," Kadow said.

After entering private construction work later, Kadow admitted getting the Alaska Housing Authority to spend \$820,000 for sewers and streets to improve properties being developed by this company.

He said he invested \$10,000 in U.S. Tin Co. stock and was with that company "until McCarthy got me fired."

Kadow talked eagerly of his promotion work, which included \$2,300,000 advanced by the U.S. government for a development which cost the stockholders only \$100,000 or \$150,000.

Staples Takes Stand

Staples, the former Alaska territorial director of the FHA, testified that the Lewis Construction Co. of Seattle once paid an \$847 hospital bill for a gall bladder operation without his knowledge.

Insisting he was innocent of soliciting any such gift, Staples said, "It was absolutely improper and I sent them a check for the entire amount."

Sen. Capehart commented, "We're going to have to see how widespread the custom was for contractors to pay doctor and hospital bills for FHA employees. It seems to have been a common way of paying for favors throughout the United States."

Denies Knowing Sponsor

Staples testified regarding Kadow's \$30,000 "bribe offer" for a 300-house project at Goose Lake in Alaska but said he never could learn who the sponsor for the project was to be.

As Staples described the negotiations for the \$100-a-unit pay-off for an FHA loan, the \$30,000 was to be paid over a period of years, if Staples preferred, to permit easier income tax payments on it.

Staples conferred with an early Alaska settler who was to act as intermediary, reported all details to the FHA headquarters in Washington and the entire proposal blew up.

Tells of Leukemia Fund

Maurice H. Golden, 50, former assistant chief construction examiner for the FHA in Los Angeles, told how Diller and a partner, Irving Kalsman, collected an \$11,000 fund from builders to establish a trust fund for his 8-year-old daughter who later died of leukemia.

Golden said he accounted to FHA investigators for \$7000 of this. He offered to return the remainder but most donors said to forget it.

He admitted his wife gave him a personal check in drawing \$4000 from the trust fund.

"Did you buy a Chevrolet for \$1800?" asked Simon.

"Yes."

"And your wife took a trip that cost \$1750?"

"Yes."

Denies Knowledge

"I take it you knew the FHA frowned on accepting gifts from people who do business with the FHA," Simon commented.

Golden denied any such knowledge and said he was under the impression that everyone in the office here approved the fund and that "Washington approved it."

He was unable to identify



HAD IDEA — Kenneth J. Kadow testifies on building promotion projects.

Times photo



OFFICIAL — Clinton C. Staples, former FHA Alaska director, on stand.

Times photo

exactly who in Washington gave any such approval.

"Did you pay taxes on the \$4000 you put in your personal account?" asked Sen. Capehart.

"No."

"Did you treat it as a gift?"

"Yes, sir."

Couldn't Live on Salary

Charles Elliot, former assistant State director for the FHA in Oregon, testified that when he started work for the FHA at \$5200 a year in 1946 he couldn't "live on" such a low salary.

As a result he continued work as a lawyer and received a total of about \$3500 from Herbert R. Ketell, Oregon builder, during a three-year period.

"That was during a time when Ketell had properties up for review for FHA loans?" asked Simon.

"Yes, but I had nothing to do with loans, I was an administrative officer."

"You were assistant State director, weren't you?"

"Yes."

Another Deal Questioned

Simon then asked about another deal in which Elliot admitted receiving \$4000 commission on a \$96,000 sale of property later used for FHA-financed development.

In defense he said he believed someone like the FHA commissioner had approved a letter he had written regarding his outside activities.

"Did you remain a member of the law firm during your entire period with the FHA?" Simon asked.

"Yes," Elliot answered.

Witnesses due to appear today are Ben Weingart of the Consolidated Hotels of California; Louis Boyar, Samuel Firks, Phillip Yousem and Harold J. Schnitzer, builders; Alex K. Millar, former general housing manager for the Federal Public Housing Administration; L. M. Halper, general contractor, and H. V. Davidson of Whittier.