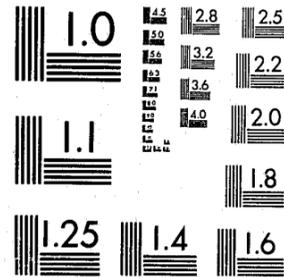


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✓ PENNSYLVANIA CRIME COMMISSION
COMMONWEALTH OF PENNSYLVANIA

✓ RACKETEERING IN THE COMMERCIAL LOAN BROKERAGE INDUSTRY

January 1980

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TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	THE INVESTIGATION	5
III.	THE COMPONENTS OF THE SIDNEY LITT SCHEME	7
	A. The Principals-Sidney Ellis Litt and Citation Mortgage Corporation	7
	B. The Associates of Sidney Litt	14
	C. Specific Examples of the Stage One Activities	16
	D. The Escrow Accounts	18
	E. The Citation Mortgage Corporation Brochure	22
	F. The Testimony of Sidney E. Litt	25
	G. The Alleged Sources of Funding--Stage Two	30
	1. The Bank of Montserrat International	31
	2. Financial Energy Corporation	39
	3. Nation-Wide Funding, Inc.	42
	4. Alpha Mortgage Corporation of Alabama	47
	5. Mark Equities, Ltd., Inc.	48
	6. Anderson-Prichard, Ltd., Inc.	51
	7. Chalagard Bank	54
	8. Libor Mexico International, S.A.	55
	H. The Borrowers	57
IV.	THE SECOND SCHEME--FRANK A. COLLETTI	59
	A. Introduction	59
	B. The Middlemen and the Borrowers	60

	C. Guarantors and Lenders	63
	1. Guarantors	63
	2. Lenders	64
	3. The Advance Fees	72
V.	CONCLUSION AND RECOMMENDATIONS	73
	A. Recommendations to Potential Borrowers	74
	B. Recommendations for Legislations	77
	C. Recommendations to Law Enforcement Authorities	80

APPENDIX

I.	Example of Loan Confirmations
II.	The Citation Mortgage Corporation Brochure
III.	Resume of "Sir Jacob Walton, III"
IV.	Borrowers Defrauded by Sidney E. Litt and Associates
V.	Borrowers Defrauded by Frank A. Colletti
VI.	Combined Analysis of the Schemes

I. INTRODUCTION

The Pennsylvania Crime Commission, from its inception, has investigated and reported upon various patterns of criminal and corrupt activity in the Commonwealth. The major focus of the Crime Commission's investigative activity has been directed toward the detection of organized criminal activity.

Organized crime is defined as the unlawful activity of an association trafficking in illegal goods or services, including but not limited to gambling, prostitution, loansharking, controlled substances, labor racketeering or other unlawful practices which has as its objective large economic gain through fraudulent or coercive practices or improper governmental influences.¹ This definition of organized crime naturally describes the patterns of activities which are engaged in by the traditional organized crime figures. In addition to the traditional organized crime members, however, there has recently evolved a new breed of organized criminal figure whose activities fall well within the bounds of this definition. This new breed is responsible for the perpetration of various forms of organized fraudulent schemes including bank fraud, securities fraud, land fraud, embezzlement and corporate fraud. Although these crimes can be

1. Pennsylvania Crime Commission Act, Act of October 4, 1978, P.L. 876, No. 169, 71 P.S. §1190.2.

perpetrated by an individual, recent investigative efforts have revealed that throughout the country there exists today systematic conspiracies whereby these activities are accomplished.

In an effort to expose this type of activity in Pennsylvania, the Crime Commission has recently completed an investigation into organized advance fee schemes.

The advance fee scheme is a method whereby an individual will receive a sum of money in advance for services that the individual promises to furnish in the future. In reality, the individual who receives the advance fee has neither the intention nor the ability to furnish the promised service. Such schemes can be as simple as a one man operation or as complex as an international conspiracy involving hundreds of individuals, corporations and nonexistent or fictitious banking institutions. Advance fee schemes are common in all types of financial transactions, but are most prevalent when an individual or business entity is in need of a source of financing. In this situation, the advance fee perpetrator will purport to have the ability to furnish a source of financing to the individual or business entity. The prevailing economic conditions are instrumental to the successful development and perpetration of an advance fee scheme. For example, when conventional sources of financing such as bank loans are in short supply, businessmen who are desirous of expanding or initiating an enterprise are forced to seek

financing from less conventional sources of funds. It is during these time periods that an advance fee scheme will surface. The promoter or broker will convince the businessman that he has the ability to secure the necessary funds through various sources. The businessman who is unwilling to pass up the opportunity to expand or initiate his enterprise is more than eager to deal with the promoter or broker whom he believes has access to the funds, even if some risk may be involved.

Unscrupulous brokers and financial corporations often employ promises of international financing sources as the basis on which they are able to secure the requested funds. The victim in turn is required to put into escrow, prior to obtaining the loan, a fee, usually 1% of the loan, which is to be part of the promoter's commission, legal fees or other costs which are incurred by the promoter in securing the financing. The remaining amount of the fee which is due from the borrower is to be paid at settlement when the funds are tendered to the borrower. If the promoter or broker is unable to procure the source of funds, it is usually understood that the advance fee will be returned. The borrower is given assurances that the source of funds is readily available and in support of this he is given vast documentation which reflects the ability of the purported lender to supply the funds. For the most part, this documentation is fictitious.

Advance fee schemes have become well organized and portray a systematic design. This organization often takes

the form of a network of shell corporations which are represented to be positive sources of financing. These corporations are comprised of other advance fee scheme perpetrators and are utilized to portray an image of credibility and to establish the setting for the solicitation of additional fees. The borrower is informed that one of these corporations will be the source of funding and that a fee must be paid to the corporation or to the original promoter. When no financing is obtained, the borrower is informed that a problem occurred and is then referred to another of these corporations. Eventually, when these activities are discovered each perpetrator asserts his innocence and places the blame on their associates. This assertion of innocence is not only made to law enforcement officials, but to the victims of their scheme as well.

In the end, the source of funds is never procured and the advance fee is never returned. The borrower, in most instances, has lost the opportunity for which he sought the financing or is no longer capable of seeking other sources of funds. Frustrated by the events which have taken place and in order to maintain his pride, dignity and reputation, he usually decides to forget that the entire event ever occurred and attempts to recover from his losses as best he can.

These advance fee schemes occur throughout the world and are accomplished through the use of complex financial mechanisms and instrumentalities. The hundreds of individuals

who are victimized by these economic marauders suffer devastating financial and emotional destruction. The Pennsylvania Crime Commission's investigation focuses on several organized advance fee schemes which have been conducted not only in Pennsylvania but throughout the United States. The Commission has documented the fact that numerous State and federal laws have been violated and has further determined that the activities which have taken place constitute patterns of racketeering activity in the commercial loan brokerage industry.²

II. THE INVESTIGATION

In late 1978, the Pennsylvania Crime Commission received information from the Organized Crime Strike Force in Denver, Colorado, that a Colorado based financial corporation might have defrauded numerous individuals and business entities which were attempting to obtain loans for various business projects. The information also indicated that several of these individuals and entities were located in Pennsylvania and were brought to the Colorado corporation by a Pennsylvania resident named Sidney Ellis Litt.

2. The activities investigated by the Commission constitute patterns of racketeering activity as defined by the Pennsylvania Corrupt Organizations Act and the United States Racketeer Influenced and Corrupt Organizations Act.

Subsequent information which was developed by the Crime Commission revealed that the Pennsylvania individuals and business entities had paid advance fees to Litt in order to secure financing. The promised loans never materialized and the advance fees were not returned.

While the magnitude of the alleged fraud was not initially apparent, further investigation revealed that the activities of Litt and his associates were not limited to a few isolated cases. Numerous other businessmen throughout the country had been similarly defrauded.

During the course of the Crime Commission's investigation, it became clear that Sidney Litt and his associates did not comprise the only group in Pennsylvania perpetrating advance fee schemes. The Commission also initiated an examination into the activities of an individual named Frank A. Colletti, an investment consultant in Pennsylvania. As with the case of Litt, Colletti represented that he could provide sources of financing for business projects and ventures. Colletti collected advance fees based on these representations, did not produce the requested financing and failed to refund most of the advance fees which he collected.

While it is impossible to determine the total number of individuals defrauded, the Crime Commission has learned through sworn testimony and the examination of records and information which has been supplied by those potential

borrowers identified, that approximately \$877,033 in fees were paid to Litt and his associates. None of this money was returned to the borrowers and not one of these borrowers received the requested loan. In fact, the Crime Commission learned that Litt has never obtained a loan for any borrower.³ The borrowers whom Litt defrauded cover a geographical area which included 14 States and several foreign countries.

The activities of Frank A. Colletti, identified to date, resulted in advance fees totaling \$341,970. These fees were also not refunded and no loans were procured for the borrowers.⁴

Based on an analysis of the activities of Litt and Colletti, approximately \$1,219,003 was obtained in advance fees. The Pennsylvania victims identified have suffered a loss of \$420,815.

III. THE COMPONENTS OF THE SIDNEY LITT SCHEME

A. The Principals-Sidney Ellis Litt and Citation Mortgage Corporation

Sidney Ellis Litt, a Pennsylvania resident, lists his occupation as vice president of Citation Mortgage Corporation.

3. An in-depth breakdown of the various fees which were paid by the potential borrowers to Sidney Litt and his associates is contained in a later section of this report. See Appendix IV.

4. A breakdown of the advance fees which were paid to Frank Colletti is contained in a later section of this report. See Appendix V. A total analysis is contained in Appendix VI.

Citation is a Camden, New Jersey corporation which was established in 1941 by M. Tyler McNutt. The corporation acts as a mortgage broker in placing business loans and as a management and marketing consultant as well as financial analysts. Citation Mortgage Corporation operated for many years without notoriety. However, in 1975, Sidney Ellis Litt became associated with Citation Mortgage and it was then that the questionable activities of the corporation began to unfold. At that time, Litt agreed to purchase the corporation from McNutt. While this purchase was never finalized, McNutt went into semi-retirement and Litt took over the daily operations of the corporation.

Regarding his background, The Crime Commission determined that Litt had no practical experience as a loan broker or in the lending business prior to his association with Citation Mortgage Corporation.⁵ However, to the potential borrowers for whom he was supposedly securing loans, Litt represented himself as a financial genius. He informed many of these

5. Testimony of Sidney Ellis Litt before the Pennsylvania Crime Commission, April 27, 1979, N.T. 16 [hereinafter referred to as Litt].

borrowers that he was an attorney, an investment banker and a mortgage placement specialist,⁶ when in fact he was not.

He has many different titles for himself, or qualifications I've heard him say he's a lot of different things It depends upon ... who he's talking with and what his position is or the action he wants to take.⁷

Regarding his "prestigious" background Litt made false representations to almost every borrower with whom he dealt.

... He was represented to me as a former one star general in the United States Air Force. There was a great deal of supposed credibility to him.⁸

In reality, Litt never attained a position in the Air Force higher than aviation cadet. Litt also boasted about the tremendous success that he had throughout the world in placing and originating in excess of \$350,000,000 in loan funds.⁹ It was through these false representations that Litt was able to enhance his image and credibility in the minds of the borrowers.

Citation Mortgage Corporation served as the mainstay of Litt's operations. Although the particular events and specific details of each Litt transaction were not identical,

6. Testimony of James R. Steadman before the Pennsylvania Crime Commission, March 9, 1979, N.T. 11-12 [hereinafter referred to as Steadman]; Testimony of Henry Rossiter Worthington, III before the Pennsylvania Crime Commission, March 16, 1979, N.T. 55 [hereinafter referred to as Worthington]. Litt similarly represented himself as an attorney to the government officials on the Island of Montserrat, British West Indies.

7. Steadman, N.T. 11-12.

8. Worthington, N.T. 52.

9. Steadman, N.T. 11.

the process and procedures which were employed with each prospective borrower were similar and yielded the same results.

Litt generally operated his schemes in a two stage method. Initially, when Litt received an application to procure funding for a borrower, he would indicate in general terms that Citation Mortgage Corporation had either found a serious investor who was willing to commit the requested funds¹⁰ or that Citation Mortgage Corporation itself would be the lender.¹¹

The second stage involved the referral of the borrower to various corporations which were purported either to be sources of funds or which had access to such funds. Many of the borrowers who dealt with Litt had been referred to Litt by other brokers who had initially dealt with them on a one-to-one basis and then referred them to Litt. Litt in turn continued the process.¹²

10. The Crime Commission has learned that while Litt had forwarded communications to each borrower indicating that a serious investor had been found, no such investor existed.

11. Citation Mortgage Corporation was not a lending source but was merely a brokerage firm although many of the borrowers were initially led to believe the opposite.

12. According to M. Tyler McNutt, the president of Citation Mortgage Corporation, Litt had joined an association of mortgage brokers for the purpose of establishing this referral chain. McNutt stated that Citation Mortgage Corporation had received numerous loan packages from other members of this association and referred them on to other members. McNutt believed that these brokers would further refer the packages.

During the initial stage, the borrowers were constantly reassured that the desired loan could be easily secured and that Citation Mortgage Corporation, Sidney Litt and the other personnel and associates of Citation possessed experience and expertise in the field of finance. The Litt enterprise represented to the borrowers that on numerous occasions they had successfully secured financing for others in similar situations. The borrowers were further informed that before Citation Mortgage Corporation would agree to assist a client, it would make a determination of the proposed project's viability and would assist only those persons whose projects appeared to Citation's "experienced" staff to stand a good chance of being funded. In order to make this determination, it was necessary for Citation employees or associates to make an on-site inspection and appraisal of the proposed project at the client's expense.¹³

While Litt had informed each borrower for whom he was securing funds that the projects which they sought to fund were worthwhile ventures, Litt realized that he could not easily procure the requested financing. In his own words,

13. Many of the appraisals were conducted by L. Brian Trachtman. Trachtman, a Philadelphia real estate appraiser, informed the Crime Commission that once he had realized that Litt was taking advantage of borrowers by accepting advance fees and not obtaining a loan, he severed his association with Litt.

The quality of the business you receive in our business, if it were bankable, they would not have come to Citation. ... We do not get that quality of business in our institution at all.¹⁴

In referring to the loan applications, Litt stated, "... Out of every 100 that you work on, you're lucky if three go through"¹⁵

After all of the representations as to Litt's and Citation's abilities had been made and after Litt had proceeded through the various mechanics of on-site inspections, appraisals and determinations of feasibility, the borrower would receive a confirmation from Litt or from Labron K. Shuman, the attorney for Citation Mortgage, that either a serious investor had been found who was willing to commit the requested funds, or that Citation Mortgage Corporation would be the funding source.¹⁶ It was usually at this point that an advance fee would be requested.¹⁷ Many of the borrowers

14. Litt, N.T. 24.

15. Litt, N.T. 29.

16. Examples of these confirmations are displayed in Appendix I.

Litt had informed every borrower that a serious investor had been found although he never revealed the name of that investor. R. J. Phillips, an Iowa businessman, had paid Litt \$55,000 in advance fees and has recently initiated a civil action against Litt in order to determine the identity of the serious investor.

17. The advance fee was usually requested in cash, certified check or bank wire. On the occasions when a personal check was accepted, Litt or the recipient would proceed directly to the bank on which the check was drawn and cash the check.

were informed that if Litt did not succeed in obtaining the financing, the fee would be refunded.

The borrowers were told that Citation and Litt had large sums of money available for loans and had other sources from which large sums of money could be obtained. They were also told that these loans could and would be obtained within a relatively short period of time. While Litt represented that one of Citation's established lending sources had expressed a strong interest in making the requested loan, he stated that the specific name of the funding sources could not be divulged.

Following these initial assurances, Litt would enter into the second stage by referring the borrower's loan application to purported sources of funding or other brokers who supposedly had access to funds. In turn, various fees were requested either by these sources or by Litt. The borrower was supplied with a variety of documents and correspondence confirming the existence and the abilities of the purported lender and assuring the borrower that the funds would be forthcoming. When the funds were not produced, the borrower again would be referred by Litt to another source where this pattern was continued.

The Pennsylvania Crime Commission has found that the sources of funding or broker to whom Litt referred borrowers never had the ability to produce the requested funds. The Crime Commission has developed substantial evidence indicating

that Litt was well aware of the inability of these sources to fund loans and Litt actually worked jointly with these individuals and entities in deceiving the borrowers. In several situations, the lending source which Litt would propose to the borrower was no more than a shell corporation which had been established by Litt himself. These corporations were utilized by Litt to portray to the borrower that an actual lender existed and to justify the solicitation of additional fees. Ultimately, the funds were never produced or the borrower was provided with a worthless financial document.

B. The Associates of Sidney Litt

Sidney Litt operated with several other persons who added both the legal skills and the alleged international contacts necessary for the schemes' credibility.

Litt's legal advisor was Labron K. Shuman, a Philadelphia attorney who acted as counsel for Citation Mortgage Corporation. In addition to drafting the loan contracts for Citation, Shuman was custodian of a Citation escrow account. Supposedly, a number of the advance loan fees paid by the potential borrowers were deposited for safekeeping into this Philadelphia account.¹⁸ Shuman was also responsible for forwarding

¹⁸. Other accounts were maintained by Citation in New Jersey and New York.

confirmations to the various borrowers that their loans had been approved or would be forthcoming shortly. These confirmations were transmitted either personally, by mail or by wire. Shuman, although confirming that the loan had been approved, would never divulge the source of the funds. On five specific occasions, Shuman forwarded such confirmations and also informed the borrower that a 1% advance fee would have to be deposited into his escrow account in order to finalize the loan. As part of these confirmations, Shuman utilized the name of a Philadelphia bank executive as a reference without that individual's permission or knowledge.

Litt's "international" contact was a Philadelphia resident named Gottfried Fugger. Litt testified that Fugger had never worked for Citation Mortgage Corporation nor was Fugger considered Citation's consultant.¹⁹ However, in the same testimony, Litt stated that Fugger conducted on-site inspections on behalf of Citation and had collected advance fees for Citation.²⁰

Fugger's association with Citation was welcomed by Litt at a time when Litt was well aware that Fugger's background

19. Litt, N.T. 136, 141, 145-146.

20. Litt, N.T. 141-146. The Crime Commission also possesses a Citation Mortgage brochure that represents Fugger as Citation's European consultant.

and credibility were suspect.²¹ Fugger's alleged international connections were quite advantageous to the Litt schemes. For example, in 1976, a Nevada resident named Paul Unruh needed \$1 million for the expansion of a turf farm. Fugger was sent by Citation Mortgage to conduct the on-site inspection. During this inspection, Fugger advised Unruh that Fugger's family owned a bank in Germany, after which Unruh paid Fugger a \$10,000 advance fee for Citation Mortgage Corporation.

Fugger had also represented himself to prospective borrowers as an agent of a Swiss entity called Etablissement Velia. Fugger informed these borrowers by mail that Velia could secure funding for various loans. Confirmations of these loans were transmitted by Fugger utilizing Velia's letterhead. The operations of Etablissement Velia were conducted out of the Citation Mortgage Corporation office.

C. Specific Examples of the Stage One Activities

As mentioned previously, stage one involved the personal contact between Citation Mortgage Corporation and the borrower. Litt and his associates proceeded through all of the described representations and procedures which resulted in the payment.

21. Litt, N.T. 139-140. According to records which were filed in the United States District Court, Southern District of New York, Fugger pled guilty in 1973, for dealing in stolen securities valued at approximately \$1 million. Fugger was sentenced to 2 1/2 years in prison.

of an advance fee. This scheme was acted out with each borrower in variations of the theme:

1. Dr. Grant Yost, a resident of the State of Washington, was to have received funding through the efforts of Citation Mortgage Corporation. In March of 1977, Yost paid an initial \$15,000 fee to Litt to secure his financing. In December of 1977, after no funds had been obtained, Yost received a confirmation from Labron Shuman that the loan had been approved. The letter said that although the funds would be forthcoming within a few days, Yost would have to forward another \$15,000 to the Philadelphia escrow account. Yost complied with this request. Yost has still not received his promised loan.²² The fees which were paid by Yost have not been refunded.

2. In September of 1977, Henry R. Worthington, a Pennsylvania businessman was in need of \$5.2 million to finance a resort hotel. Worthington was introduced to Litt who informed him that this money could be easily obtained. Litt requested, and received a \$6,000 fee to initiate the lending process. An appraisal was then conducted by L. Brian Trachtman. In December of 1977, Litt informed Worthington that another fee was needed in order to "pay off" a

22. After the occurrence of these events, Yost proceeded to the second stage activities where he paid an additional \$23,500.

member of a bank's lending committee. Worthington met Litt on the Pennsylvania Turnpike and gave Litt \$12,000 in cash. In early 1978, Worthington was contacted by Shuman who informed him that Litt was finally ready to close the deal but that some additional fees were necessary. As a result, Worthington mortgaged his home and gave Litt \$59,895. The loan was never obtained and the fees were not returned.²³

Litt proceeded through these same machinations with each of the 34 borrowers identified by the Crime Commission.

D. The Escrow Accounts

Citation Mortgage maintained several accounts for the deposit of advance loan fees. It was the understanding of the borrowers that the fees were to be held by Citation in escrow pending the completion of the financing arrangements. In the event the financing could not be secured, the fees were to be returned to the borrowers. Despite the fact that most of the advance fees were deposited into the Citation accounts, these accounts served as general business and personal accounts rather than escrow accounts.

One such account was held at the Citizens State Bank in New Jersey. M. Tyler McNutt, who had exclusive signature authority for this account, affirmed that after Litt would

23. Worthington paid \$8,500 during the second stage. Thus incurring a total loss of \$86,995.

deposit advance fees into the escrow account, McNutt would transfer this money into a general business account at the same bank to pay the business expenses of Citation Mortgage Corporation and Litt. These fees were also used to pay the salary of Citation's secretary. According to McNutt, if no advance fee had been collected, Citation's secretary would not be paid. McNutt further stated that it was not uncommon to forward large amounts of money in cash to Litt out of the accounts for business and personal expenses.

As an example, McNutt advised that Litt used the Citation accounts to pay off a personal Internal Revenue Service tax bill.²⁴ The Crime Commission's examination of bank records confirms McNutt's allegations. The Commission found that a \$40,000 check was written from the Citation Mortgage business account and deposited into the escrow account held by Labron K. Shuman. Of this amount, \$30,538, was remitted to the Internal Revenue Service. The balance of the transferred \$40,000 was paid to Martin Lieberman, Litt's brother-in-law, as partial satisfaction of an outstanding debt owed by Litt to Lieberman.²⁵ Litt also received funds from Citation's accounts as personal loans; none of which have been repaid to the corporation.

24. According to records which were filed in the United States District Court, Eastern Judicial District of Pennsylvania, Litt was convicted on four counts of income tax evasion in 1971.

25. Lieberman made a loan of \$25,000 to Litt so that Litt could satisfy the outstanding federal tax lien. The total amount Litt owed the Internal Revenue Service was approximately \$48,000.

The Philadelphia escrow account maintained by Labron K. Shuman, was no exception to the free wheeling withdrawals made for the benefit of Sidney Litt. During the period October 30, 1977 through December 30, 1977, approximately \$76,870 was deposited into this account. Investigation reveals that \$71,000 of this amount came from advance fees that had been wired into the account by several borrowers. None of the requested loans were secured; no money was paid to any lenders for settlement; and none of the advance fees were refunded to the borrowers through this account. Instead, all of the \$71,000 in advance fee money was utilized for the benefit of Litt and his associates and not for the purposes explained to the borrowers.

Out of this supposedly escrowed advance fee money, Sidney Litt received \$9,000; Citation Mortgage Corporation received \$15,000; Martin Lieberman, Litt's brother-in-law, received \$20,600;²⁶ Shuman's law partner received \$13,000; and Shuman received \$1,050. In addition to these expenditures, \$2,000 was paid out to a land development corporation with which Litt was involved; \$5,284 was paid out to a Philadelphia travel agency; and \$5,000 was transferred by wire to an unknown recipient.²⁷ These expenditures account for approximately \$70,900.

26. The \$20,600 which Lieberman received was in addition to the \$10,000 which was mentioned earlier in this report.

27. Gottfried Fugger also received a total of \$7,500 from the escrow account over a period of five months.

By December 30, 1977, the account had been overdrawn and shortly thereafter, it was closed. None of the money that was supposed to be held in escrow for the potential borrowers was used for that purpose.

The Crime Commission has also identified a bank account in the name of Citation Mortgage Corporation that was maintained by Litt at the Algemene Bank Nederland in New York. This account was opened in August of 1978, and within three weeks, Litt had overdrawn the account in excess of \$28,000. This overdraft was occasioned by disbursements of \$15,000 to Labron Shuman, \$3,500 to Gerald Korda, an associate of Litt, \$7,600 to the Chalagard Bank, a shell corporation with which Litt was closely associated, and \$2,500 to Litt.

In order to reimburse the bank for the overdraft, Litt deposited approximately \$60,000 into the account in September, 1978. Litt obtained this money from Gordon Reid, a potential borrower from Texas who gave Litt a \$200,000 advance fee that was to be held in escrow. Litt then deposited \$60,000 of this fee into the account to satisfy his obligation with the bank.²⁸ After Litt satisfied his overdraft at the bank, he disbursed an additional \$23,400 to Chalagard Bank. This money was also part of the \$60,000 that had been received from Reid.

28. Reid has not received a loan or a refund and the disposition of the remaining \$140,000 is unknown.

On September 19, 1978, the bank officials closed the Citation account and refused to transact any further banking business with Litt because of his flagrant abuses. Litt then transferred the remainder of Reid's \$60,000, into another account.

With reference to the escrow accounts in general, in the vast majority of cases, the money which was to be held in escrow was not refunded to the borrowers. However, in a few cases, where Litt was threatened with physical injury, a refund was made. It should be noted, however, that since Litt used escrowed funds for his current expenses, he used incoming advance fees from other potential borrowers in order to make these few refunds.²⁹

E. The Citation Mortgage Corporation Brochure

One of the tools utilized by Litt and associates to impress their intended victims was a Citation Mortgage Corporation brochure which included lists of references, consultants and associates, as well as a list of clients for whom funding had been successfully obtained.³⁰ The Crime

29. For example, Litt refunded a \$10,000 advance fee to Dr. Julius Holbrook from South Carolina, utilizing an advance fee cashiers check which he had received from another potential borrower and which he endorsed over to Holbrook.

30. A copy of this brochure is contained in this report as Appendix II.

Commission has confirmed that nearly every statement in the brochure was either false or misrepresented.

1. The initial heading of the brochure indicates that Citation Mortgage Corporation has acted as a financial lender. The Crime Commission's investigation reveals, however, that Citation is not a direct lender.³¹

2. The following individuals were listed as references for Citation Mortgage Corporation:

Bernard J. Egan, C.P.A.
Robert E. Gladden, Esquire
William Rohrer, bank president
Barney Brown, bank president

Each of these individuals has unequivocally stated that he had not agreed to act as a reference for Citation Mortgage Corporation and he was not aware that his name and position had been used in the brochure.

3. The following references were listed as employees and associates of Citation Mortgage Corporation:

Walter F. Pettit, Counsel
Jack Arnold, Counsel
George Becker, Counsel
Karl Pettit, Jr., Financial Consultant
Walter Konops, Jr., Bond Consultant
Gottfried Fugger, European Consultant.

All of these individuals, with the exception of Gottfried Fugger and Walter Konops, stated to the Crime Commission that they were not employed by Citation.

31. Litt, N.T. 11, 22.

Fugger, as previously mentioned, was a close associate of Litt. Walter Konops, employed by Citation Mortgage Corporation for a period of four months, was a liaison between Litt and the prospective borrowers. Konops had been instructed by Litt to arrange for the collection of several advance fees based upon the fact that a lender was interested in the borrower's project. At a later time, Konops learned that in reality no lender was interested in the particular projects.³²

4. The brochure proclaimed the fact that Citation Mortgage Corporation has been successful in obtaining financing for various entities. The brochure listed 12 examples of such successful funding.

Under questioning by the Crime Commission, representatives from five of these entities declared that they had never heard of Litt or Citation and had not obtained any funding through them.³³

32. Konops informed the Crime Commission that Litt had various dealings with Chester Weisinger of First Financial Funding Corporation in Pennsylvania. In a 1971 Crime Commission report regarding the criminal infiltration of legitimate business in Philadelphia, it was reported that Weisinger was intricately involved with Michael Grasso, Jr., a nephew and business associate of Philadelphia La Cosa Nostra leader Angelo Bruno.

33. These entities were: The Sperry-Rand Corporation; Surf City Hotel and Restaurant; Paul's Super Markets, Inc.; Wilkes-Barre Steam Heat Company; and the Diplomat Hotel.

It appears that three of the listed entities do not even exist.³⁴

Although the owner of another listed entity, the California Villas Hotel, had employed the services of Litt to procure financing, Litt never produced the funds.

A representative of the Fox Chase Federal Savings and Loan Association stated that although M. Tyler McNutt, the President of Citation Mortgage Corporation, had contacted him on several occasions requesting loan funds, these conversations never proceeded beyond the stage of preliminary inquiries.

The final two entities on the list of completed projects were AEC Credit and Acceptance Corporation and the American Educational Council. The Crime Commission has found that these entities were owned by Sidney Litt as shell corporations and no business was ever transacted through them.³⁵

F. The Testimony of Sidney E. Litt

When Sidney Litt appeared for testimony before the Crime Commission pursuant to subpoena, he offered evasive and deceptive answers to the questions posed. Litt's dodging technique was accomplished through his mastery of verbosity and was yet another component of his scheme. This tactic

34. These entities are: Eastern Electric Supply Corporation; the Texaco Building; and Batco Enterprises.

35. Litt, N.T. 12.

can be clearly seen in his responses to questions aimed at determining the number of loans Litt has secured during his career:

Q: How many have you actively tried to place in the last three years? ...

A: I would have to go by our log book because we have all that in our log book, everywhere a package goes, that's in our log book and I would prefer to give you the sum total out of the log book because it's accurate.

Q: Well, is it 100 or ten?

A: Well, it's sure not ten.

Q: Is it 100?

A: Sure not 100.

Q: Okay. Is it more than ten?

A: Sure, it's more than ten.

Q: Is it less than 50?

A: Yes, oh yes.

Q: Is it more than 25 in three years?

A: Well, I'm trying to think at this moment how many active, right, you know, what we've done.

Q: We are talking about a three year period.

A: Three year period? First year was very, very slow because we didn't do that much. We were getting warmed over packages that everybody else rejected and everything else.³⁶

36. Litt, N.T. 186-187.

Following persistent questioning, Litt eventually admitted that he had attempted to secure funds for approximately 38 projects in his three year association with Citation Mortgage Corporation. The Commission then questioned Litt as to the number of loans he had actually secured:

Q: Out of those 38, how many of those have you successfully secured funding for?

A: By the end of the next week, we will have gotten about 14.

Q: What is the current number?

A: Four big ones and I am not at liberty to give you the names because I do not have the client's permission, but there it is.

Q: Without revealing the names, could you give us the dollar amounts of the four A, B, C, and D.

A: Total, total on the whole thing is about \$55 million.

Q: Could you break the four down?

A: One was for \$5,000,000; one was for \$1,500,000; one is for \$10,000,000; and the balance is the balance.³⁷

During the same testimony, Litt stated that, in fact, two of these four big loans had never been consummated.

37. Litt, N.T. 202-203. The balance was \$38,500,000.

Q: You have a \$10,000,000 and a \$5,000,000 loan?

A: This is coming out of Switzerland.

Q: Is coming or has come out?

A: It's already been approved. ...

Q: Have the funds been provided to the borrower at this point in time?

A: No. It's just banking, whatever ties up banking.

Q: So the borrower hasn't secured funds in those two situations?

A: No.³⁸

Subsequent inquiry by the Crime Commission shows that these funds still have not been obtained by Litt.

Regarding the third loan (\$38.5 million), Litt reversed his initial testimony and stated that he actually did not secure this loan himself. Rather, he passed the loan application along to another broker who supposedly secured the funding.³⁹ Litt provided the Commission with the name of the alleged broker and his place of business. When the Commission tried to verify this information, neither the broker nor the brokerage firm could be found at the location furnished by Litt.

Litt testified that the final loan was secured through his own efforts for the California Villas Hotel in Atlantic City, New Jersey, the same hotel which was listed in the

38. Litt, N.T. 207-208.

39. Litt, N.T. 207, 210-212.

brochure as a successfully completed project.⁴⁰ As previously stated, neither Citation nor Litt was responsible for obtaining this loan.

Litt's evasiveness turned to prevarication when he was questioned about the advance fees which were to be held in escrow. Litt testified that these fees were to be forwarded to the lender but that on occasion, "when the commitment was not forthcoming from the lender or there was a change of heart, we had to return the fee."

Q: To the borrower?

A: Sure. It's not our money.

Q: In actual circumstances and actual conditions, has that fee ever reverted to Citation?

A: We never had the -- we never had that occasion because we just refunded it.

Q: You refunded it to the borrower?

A: To the borrower of course, of course. So we never had; we never tested liquidated damages at all. ...

Q: So, in the three years you have been associated with Citation ...

A: We never had any liquidated damages.

Q: And all fees have been returned ...

A: Yes.

40. Litt, N.T. 207, 209-211.

Q: To the potential borrowers?

A: Yes.⁴¹

In fact, Litt has failed to return almost all of the fees which were collected.

G. The Alleged Sources of Funding -- Stage Two

The successful completion of the various enterprises of Sidney E. Litt was contingent upon, and a direct result of many factors. But the most prominent component in the mechanics of Litt's plan was the confederation of individuals and purported financial institutions with which he was allied.

It was through the utilization of these associates that Litt was able to enhance his image and credibility in the eyes of the potential borrower by constantly producing alternative sources of funding.

The borrower would receive various documents, commitment letters, telex communications, Dun and Bradstreet financial statements and constant representations supporting the willingness and ability of the lender or broker to secure the funds. As a result, additional fees were extracted from the borrowers either by Litt or the alleged source of funds.

During his testimony before the Crime Commission, Litt asserted that Citation Mortgage Corporation had contact with

41. Litt, N.T. 115-117.

128 lending institutions, including major insurance companies, banks, real estate trusts, and financial entities such as CIT Financial Corporation. However, under further questioning, Litt admitted that he in fact, had never dealt with these companies.

The Commission's investigation has revealed that Litt has never had dealings with any major or reputable sources of funding other than brief inquiries to such companies. Litt's main dealings have been with individuals and companies that were involved in fraudulent activities. Substantial information has been developed that Litt not only knew the nature and character of these individuals and companies but acted in concert with them.

Several of the sources of funding which supposedly were going to supply the borrowers financing were shell corporations which were actually established by Litt. Through these entities, Litt was able to entice the borrowers into further dealings by substantiating his ability to produce funding and by creating an atmosphere of confidence.

1. The Bank of Montserrat International

The most intriguing phase in Litt's scheme was his attempt to fabricate an offshore banking institution which he could utilize as a proposed source of funding when dealing with potential borrowers. Although this attempt never reached true fruition, the activities engaged in by Litt and

associates culminated in a deception upon the government of Montserrat, British West Indies and upon several potential borrowers.

During late 1977 and early 1978, Sidney E. Litt had informed several potential borrowers that the source of funds for their loans would be an offshore bank which was located on the Island of Montserrat, British West Indies.⁴² According to the information which Litt supplied to these borrowers, the bank had access to \$600,000,000 which was readily available to fund their respective projects. The Bank of Montserrat International was actually chartered through the efforts of Litt and Sir Jacob Walton, III, an associate of Litt. However, there were no assets behind this institution and it merely was to serve as a tool for Litt's scheme.

The government of Montserrat had been attempting to secure economic development and increased industry for the island. Mr. Rupert West, a native of Montserrat and now a Pittsburgh, Pennsylvania, resident, had been empowered by the government to officially approach various industrialists in the United States in an attempt to effectuate this development. In late 1977, West contacted Dominic Meffe, a Pennsylvania

42. Montserrat is a British protectorate which is 39 square miles in size and has a population of approximately 14,000.

attorney and inquired as to the possibility of Meffe employing some of his business and legal contacts to aid in the development project. At that time, Meffe had been attempting to secure a loan through Sidney Litt and during a conversation with Litt, Meffe made reference to the Island of Montserrat and the economic development project.⁴³ Litt informed Meffe that he was an expert in this field. Meffe therefore put Litt in contact with West. Litt informed West that he knew of several industrialists who would be willing to initiate enterprises on Montserrat. Litt also informed West that there was an international banker named Sir Jacob Walton, III, who had several hundred million dollars in funds organized for development.⁴⁴

In February of 1978, West engaged in a four way telephone conversation with Meffe in Pennsylvania; Walton in Washington, D.C.; and Litt. During this conversation, Walton introduced himself as Sir Jacob Walton, a British knight, and a member of a prestigious English family which had been involved in international banking for a number of years.⁴⁵

43. Meffe was attempting to secure a \$2.8 million loan for the construction of a shopping center in early 1978, and had been referred to Sidney Litt as a source of funds. Litt had requested a \$15,000 advance fee from Meffe to initiate this loan but Meffe would only advance \$1,200. Meffe never received his loan or a refund of the fee.

44. Testimony of Rupert West before the Pennsylvania Crime Commission, May 4, 1979, N.T. 17 [hereinafter referred to as West].

45. Walton gave Meffe a detailed resume of his qualifications. See Appendix III.

Walton informed West that in order to initiate the project, a development bank should be chartered and capitalized with Walton's funds. Litt then arranged to have four businessmen travel to Montserrat so that they could decide whether they wished to participate in the venture.⁴⁶ Walton also traveled to Montserrat with Litt and Meffe ostensibly to charter the bank and deposit an initial \$5,000,000.

The establishment of the bank and the institution of the economic development program was a major event on the Island of Montserrat. The financial details were given wide coverage through the Caribbean news media. On March 10, 1978, a front page news article in Montserrat indicated that the bank was being established by a group of foreign businessmen who operated under the name of the Walton Group, Ltd. Litt's associate, representing himself as Sir Jacob Walton, was identified in the article as the President of this entity. Sidney E. Litt was described as an American attorney and director of The Walton Group.

Upon their arrival on the island, "Walton and Litt were regarded as saviors for the Montserration people."⁴⁷ Walton

46. The four businessmen had been attempting to secure a loan through Litt for some time and they traveled to Montserrat in order to secure their funding and to expand their respective enterprises.

47. Testimony of Mitchell Hammer before the Pennsylvania Crime Commission, March 23, 1979, N.T. 37 [hereinafter referred to as Hammer]. Mitchell Hammer, a Pennsylvania resident, was one of the four businessmen who proceeded to Montserrat to secure funding and expand his business.

was accorded special respect due to his royal title. "A knight is treated with the same respect as the Queen of England is treated ... his word is just as good as the Queen's word."⁴⁸ Walton and Litt were immediately introduced to the Chief Minister of Montserrat and to the members of the Cabinet. On March 16, 1978, after several meetings and presentations, the Bank of Montserrat International was officially chartered with Walton, Litt, Meffe and West as principals.

The government of Montserrat then allocated \$10,000 (U.S.) to underwrite the expenses of Walton, Litt and the industrialists and for equipment needed by Walton and Litt to initiate banking operations. At this time, West approached Walton and inquired as to when Walton would place the initial \$5,000,000 into the bank. Walton informed West that he first needed a telex machine and other equipment in order to transact various deals which would be advantageous to the bank. The telex was installed in Walton's private cottage which had been supplied by the government.

The installation of the telex combined with the official bank charter presented Litt with the ultimate tools for the successful operation of his scheme. Litt and Walton transmitted telex messages under the heading Bank of Montserrat indicating

48. West, N.T. 45.

that various loans could be secured through certificates of deposit which would be issued by the Bank of Montserrat. These telexes portrayed the bank as an independent and viable lending institution. Litt then returned to the United States where he informed borrowers that their funds would be supplied by the Bank of Montserrat.⁴⁹

Throughout this period, West was perplexed because the bank was not capitalized.⁵⁰ The Crime Commission has found that West had every reason to be concerned. The investigation has shown that The Walton Group, Ltd., did not possess any assets; it was merely a paper corporation fabricated by Litt and Walton.

West continued to press Walton to deposit the promised funds into the bank. Walton finally admitted to West for the first time that he did not have the \$5,000,000. West alerted the authorities on Montserrat and requested that they verify the identity of Walton. Walton was questioned extensively by the Attorney General of Montserrat, John Stanley Weekes, who discovered that Walton had several passports. One passport identified Walton as E. D. R. Loeser, an English citizen. A second passport and a birth

49. Litt informed Henry Worthington, Paul Stephano from Pennsylvania, and Jack Sharpe from Ontario, Canada, that the funds for their loans would be supplied by the Bank of Montserrat. All of these individuals had paid advance fees to either Litt or Labron K. Shuman.

50. West, N.T. 68-71.

certificate identified Walton as Jack Beresford Ward, an Australian citizen. Subsequently, Walton made a written statement assuming responsibility for the activities on Montserrat and stating that he had misrepresented himself as to his identity. As part of this statement, Walton informed the government of Montserrat that Sidney Litt had been supporting him until he was able to become financially secure. Walton further stated that the title "Sir Jacob Walton" was given to him by Litt.⁵¹

Litt, in the meantime, had been contacted in the United States on numerous occasions by West, the Chief Minister and the Attorney General of Montserrat and asked to return to the island in order to assist in the problem regarding the identity of Walton. Litt emphatically refused to return to Montserrat.⁵² Walton convinced the government officials that he still had the capability of funding the bank if he could leave the island and transact several deals. Once Walton departed the island, the officials never heard from him again.

The Bank of Montserrat International was, of course, never funded but even though the bank had no capital, Litt

51. The officials on Montserrat were similarly informed by the alleged Mrs. Walton, who was also on the island, that use of the title "Sir" was suggested by Litt.

52. West, N.T. 61-64. Litt indicated to the Pennsylvania Crime Commission that he was "scared" to go to Montserrat because he did not know to what he might have been subjected. Litt, N.T. 86-88.

continued to inform potential borrowers that they would receive their loan funds from the Bank of Montserrat. Each of these borrowers eventually learned of the bank's inability to produce the funds. The scheme on Montserrat never attained the potential which Litt had envisioned.

The true identity of Jacob Walton has never been ascertained and little is known regarding his background. The Crime Commission has learned that Walton has assumed at least seven identities and has established shell corporations throughout the world. In August of 1977, Walton was employed by a travel agency in Oregon. It was at this time that Litt first met Walton. As Litt and Walton embarked upon their financial adventures, Walton represented himself to potential borrowers as a principal of the Grand Cayman Development Corporation (GCDC), a purported offshore funding source. Both Litt and Walton used this alleged connection to impress their intended victims. For example, they advised Pennsylvania resident Henry Worthington that his requested loan would be granted by the GCDC. On February 24, 1978, Worthington's attorney received a telex message from Litt that \$5.2 million was available for Worthington's project and would be deposited into the Island Security Bank on Grand Cayman Island. Litt also led Worthington to believe that the Island Security Bank was an offshore affiliate of Girard Bank in Philadelphia. Officials of Girard Bank informed the Crime Commission that

there was no such affiliation.⁵³ The funds, of course, were never produced and Worthington was then informed that the source of his funds would be the Bank of Montserrat. Again, no funds were produced, despite the fact that Worthington had paid Litt substantial advance fees for the service.

The association between Walton and Litt was terminated shortly after the fiasco on Montserrat. During various law enforcement inquiries, Litt has claimed that he had been defrauded by Walton. Walton has similarly claimed that Litt had misrepresented himself to Walton. The facts and circumstances clearly indicate, however, that Walton and Litt were both well aware of each others' fraudulent intentions and conspired to further their deceptive activities.

2. Financial Energy Corporation -- (F.E.C.)

Another of Litt's "established" sources of funding was Financial Energy Corporation (FEC), a Colorado corporation.

During the spring of 1978, and coinciding with Litt's activities on Montserrat, many potential borrowers were referred by Litt to FEC in order to secure a financial guarantee

53. The Crime Commission has also discovered that Island Security Bank surrendered its banking license in December of 1978.

bond which could then be used as additional collateral in obtaining a loan.⁵⁴

Once this bond was secured, Litt was to find a lending institution which would produce the loan using the bond as collateral. The borrowers traveled to Denver, Colorado at the request of Litt and were introduced to either the managing director of the company, Robert J. DiStefano, or Lloyd Rubin, a company consultant. At these meetings, each borrower was asked to pay an application fee and was informed by the FEC principals that most of this fee was refundable should the bond not be executed or utilized. The Crime Commission has identified seven borrowers who were referred to FEC by Litt, although allegations have been received that the true number may have been closer to 20. Six of these identified borrowers paid \$3,500 in cash as an application fee; the other individual paid a \$1,500 fee.

All of these individuals were informed by FEC officials that their projects were worthwhile and that there would be no problem in securing the bonds. While some of these individuals never received further communication from FEC,

54. A financial guarantee bond is used as collateral when a loan is made to a high risk borrower. The bonding company, that is the company that actually issues the bond, guarantees that the principal and interest on a loan will be repaid to the lending institution should the borrower default on the payments. FEC was in the business of locating these bonds for prospective borrowers.

several actually received the bond. Nonetheless, when they attempted to utilize the bonds as collateral for bank loans, they were unsuccessful because the banks were unable to verify the assets and credibility of FEC. Other borrowers such as Mitchell Hammer and Henry Worthington, did not receive a bond but instead received a conditional letter of commitment to issue a bond. The condition that Worthington had to meet in order to secure his bond was payment to FEC of \$1,635,414; Hammer had to pay \$450,000. As a result of these conditions, the borrowers were realistically precluded from obtaining the bonds and securing the loans.

The only way that you could comply with (the) condition ... receipt of \$450,000 ... was to go find a bank. Obviously, if you had that money you wouldn't need the loan.⁵⁵

The Pennsylvania Crime Commission has learned through Lloyd Rubin, a principal of FEC, that there was an arrangement between Litt and Rubin whereby Litt would funnel his clients to FEC and Rubin would remit or kickback part of the application fee to Litt. Rubin, therefore, increased the FEC fee from \$2,500 to \$3,500 and Litt received \$750 for each referred client.

In January of 1979, FEC, Robert J. DiStefano, Lloyd S. Rubin and Robert Fisher, another employee of FEC, were indicted by the Denver State Grand Jury on various counts of

55. Hammer, N.T. 59.

theft and conspiracy to commit theft.⁵⁶ The indictment charged that these individuals were involved in a complex scheme in which they collected fees ranging mostly from \$1,500 to \$3,500 in return for promises to obtain guarantees for large loans. The indictment charged that while the fees were collected, little or nothing was done to actually secure the guarantees for the clients and the fees were never returned.

With respect to the individuals who were referred to FEC by Litt, not one received a fundable bond and not one received a refund of the fees paid.

3. Nation-Wide Funding, Incorporated

During late 1976 and 1977, Sidney Litt and Citation Mortgage Corporation had extensive dealings with Nation-Wide Funding, Incorporated, an Oregon corporation which, like Citation Mortgage, purported to be in the business of securing

56. In June of 1975, DiStefano was accused by the United States Securities and Exchange Commission on a civil complaint of engaging in a scheme to defraud purchasers and sellers of stock in Cosmopolitan Investors Funding Company, a Pennsylvania corporation. The S.E.C. alleged that DiStefano used \$210,000 of the corporation's funds to purchase shares in two mutual funds which had little or no value. The S.E.C. further alleged that DiStefano was to receive kickbacks of \$85,000 of the \$210,000 which would be deposited in secret Swiss bank accounts for his personal benefit. In May of 1978, DiStefano reached a settlement with the S.E.C. whereby he was permanently enjoined from future violations of the United States securities laws and from becoming an officer or director of any public company unless the court is satisfied that measures have been taken to prevent similar conduct. DiStefano was also required to repay \$15,000 to the corporation.

loans for business projects. Litt established a relationship with Nation-Wide whereby Nation-Wide referred numerous packages or potential borrowers to Citation Mortgage Corporation.

Mainly through advertisements in publications such as the Wall Street Journal, which emphasized Nation-Wide's access to vast amounts of loan funds, a substantial amount of loan applications were received. The applicants were informed that, based upon Nation-Wide's established relationship with sources of financing, funds could be easily procured. A fee, usually \$2,500, was requested for on-site inspections and for preparation of the package. A determination of feasibility was then made by the employees of Nation-Wide and the borrower would be informed that there would be no problem in securing the loan and such could be accomplished within a relatively short period of time. Nation-Wide would never in fact procure the funds for the borrower but would refer the borrower to various other individuals, brokers or purported lending institutions. Many of these referrals were to Sidney Litt and Citation Mortgage Corporation.⁵⁷

In 1977, Melvin Williams, a resident of Texas, had contacted Nation-Wide in order to secure \$400,000 to purchase a ranch. Williams paid a \$2,700 advance fee to Nation-Wide

57. The Crime Commission's review of a Citation Mortgage Corporation brokers log shows that at least 45 borrowers were referred to Citation by Nation-Wide Funding.

for its services. Williams was told by Nation-Wide that among the many sources able to provide the funds, Citation would be in the best position to do so. Williams was then contacted by Litt who informed him that there would be no problem in securing the loan. Litt added that an appraisal had to be conducted on the property. Accordingly Williams paid the air fare for L. Brian Trachtman who was sent to do the appraisal and a \$2,500 fee for the actual appraisal. Litt then received \$5,000 more which was to secure a commitment from a "serious investor" as well as an additional \$1,300 for Litt's expenses. Williams never heard from Litt again.

The Crime Commission has identified several other individuals who were induced to follow similar routes.

In his testimony before the Crime Commission, Litt stated that his contact with Nation-Wide was limited, but the Commission has determined that numerous packages were referred to Litt by Nation-Wide. Litt also testified that out of those packages, only one potential borrower had remitted additional fees.⁵⁸ However, the Commission has found at least two other individuals who were referred to Litt by Nation-Wide and who paid additional fees because of the referral.

In June of 1977, a federal grand jury in Oregon returned a 34 count indictment against Nation-Wide Funding and six of

58. Litt, N.T. 96-107.

its officers and employees. The indictment charged that Nation-Wide had devised and perpetrated a scheme whereby money was obtained from individuals and business entities by means of false and fraudulent pretenses, representations and promises. The indictment also charged that Nation-Wide had limited experience in the field of finance, had no established sources of funding, and had never successfully obtained funding for other borrowers.⁵⁹

During the Nation-Wide Funding trial, the prosecutor made frequent reference to Citation Mortgage Corporation and Sidney Litt and emphasized how Citation and Litt were no more than links in Nation-Wide's referral chain. In his closing argument to the jury, the prosecutor, in relating to this aspect of the scheme, stated:

But look at the sources, so called sources, that they (Nation-Wide) had, crooked brokers, London investors, Robert Underhill, Stillwell Mortgage, Citation Mortgage, Ada Griscom and so on. ... These folks had notice precisely what these people were. They knew they were brokers and they knew they were crooked.

First of all, I want to turn to Citation Mortgage. ... You recall that there was evidence that Nation-Wide tended to find out about the people that they dealt with by securing the so-called D & B (Dun & Bradstreet) report. So they got one on Citation Mortgage. And you remember who is in Citation Mortgage? Sidney Litt, our old friend. ... And it said right on there they are not a lender. ... It says they are a mortgage broker. ... And then there

59. Four of the officers of Nation-Wide Funding, Incorporated, were found guilty of violating various federal laws.

was a statement here Dun & Bradstreet asks the owner for financial statement. Of course, we are dealing in an industry which requires trust and confidence. Do you think he gave a financial statement? No way. August 4, 1977, McNutt, President, declined a financial statement. But this is what he says. He stated gross revenues for 1975 were \$400,000,000.

Now these are fees they obtained as brokers. Let's say they are getting two, five, six points. Can you imagine the amount of money they would have had to generate in funding to get \$400,000,000 in loans. They could float the national debt. This is phoney on its face.⁶⁰

The Dun & Bradstreet report referred to by the prosecutor in the Nation-Wide trial had been utilized by Litt when dealing with potential borrowers. Citation had reported to Dun & Bradstreet that its gross revenues during 1975 were \$400 million. In the money brokerage business, a broker acquires income by taking a percentage of 1% to 6% of the loan which is secured. The Crime Commission has calculated that even if Citation had taken 6% of each loan allegedly consummated, Citation would have had to secure over \$6,666,000,000 in loans during 1975.

It should be noted that after the Nation-Wide Funding trial, Citation revised its estimate of gross revenues when reporting to Dun & Bradstreet. Instead of claiming revenues of \$400 million, Citation reduced the amount to \$400,000.

60. United States of America v. Nation-Wide Funding, et al., (Volume 17) 3348-3350, (June 15, 1978).

The Crime Commission had learned that Ada Griscom, one of the brokers mentioned in the closing as dealing with Nation-Wide Funding, was also receiving loan applications from Mark Equities, Ltd., Inc., and referring various applications back to that company. Mark Equities was in reality a shell corporation which was established by Litt and Nancy Brundle.

4. Alpha Mortgage Corporation of Alabama

During 1976, Sidney Litt became associated with an entity in Birmingham, Alabama, known as Alpha Mortgage Corporation of Alabama. Litt had informed at least 12 of his clients that Alpha would be the "source" of their financing. As a result, advance fees were paid by the borrowers to Litt in order to obtain this financing.

Alpha Mortgage Corporation was established in October of 1976, by Horace J. Brooks and Kenneth J. Schmidt. The Crime Commission has learned that this company, in fact, was not a lending source as Litt had indicated to the borrowers, but was rather another brokerage firm.⁶¹ An investigation by the Alabama Securities Commission and the Birmingham Police Department into the business activities of Alpha Mortgage Corporation revealed that Brooks and Schmidt were operating an advance fee scheme. This investigation indicated that borrowers who had dealt with Alpha were informed that Alpha had access to sources of financing and that loans could be obtained. Based upon these representations, advance fees were paid by the borrowers. Alpha, however, did not have the ability to obtain these funds and in reality, had never obtained funding for any borrower. The advance fees

61. Like Citation Mortgage Corporation, the name Alpha Mortgage Corporation implies that the entity operates as a lending source rather than a broker or finder.

were paid by the borrowers and went to Brooks and Schmidt in the form of salary, bonuses and direct cash payments.

The Birmingham Police Department's investigation of Alpha's activities led to the indictment and conviction of Brooks. In 1978, Brooks was sentenced to three years imprisonment. Although no legal action was taken against others involved in the case, the Birmingham investigation suggests that Litt was engaged in a fee splitting arrangement with Alpha.

5. Mark Equities, Ltd., Incorporated

One of Sidney Litt's close business associates was a woman named Nancy Brundle. Brundle, as President of a Utah corporation called Mark Equities, Ltd., Inc., was supposedly in the business of securing financing for business projects.⁶²

The relationship between Citation Mortgage Corporation and Mark Equities served to further the advance fee scheme. Brundle informed Mark Equities clients that Citation Mortgage Corporation was a direct lender and a source of funding for their projects. At the same time, Litt informed Citation Mortgage clients that Mark Equities was a direct lender and a source of funds. In reality, neither entity was a direct

62. The certificate of incorporation for Mark Equities was suspended on December 31, 1978, by the State of Utah for failure to file an annual report as required by law.

lender. In fact, Mark Equities was another shell corporation established by Litt in order to portray the existence of a funding source.⁶³ As a result of Litt's activities involving the Mark Equities--Citation Mortgage connection, various fees were paid to Litt, Brundle and Leo Weber, Brundle's brother. Not surprisingly, no loans were ever secured.

Litt and Brundle, in order to obtain clients, notified other loan brokers that Citation Mortgage and Mark Equities were able to secure large sums of money for loan applications. Litt and Brundle requested these brokers to refer clients to them. The notification and request for referrals was successful.

A broker from Minnesota referred six of his clients to Mark Equities and these borrowers paid a total of \$6,889 in advance fees to Litt, Brundle and Weber.⁶⁴ A broker from Idaho also referred five of his clients to Mark Equities. These clients paid a total of \$36,500 to Litt, Weber and

63. In his testimony before the Crime Commission, Litt denied being an officer or owner of Mark Equities. However, the certificate of incorporation for that company indicates that Litt was an officer and director.

64. The fees were paid as follows:
Peppermint Square Shopping Center, \$1,152
Eckstein Department Store, \$1,152
Pleasant Hills Nursing Home, \$1,500
St. Croix Mall, \$1,000
Hanson House, \$1,585
Prospect Park Care Nursing Home, \$500

Brundle,⁶⁵ and only \$7,500 was returned to the borrowers despite the fact that no funding was secured for any of the clients.

Leo Weber, one of the key individuals involved in Mark Equities, Ltd., Inc., informed the Crime Commission that the company was a partnership between Litt, Brundle and an individual from California named Anthony D'Amato.⁶⁶ The activity of the company, however, was directed and controlled solely by Litt. According to Weber, loan packages were brought to Mark Equities by Litt, many of which were not viable or fundable. Weber would conduct an on-site inspection of a proposed project and collect a fee. Shortly thereafter, a communication from Mark Equities would be forwarded to the potential borrower informing him that a serious investor had been found, while in fact, no true investor was interested in the project. Another "source of funding" for the Mark

65. The fees were paid as follows:
Ralph Akin, \$6,000
Jim Erwin, \$10,000
June Bourget, \$3,500
Lee Scott, \$10,000
John Maxwell, \$7,000

66. Anthony D'Amato was a partner in D'Amato-Ellis Financial Corporation, a money brokerage firm in California. D'Amato was closely associated with Samuel Ray Calabrese who had been identified by the California Organized Crime Control Commission as an organized crime figure. Calabrese was convicted in 1976 of attempting to defraud the Small Business Administration of more than \$800,000.

Equities clients was Guaranteed Funding in Denver, Colorado.⁶⁷ On paper, Guaranteed was formed by Nancy Brundle and an individual identified as Wayne Pulsipher. This company, however, was directly under the control of Litt. Functionally, Guaranteed Funding was no more than a corporate shell which had been established by Litt and Brundle for the purpose of having on hand another source of funding.

The net effect of these activities was that unknowingly the borrowers were referred by Litt to his own shell companies, while Litt and associates continued to collect various fees.

6. Anderson-Prichard, Ltd., Incorporated

During the spring and summer of 1978, at least ten potential borrowers were referred by Litt and Brundle to Anderson-Prichard, Ltd., Incorporated, in New York City. Purportedly, Anderson-Prichard was in the business of obtaining loans for business entities. The principals of Anderson-Prichard were E. Prichard McCall and Robert Wolk.⁶⁸

Litt told the borrowers that by proceeding to Anderson-Prichard they could purchase a commercial letter of credit

67. Mark Equities was also referring loan packages to Ada Griscom from A & A Financial Consultants, Forth Worth, Texas. Griscom was described as a "crooked broker" during the Nation-Wide Funding trial.

68. On September 26, 1979, E. Prichard McCall and Robert Wolk were indicted in New York State and charged with grand larceny.

which could then be taken to a bank to obtain the requested loan utilizing the letter of credit as collateral. The borrowers were informed by Wolk or McCall that the letter of credit could be taken to the borrower's own bank to obtain the loan, or the borrower could utilize the services of Anderson-Prichard's own bank, the Barclay Bank in New York. The borrowers were further advised that if their letter of credit was not sufficient as supportive collateral for the loan, they could obtain, for an additional fee, a surety bond issued by Anderson-Prichard's insurance company in London, Bowring and Company, Ltd. This bond would serve as additional collateral for the loan.

As with other Litt deals, the clients in these referrals found themselves paying advance fees for little or nothing. For example, borrower Jack Sharpe was instructed by Litt to travel to Anderson-Prichard in the summer of 1978. Sharpe received a letter of credit in the amount of \$2 million. Wolk informed Sharpe that Litt had paid \$20,000 for the letter of credit. This \$20,000 had previously been wired by Sharpe to Litt's attorney, Labron Shuman. Immediately thereafter, Sharpe attempted to fund the letter of credit through several banks, including the Royal Bank of Canada, Canadian Imperial Bank of Commerce, the Bank of Montreal and the Federal Development Bank. Officials from these banks informed Sharpe that they were unable to obtain any verifiable

information on Anderson-Prichard and, therefore, they could not supply the requested funding. When Sharpe contacted Wolk to inform him of what had transpired and to request a return of his funds, Wolk told Sharpe that the \$20,000 check he received from Litt in payment for the letter of credit was uncollectable.

Several other borrowers, after paying thousands of dollars for their Anderson-Prichard letters of credit, unsuccessfully presented them to banks for funding.

Although representations had been made that the letter of credit could be funded through Anderson-Prichard's own bank, the Barclay Bank, in fact, Anderson-Prichard had no business relationship with that bank other than a checking account.

The Crime Commission has also inquired into the association between Anderson-Prichard, Ltd., Inc., and Bowring and Company, Ltd., the company that was to issue surety bonds as additional collateral for the letters of credit. According to officials of Bowring and Company, Ltd., there is no association between that company and Anderson-Prichard. E. Prichard McCall had traveled to England on several occasions to discuss deals with Bowring. However, according to Bowring officials, McCall's proposals were dismissed as "nonsense".

As of August, 1979, the Anderson-Prichard offices were vacated and all telephones were disconnected.

7. Chalagard Bank

Chalagard Bank was supposedly based in Ireland, with branch offices in London and New York. Although little is known about Chalagard and the individuals behind it, the Crime Commission has found that the Chalagard Bank, like the Bank of Montserrat, was no more than a corporate shell. Chalagard's London office contained no more than a desk and a person to answer the telephone.⁶⁹

Sidney Litt used the Chalagard Bank in much the same way as he had used other entities in his efforts to extract fees from potential borrowers. At least 12 of Litt's clients paid substantial fees to Litt upon Litt's representation that Chalagard Bank would fund their projects.

One of these 12 clients was Gordon Reid, a businessman from Texas. In September of 1978, Reid paid a \$200,000 fee to Litt for the purpose of obtaining funds from Chalagard Bank. This \$200,000 was to be deposited into a Citation Mortgage Corporation escrow account in New York, with the understanding that Reid would have to approve any withdrawals. As mentioned previously in this report, Litt only deposited \$60,000 of Reid's fee into the New York bank account, an account which was in fact a regular checking account rather than an escrow account. Litt then disbursed approximately

69. The New York office was operated by John Galard.

\$23,400 of Reid's money to Chalagard Bank. As expected, no loan was secured and Reid was informed that the deal with Chalagard could not be consummated. However, Litt told Reid that he was working on another deal through a company in Mexico, Libor Mexico International S.A., through which Reid would obtain financing.⁷⁰

The Chalagard Bank is currently under investigation by law enforcement authorities. Preliminary findings suggest that approximately \$100,000 in fees have been paid directly to Chalagard while no loans have been obtained. At this time, it is not known if these fees emanated solely from Litt clients or if they were paid by other individuals as well.

8. Libor Mexico International, S.A.

In his continuing efforts to present new and attractive alleged sources of funds to his clients, Litt has expanded his scheme to Mexico. Since the beginning of 1979, Litt has lauded a Mexican company known as Libor Mexico International, S.A., as a world wide source of funding for his clients.

The evidence uncovered indicates, however, that this entity was originally established and funded by Litt himself. The

70. Libor Mexico International is discussed in the next section of this report.

mechanics of actually setting up Libor's business in Mexico was handled by Gregory Laventman, a man who Litt had met through Chalagard Bank.

In February of 1979, Litt formed a second corporation in New York, called Libor International Incorporated. Along with Jeffrey Holland, the attorney for Libor in New York,⁷¹ Litt began to propose Libor as a guaranteed source of funding. Libor was utilized as an alleged source of funding with several borrowers, some who had already been dealing with Litt,⁷² and some who were new to his scheme.⁷³

As with the other phases of Litt's scheme, the Libor deal has left many borrowers without funds for their projects and without fee refunds. For example, borrower Gordon Reid, was informed by mail and by wire that his loan would be obtained through Libor by April of 1979. Borrower Grant Yost was also told that his Libor funds would be forthcoming in May of 1979. To date, loans have not been secured and

71. Holland was also the attorney for John Galard of the Chalagard Bank.

72. Grant Yost and Gordon Reid were two borrowers who had dealt with Litt for almost a year prior to the formulation of Libor.

73. The following borrowers were new victims in Litt's scheme and lost substantial amounts of money: Southern Aggi, Ltd., Arkansas, \$220,000; Ann Maureen Burke, Maryland, \$80,000.

both Reid and Yost have been unable to get a satisfactory explanation from Litt, Holland and Brundle.⁷⁴

During an inquiry to Holland, Yost was informed that he would receive his funding within several days if \$20,000 was forwarded to Holland. Yost said he would only comply with this request if he received a commitment in writing that his fee was refundable. Yost received such a letter from Holland and Brundle and, therefore, transmitted \$20,000 to Holland's escrow account. Since May of 1979, Yost has contacted Holland almost every week and on each occasion he has been informed that funding would be forthcoming the following week. This stall tactic has been used by Holland, Litt and Brundle on each of the borrowers.⁷⁵

To date, not one of the borrowers has received the promised funding from Libor or a refund of the fees which were paid.

H. The Borrowers

During the course of the investigation, the Crime Commission has uncovered a vast amount of correspondence and records pertaining to the activities of Sidney Litt and his

74. One borrower, Ann Maureen Burke, traveled to Mexico in an attempt to secure her loan. While in Mexico, her hotel room was burglarized. The only items taken were papers and documents regarding her dealing with Litt and Libor.

75. The \$20,000 which was to be held as a refundable item in Holland's escrow account was transferred to Nancy Brundle by Holland shortly after it was deposited.

various associates. Included in this material is the Citation Mortgage brokers' log book. Listed in this log are the various borrowers with whom Litt dealt during the time period January, 1976 through April 1977. This journal contains 204 loan applications. The total amount of funds requested by these 204 borrowers is in excess of \$1,512,000,000.

Apart from the log book statistics, the Commission has discovered 23 additional borrowers who had dealt with Litt and his associates. The Crime Commission interviewed 34 of the identified borrowers. Based on their experiences \$877,033, was lost to Litt and his associates.

The attitude of these borrowers after they had dealt with Litt was universal and aptly described by one individual:

I feel there was a great deal of subterfuge and machinations. Four hundred and fifty three phone calls over a period of six months by myself personally, of which there were nothing more than promises, promises, promises, and nothing of a definitive nature.⁷⁶

Although each borrower had been subjected to a prolonged stalling effort by Litt, they continued to deal with him and they continued to advance funds. When questioned as to the reason they continued their relationship with Litt throughout his many evasive maneuvers, almost every borrower responded with the same answer:

76. Worthington, N.T. 129.

I relied on the letters and statements that Mr. Shuman had made. . . . I relied on the fact that Mr. Litt continually told me he could do it . . . and he extended just enough information to always keep me hoping.⁷⁷

IV. THE SECOND SCHEME -- FRANK A. COLLETTI

A. Introduction

During the Pennsylvania Crime Commission's investigation of Sidney E. Litt's fee schemes, it was discovered that similar activities were being conducted by another Pennsylvania businessman. Frank A. Colletti, who operates as an investment consultant in Willow Grove, Pennsylvania, had represented to a number of individuals who were attempting to secure financing, that he had the ability to obtain this financing. Various fees were requested by Colletti or his agents in order to proceed with the financing, but when the financing was not forthcoming, the fees were not returned.

Unlike the Litt--Citation Mortgage scheme, Frank Colletti generally limited his activities to Pennsylvania and neighboring States. Thus, Colletti's operation did not require the Litt type conspirator network of associates. Despite the relative simplicity of his operation, however, Colletti is responsible for defrauding at least 30 persons out of \$341,970.

⁷⁷. Worthington, N.T. 133.
Appendix IV details the identified borrowers and the fees paid by these individuals and entities.

The methods employed by Colletti were similar to the methods utilized by Litt during the first stage of his operation. Either through his own contacts or through the efforts of several middlemen, Colletti would locate people in the business community who were in need of or interested in securing funds to stimulate their businesses. During the first meeting, Colletti assured the potential borrower that securing the loan was a near certainty and further assured the potential borrower of his wide range of experience, expertise and contacts. Most often, Colletti portrayed himself as most adept at securing loans which are guaranteed by federal agencies such as the Small Business Administration (SBA) or the United States Department of Agriculture, Farmers Home Administration (FHA). Generally, the potential borrower was told that the loan would be available within 90 days. In all cases, an advanced fee was paid by the potential borrower to Colletti. To date, the Crime Commission has been unable to identify a single client of Frank Colletti who has obtained funding through Colletti's efforts.

B. The Middlemen and the Borrowers

Basically, Colletti received referrals from several sources: including Mario Cocci, a realtor from Pottstown, Pennsylvania; Frank Falcone, a realtor from West Chester, Pennsylvania; and Len Carlson, editor of a small advertising journal.

These men introduced to Colletti various persons with whom they were dealing themselves and they each received fees from Colletti for their referrals.

While the bulk of Colletti's victims were Pennsylvania residents, Colletti also left his mark in New Jersey and Delaware. The background of Colletti's victims ranged from business sophisticates to business novices.

For example, one of Colletti's major victims was a Bucks County realtor who was attempting to develop a nursing home in Montgomery County. He advanced \$32,500 to Colletti in February and March, 1978. A second victim was a Reading, Pennsylvania, businessman who owned a bankrupt motel. Over a period of four months, he advanced \$67,500 to Colletti to secure funding. He had owned the motel for more than ten years and was also active in real estate and a wholesale floral business.

Smaller borrowers were targeted often by Colletti. A husband and wife drapery/upholstery business lost \$4,250 in advance fees while a young man attempting to develop a discotheque/restaurant lost \$11,500. Other borrowers and businesses which incurred losses included a garden center (\$3,500), a gas station owner (\$4,570), a deli store (\$7,250), a golf course owner (\$13,500), a bowling alley developer (\$16,000), a land developer (\$10,000) and an automobile dealership (\$9,000).

The borrowers were informed by Colletti that various fees had to be paid in order to proceed with the lending process. These fees were allegedly used for application costs, retainers, processing costs, good faith deposits, professional services such as appraisals or economic studies⁷⁸ and for alleged payoffs to union or bank officials to insure loan results.

On several occasions, part of the advance fees which were paid to Colletti were not refundable and the borrowers were so informed. The borrowers forwarded these fees, however, with the understanding that Colletti would exert a diligent effort to secure the financing and based upon Colletti's falsely represented statements that he had successfully obtained funding in the past. In fact, Colletti did little or nothing to secure the financing; and the Commission has not found one individual or entity for whom Colletti obtained funding.

The attitude of almost every person who dealt with Colletti was stated simply by one of Colletti's clients:

78. Often, the professional service for which the advance fee was to be utilized was not performed. As an example, during the summer of 1979, Colletti contacted an architect with whom he had dealt in the past and asked him to forward letters to Colletti stating that certain services had been performed and that \$10,125 had been paid by Colletti for these services. Colletti further asked that these letters be dated May and June of 1976. In fact, no services were performed by the architect and no funds had been paid by Colletti.

Well, the only feeling I have is it's a big rip-off. You know ... we're just real small business people and we're not highly educated, but we were sure taken in by it.⁷⁹

C. Guarantors and Lenders

1. Guarantors

Although Frank Colletti's alleged methods of funding varied with each borrower, Colletti informed many of his clients that he could obtain a guarantee for the requested loan from a governmental agency. Generally, these agencies would not actually provide the funds for the borrower, but were to guarantee repayment of the loan to the bank which actually supplied the funds. In reality, such a guarantee would insure the securing of a loan.

Colletti had informed many of his clients that he could obtain a federal guarantee for their loans through the Small Business Administration (SBA). To others, he represented that he could secure a Farmers Home Administration (FHA) guarantee for their loans.

During the initial meetings with these clients, Colletti assured them that he had substantial contacts with SBA and FHA officials. These contacts, according to Colletti, were a result of his previous employment as a lobbyist in Washington,

79. Testimony of Terry Buckwalter before the Pennsylvania Crime Commission, July 30, 1979, N.T. 32.

D.C. Colletti further informed these borrowers that he maintained a fully staffed office in Washington and that several of his employees were former SBA officials. As part of his sales pitch, Colletti provided many of these clients with a list of credit and personal references that included the names of several SBA officials.

The Crime Commission has learned that Colletti's "fully staffed" Washington, D.C., office, consisted of an answering service. It has also been determined that Colletti never provided any of the borrowers with a loan guarantee from the SBA.

Regarding Colletti's alleged dealings with the FHA, the Crime Commission has determined that although Colletti submitted many pre-application forms to the FHA, he has never followed these preliminary forms with the required formal applications. As a result, Colletti has never obtained an FHA guarantee for any client.

2. Lenders

In contrast to the Litt style of operation, Colletti usually made initial contacts with the proposed source of funding. In each case, however, Colletti's proposal for funding was either not completely presented, was not a viable project, or the lender simply was not interested in the proposal. On several occasions, the funding package was never actually presented to the lender. Despite this,

Colletti continued to advise the borrowers that everything was in order and that their loans would be forthcoming. Colletti was able to hold his clients in this position by persuading them that he had a close and direct working relationship with the lending institutions he had contacted.

In general, Colletti purported to be associated with Financial Services Associates in Maryland; Fidelity Bond and Mortgage Corporation, Philadelphia, Pennsylvania; and Home State Savings Association in Cincinnati, Ohio. Colletti also told several borrowers that he could obtain their financing through certain labor union sources; on occasion, alluding to a particular teamsters local as that source.

Investigation indicates that Colletti's claims of "close associations" with these lending institutions were greatly misrepresented.

Colletti first contacted Financial Services Associates (FSA) in the summer of 1978. Boris Lang, the President of FSA, affirmed that approximately 12 funding proposals were submitted to FSA by Colletti. FSA never funded these projects because Colletti failed to provide FSA with the documents necessary to consummate the loans. The Crime Commission has learned that these materials had been forwarded to Colletti by the potential borrowers but were never transmitted to FSA by Colletti.

Although Lang admitted discussing some of the funding proposals with Colletti, he insisted that he had not received fees from any of Colletti's clients and he did not know whether Colletti had received any fees.

The Crime Commission examined various books and records and found a check in the amount of \$5,250 from one of Colletti's clients made payable to FSA. This check was endorsed by "Boris Lang" and "Theresa Bendel". Further investigation revealed that, in fact, Boris Lang did not endorse that check. Theresa Bendel, who has been identified as Colletti's secretary, admitted cashing this check at Colletti's request.⁸⁰ The money that the client was told would be forwarded to FSA was, in fact, diverted by Colletti.

Colletti's clients were additionally persuaded as to Colletti's influence with FSA when they received letters on FSA stationery bearing Lang's signature. Lang informed the Crime Commission that the signature on these letters was not his and he had not given anyone the authority to sign his name.⁸¹

As a result of his alleged FSA connection, Colletti collected in excess of \$98,000 in advance fees.

⁸⁰ Although Bendel stated that she had only cashed this one check for Colletti, the Crime Commission has obtained several other checks issued to Colletti and bearing Bendel's endorsement.

⁸¹ Lang informed the Commission that he had left some of his business stationery in Colletti's office after a meeting with Colletti.

The second of Colletti's alleged sources of funding was Fidelity Bond and Mortgage Corporation in Philadelphia. Colletti told many borrowers that Fidelity would provide the requested funds. In support of his ability to secure funding from Fidelity, Colletti portrayed O. James Gaudin, Vice President of Fidelity, as a close business associate and a good friend.⁸² On occasion, Colletti even listed Gaudin as his character and financial reference.

While O. James Gaudin acknowledged that he was acquainted with Colletti, both socially and in business, Gaudin steadfastly denied that Fidelity had ever funded any of Colletti's proposals. Gaudin stated that Colletti had referred a number of loan proposals to Fidelity, but due to Colletti's neglect in following through on these proposals and the general absence of worthy projects, no proposals were ever funded. Despite his inability to receive funds from Fidelity, Colletti continued to request and receive fees for Fidelity financing.

In one incident involving the developer of a Bucks County bowling alley, the borrower was led to believe that \$12,000 of his \$16,000 advance fee was a commitment fee paid to Fidelity Bond and Mortgage. An inquiry with Fidelity Bond and Mortgage revealed that they had no knowledge of either the project or the \$12,000 payment.

82. Gaudin resigned from Fidelity in early 1979.

In no instance has the Commission located any written record of any commitment or letter of interest from Fidelity Bond and Mortgage to any Colletti client. Colletti, however, verbally related to these victims that Gaudin and Fidelity would be the source of funds. As a result, Colletti garnered advance fees of \$55,750.

Although the Fidelity officials and O. James Gaudin advised the Crime Commission that they had never received any fees from Colletti or his clients, the Commission has discovered several Frank Colletti checks made payable to Gaudin. Further investigation, however, reveals that these checks were not received by Gaudin and that his endorsement was forged.⁸³ All of these checks to Gaudin were co-endorsed by either Colletti or Bendel and were cashed.

The third direct lender that Colletti was purportedly associated with was Home State Savings Association, Cincinnati, Ohio. Colletti had informed many borrowers that Home State would be the major source of funds for their loans. More than \$125,000 was collected by Colletti from these borrowers.

As with his other alleged sources of funding, Colletti would portray a close relationship with an official of the lending institution. In the case of Home State, that relationship was purportedly with Thomas M. Tiernan, Vice President.

83. Several of the checks made payable to Gaudin were endorsed by "Jane Gaudin". The Commission has learned that no one by this name is related to or associated with O. J. Gaudin.

Tiernan was listed by Colletti as a character and financial reference on a list of references provided to potential borrowers.

In nearly each situation the potential borrower would receive some form of correspondence from Home State indicating an interest in the project. This correspondence would advise that Home State has "approved a standby commitment" subject to certain conditions and the receipt of certain documents. These documents were in all cases, provided to Colletti by the borrower. Tiernan, who has since resigned from Home State, informed the Crime Commission that he had dealt with Colletti and had, in fact, written letters to Colletti. Tiernan stated, however, that Colletti never submitted the requested documents and accordingly, the loans were never consummated.

One loan proposal of particular interest related to the re-financing of a Reading, Pennsylvania, motel in the amount of \$2.5 million. Because the motel and its owner were in the midst of bankruptcy proceedings, traditional lending sources were not realistic options. From April, 1977, to July, 1977, Colletti received advance fees totaling \$67,500 on the pretense that financing could be secured through Home State and the pension fund of Teamsters Local 830 in Philadelphia. The primary source of funds (90%) was to be the union with the balance (10%) from Home State. Colletti advised the motel owner that the transaction was assured and that Home

State and the union required deposits of \$25,000 each to consummate the deal. The borrower's trust in Colletti was reinforced when Colletti testified before a federal bankruptcy court regarding the proposed loan.

Under oath in open court, Colletti testified that the motel owner had given him a \$25,000 one point fee to be transferred to Home State. Colletti testified that he duly transferred the funds to Home State. However, the Crime Commission has learned that no funds were transferred by Colletti to either Home State or the Teamsters. Both Tiernan and Gordon Grubb, Secretary/Treasurer of Local 830, stated that although they had expressed an interest in reviewing the loan proposal, no fees were paid to them or their agencies.⁸⁴

In addition, Grubb contended that a letter the motel owner had received bearing Grubb's signature was a forgery.

As previously mentioned, Colletti had also purported to have a close relationship with labor union sources of funding. As part of his dealings with the owner of the Reading motel, Colletti had informed that individual that a \$7,500 fee was necessary to secure funding. When the borrower paid this fee he was informed by Colletti that this \$7,500 would be

84. In addition to possible perjury before the federal court, Colletti submitted a letter to the court indicating the elements of his background and citing two successful transactions. A follow-up by the Crime Commission revealed that the two successful transactions were, in fact, two more Colletti victims.

used to "pay off" the union officials on the lending committee in order to secure the loan. Colletti used a similar tactic with respect to two other loans. In one of these situations, he secured another \$7,500 for allegedly the same purpose; the "pay off" of a union official to secure the loan. It was only in the case of the Reading motel owner, however, that the actual union lender was identified.

While Colletti generally stressed his affiliation with the businesses described above, he also advised several borrowers that he could obtain loan funds from the Schmidts Brewery of Philadelphia. In support of this, he made numerous references to his position as financial advisor to William Pflaumer, the principal of Schmidts. Pflaumer advised the Crime Commission, however, that although he knew Colletti, Colletti had never been associated with Schmidts and Schmidts was not a source of funding for Colletti.⁸⁵

85. Although Colletti does not appear to be associated with traditional organized crime, throughout the investigation it has become clear that he does have some tangential ties to more traditional organized crime figures.

In one situation, Colletti introduced a potential borrower from the Reading area to a figure identified as a New Jersey loanshark. In addition, Colletti has introduced three of his victims to Philadelphia based organized crime figures Michael Grasso, the nephew of Angelo Bruno, and Ralph Puppo, Bruno's son-in-law.

3. The Advance Fees

Frank Colletti collected in excess of \$341,970, in various advance fees from the individuals who were attempting to secure financing through his efforts. Rather than placing the borrowers funds in a business or escrow account, Colletti deposited a substantial amount of these funds in his personal bank accounts.⁸⁶ The Commission's investigation revealed that approximately \$124,875 in advance fees were deposited into Colletti's personal savings account. An additional \$6,500 advance fee was deposited into a trust account for one of his children. These funds were usually withdrawn at a later date and deposited into one of Colletti's several checking accounts. The money was then used for the personal living expenses of Colletti and his family or was transmitted to one of his associates.

While some of the advance fee money was deposited into a Colletti business account, a review of that account reveals that most of this money was spent on the salaries and business expenses of Colletti, his employees and associates.

Additional advance fee checks which Colletti received from the borrowers were cashed by Colletti through one of his accounts or the account of Theresa Bendel.

86. The Crime Commission has identified at least five bank accounts that were utilized by Colletti in handling the borrowers' fees.

In no event was any of the advance fee money forwarded to a source of funding for the benefit of Colletti's clients.⁸⁷

V. CONCLUSION AND RECOMMENDATIONS

The Pennsylvania Crime Commission's investigation has shown that organized advance fee schemes are creating a substantial danger to the economic and general welfare of the Commonwealth. Apart from the schemes described in this report, the Crime Commission has received evidence which indicates that at least three additional advance fee schemes are presently being conducted in the Philadelphia area. While the exact magnitude of this type of activity may never be known, it is probable that advance fee schemes will become even more prevalent in light of recent economic developments which have resulted in a tightening of credit throughout the nation.

The results of the Crime Commission's investigation are a matter of serious concern for the business community, law enforcement authorities and the Legislature of Pennsylvania. The Commission has further formulated the following recommendations which are proposed as both preventive and remedial measures.

87. During the Crime Commission's investigation of Colletti's advance fee scheme operation, it was learned that Colletti may also have been involved in stock and investment fraud schemes. At least one individual lost \$25,000 to Colletti through the purchase of worthless stock, while four additional individuals lost \$50,000 to Colletti in a land development deal.

A. Recommendations to Potential Borrowers

As a result of this investigation, the Pennsylvania Crime Commission has determined that certain precautions should be taken by businesspersons who are attempting to secure a loan from or through a source with which they are not familiar. Various common indicators often will be present when the individuals and entities involved in the loan activity are perpetrating a scam. Certain precautions and guidelines are set forth below to offer better protection to the borrower who is deciding whether to consummate a particular transaction.

1. Beware of a broker or lending institution which advertises the availability of millions of dollars for loan purposes at reasonable rates, even though the economy is in a period of tight money.

2. Attempt to secure the loan from a major, well established lending institution, such as a bank or insurance company first. If such an institution declines the requested financing, determine the reason and re-evaluate the need to secure funding.

3. Beware of a broker or lending institution which states that the requested funds can be secured easily, particularly if major lending institutions have already declined financing.

4. Beware of a lending institution which is located offshore or in a foreign country. Many small islands and

countries have lax banking regulations, leaving the borrower with little or no protection against fraud.

5. Employ the services of a financial expert, an accountant, an attorney or other professional who is thoroughly familiar with the financial field. The cost incurred in employing such an expert may in the long run save the potential borrower much anguish and much money.

6. Submit any proposals or contracts which are received from a broker or lending institution to a bank with which the borrower is acquainted in order to obtain an impartial opinion and evaluation.

7. Beware of a lending institution or broker which is not known to local bankers and which is comprised of officers and agents who are not known to local established lending institutions.

8. Contact consumer protection agencies and law enforcement agencies in the location of the broker or lending institution in order to verify the reputation and credibility of the company and its officers.

9. Obtain from the broker or lending institution, a list of individuals and corporations for whom funds have been successfully procured and verify the fact that such funds have been procured.

10. Do not place reliance on financial statements of the broker or lending institution that are unaudited. Reports such as Dun and Bradstreet statements, although

issued in good faith, often contain information that is supplied by the broker or lending institution and thus unverified by any outside source.

11. Carefully read all correspondence and documents that are received. Letters of commitment to produce loans often contain many conditions that realistically cannot be met.

12. Beware of high pressure sales tactics that stress the need to act swiftly and the urgent need to tender an advance fee.

13. Do not pay any fees in cash. Use a personal or company check. If the broker or lender refuses to accept such a check, advise him or her that you will be happy to have the bank certify your check.

14. Demand that all fees that are refundable in the event the loan is not secured, be placed in an escrow account which is held by an independent escrow agent or trustee. Many local banks will provide this service. Obtain a stipulation that any disbursements from such escrow account must first be approved by all parties.

15. If the fees that are paid are refundable, obtain a written statement to that effect.

16. If out-of-pocket expenses are requested by a broker, obtain an itemized accounting of the expenditures prior to payment. If your payment is to cover expenses that will be incurred in the future, place the funds in an escrow

account and receive a stipulation that the expenses will be paid only pursuant to a documented accounting.

17. Be honest with yourself. Evaluate the project and the feasibility of its success. Obtain several opinions as to the possibility of securing funding prior to applying for loans. Determine the exact amount of funds necessary and do not deter from that amount.

18. If it appears as though fraudulent activities have occurred, immediately contact local, State and federal law enforcement authorities within the area and report such activity.

B. Recommendations for Legislation

The fraudulent activities which have been described in this report can be effectively curtailed through the enactment of regulatory legislation. At the present time, there is no specific law in Pennsylvania governing persons whose business is to locate sources of financing for commercial ventures. Accordingly, the Pennsylvania Crime Commission recommends that the General Assembly of Pennsylvania review the findings presented in this report and consider the enactment of such legislation.

Based upon the patterns of fraudulent activities uncovered during the course of this investigation, the following provisions are suggested as a foundation for such legislation:

1. The extension of an existing State agency's jurisdiction to oversee the activities of loan brokers in Pennsylvania.

The commission should be invested with the powers necessary to enforce the substantive provisions of the law.

2. Such regulatory legislation should require the licensing of all individuals and entities who, in the regular course of business, attempt to locate, secure or obtain financing for commercial ventures.

3. The legislation should provide for the establishment of minimum educational standards and should also require the successful completion of a written examination as a prerequisite for licensing.

4. It should be required that all individuals who are licensed pursuant to the legislation be bonded.

5. The legislation should require the filing of an annual report by the licensed individual or entity detailing the financial condition of such individual or entity's business. This report should be available to the general public upon request.

6. Such legislation should also provide for the filing of an annual report by the licensed individual or entity, disclosing successfully consummated lending transactions. Such report should be made available to the client of a licensed broker or firm upon request, but only regarding the particular broker or firm employed by the client.

7. The legislation should require the registration of non-resident brokers who transact business in the Commonwealth of Pennsylvania.

8. Inclusion of the word "broker" as part of the business title of the licensed individual or entity should be mandatory.

9. The commission designated by the legislation should be given the power to draft rules and regulations governing the fees that may be charged by licensed individuals and entities for their services.

10. The rules and regulations should further detail under what circumstances fees may be charged for the referral of a client to another broker and the amount of such fees.

11. Mandatory utilization of an interest bearing escrow account for all fees paid by a client and provisions regulating the use and handling of such funds and account should be provided within the legislation.

12. A licensed individual or entity should also be required to furnish to each client a detailed accounting of all fees paid or payable by that client.

13. Every licensed individual and entity must be required to maintain a complete set of books and records including separate files for each client.

14. All licensed individuals and entities should be required to reveal the proposed source of funding to a client prior to the payment of any fees which are to be held in escrow.

15. The legislation should provide for the suspension or revocation of a license for violating the provisions of

the law or the rules and regulations of the commission or for the conviction of any criminal offense relating to fraudulent activity, misrepresentations or other deceptive practices.

16. There should be established a right of acknowledgment of action by the victim against any person violating the provisions of the law or the rules and regulations of the commission, including a provision for the recovery of treble damages.

C. Recommendations to Law Enforcement Authorities

1. The Pennsylvania Crime Commission recommends that State and local authorities empowered to enforce the laws of the Commonwealth more actively pursue the investigation and prosecution of the type of activities reported herein. The Commission has discovered that although many of the individuals who were defrauded reported their experiences to local authorities, no further action was taken.

2. It is recommended that federal, State and local prosecuting authorities review this report to determine whether the institution of criminal actions is warranted within their respective jurisdictions.

3. In 1973, the Pennsylvania General Assembly enacted the Corrupt Organizations Act.⁸⁸ The need for this statute

88. 18 C.P.S.A. §911 et. seq.

was based upon the determination that organized crime exists on a large scale in Pennsylvania and that organized crime is corrupting legitimate businesses, injuring innocent investors, entrepreneurs, merchants and consumers. It was found that organized crime has created a substantial danger to the economic and general welfare of the State. The Act, however, has never been utilized successfully by any prosecutor. It is therefore recommended that State and local law enforcement authorities review the facts contained in this report to determine if the reported activities fall within the purview of that statute.

CITATION Mortgage Corporation, N. A.

413 COOPER STREET
CAMDEN, N. J. 08102
PHONE: 983-5510
(Area Code 609)

September 17, 1977

Mr. Henry R. Worthington
The Mill House
Shawnee-on-the-Delaware, Pa. 18356

Re: Holiday Lake
Montague, N.J.

Dear Mr. Worthington:

We have a serious investor willing to commit \$15,000,000. for the above named project as follows:

- 1. Term: 15/25;
- 2. Rate: 11.34 constant.

The above commitment is subject to the verification of all documentation and facts.

Sincerely yours,

CITATION MORTGAGE CORPORATION

Sidney E. Litt
Sidney E. Litt
Executive Vice President

SE1/jam
cc. John DePirro, Esq.
Edward Stover, Esq.

Exhibit A

LAW OFFICES
LABRON K. SHUMAN

602-604 LAND TITLE BUILDING
BROAD and CHESTNUT STREETS
PHILADELPHIA, PENNA. 19110

(215) 533-4171

BARBARA L. CHARLES

March 29, 1977

Dr. Grant Yost
P.O. Box 226
Patterson, Washington 99345

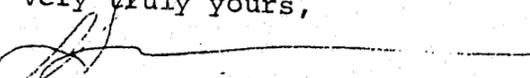
Dear Dr. Yost:

I am the trust escrow attorney for Citation Mortgage Corporation. Citation has informed us a serious and viable lender is interested in financing your loan. We are satisfied that it is genuine. The lender indicates a desire to receive all papers necessary for the processing of your application.

Should you wish to continue, kindly contact this office directly or through your counsel so I may advise Citation as to your intentions.

If we do not hear from you within ten working days, we shall advise Citation you are not proceeding.

Very truly yours,


LABRON K. SHUMAN
LKS:k

cc: Citation Mortgage Corporation

Exhibit B

CITATION Mortgage Corporation, N. A.

413 COOPER STREET
CAMDEN, N. J. 08102
PHONE: 963-5510
(Area Code 609)

August 12, 1977

Mr. Mitchell Hammer, President
FILTECH Corp.
Delran, N.J. 08075

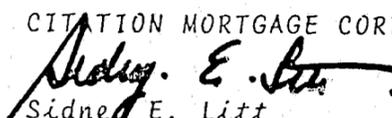
Dear Mr. Hammer:

This is to confirm that we have a serious lender ready to commit open-end purchase order financing subject to the verification of all documentation and facts.

Since time is of the essence, we are awaiting your input.

Sincerely yours,

CITATION MORTGAGE CORPORATION


Sidney E. Litt
Executive Vice President

SEL/jam

Exhibit C

1-019572A216 08/04/77 TLX CITATION CMDN HOVA
CAMDEN NJ 8/4/77

A L SIMMONS
606 ORANGEWOOD COURT
CONROE TEXAS 77301

HAVE INVESTOR WILLING TO LOAN 1.5 MILLION FOR ACQUISITION OF
384 ACRE TRACT. ADDITIONAL FUNDS AVAILABLE FOR LAND IMPROVEMENTS
AND CONSTRUCTION UPON SUBMISSION OF PROPER UNDERWRITING. IF YOU
WISH TO CONTINUE, PLEASE CONTACT OUR CORRESPONDENT IN SALT LAKE
CITY, MARK EQUITIES.

SIDNEY LITT
CITATION MORTGAGE CORPORATION TELEX 831865

16119 EST

MGMCOMP MGM

Exhibit D

10-
SHUMAN AND CHARLES
ATTORNEYS AT LAW

LARRON K. SHUMAN
BARBARA L. CHARLES

500 FIFTH FLOOR BUILDING
BROAD AND CHESTNUT STREETS
PHILADELPHIA, PENNSYLVANIA 19106
(215) 596-1000

December 7, 1977

Mr. Ross Worthington
Holiday Lake, Inc.
R.D. #1
Port Jervis, New York 12771

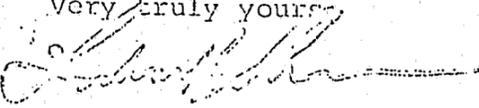
Re: Holiday Lake, Montague, New Jersey

Dear Mr. Worthington:

I am informed that Citation Mortgage Corporation is
prepared to issue a stand-by commitment for the above-
captioned project in the amount of \$5,000,000.00.

This office will process the papers involved. Unfortunately,
we are overloaded at present and it will be at least one
week before we can complete the file.

Very truly yours,


LARRON K. SHUMAN
LKS:k

cc: James R. Steadman

Exhibit E

MIDDLETOWN, VA. 22645



1-019623 C273 09/30/77 TLX CITATION CMDN PSWB
CAMDEN NJ 9/30/77

DR GRANT YOST
P O BOX 26
PATERSON WA 99345

WE HAVE MADE FORMAL APPLICATION FOR ISSUANCE OF A SECOND TRUST
DEED COMMITMENT ON YOUR BEHALF WITH TERMS AND CONDITIONS AS
FOLLOWS:

AMOUNT: \$3,000,000;
TERM: 5 YEARS;
RATE: 10 0/0 ADD-ON.

A FORMAL COMMITMENT WITH LIST OF CLOSING DOCUMENTS WILL BE
FORTHCOMING IN THE NEXT FEW DAYS.

A REFUNDABLE APPLICATION FEE OF \$30,000 MUST BE WIRED TO
CITATION MORTGAGE CORP ACT#2-01671-5 IMMEDIATELY.

SIDNEY LITT, EXEC VP
CITATION MORTGAGE CORP TELEX 831865

1452 EST

MGMCOMP MGM

Exhibit F

Telegram

DWB055(1211)(1-0145780273)PD 19/05/77 1210

TLX CITATION CMDN
ZCZC CAMDEN NJ 10/5/77

PMS
D M ANDREOLA

LAMAND MORTGAGE CO
208 UNION ARCADE BLDG
DAVENPORT IA 52801

HAVE SECURED LOAN GUARANTEES FOR R J SPEDALE HOSPITAL AND
BLACKHAWK HOTEL. DETAILS TO FOLLOW.

SIDNEY LITT, EXEC VP
CITATION MORTGAGE CORP TELEX 831865
NNNN

Exhibit G

SHUMAN AND CHARLES

ATTORNEYS AT LAW

LABRON K. SHUMAN
BARBARA L. CHARLES

500 LAND TITLE BUILDING
BROAD AND CHESTNUT STREETS
PHILADELPHIA, PENNSYLVANIA 19110
(215) LOCUST 8-4171

October 25, 1977

Mr. Vern Stacey
Vern Stacey Construction Co.
2602 North 400 East
Ogden, Ut. 84404

Re: Project: Stacey Square and Warehouse #89
Borrower: Vern Stacey

Dear Mr. Stacey:

This is to advise you that your loan for the above property has been approved as follows:

Amount: \$500,000.
Rate: 15 constant
Term: 10 years
Commitment Fee: (1%) \$5000
Processing Fee: \$2500 of the commitment fee
(non-refundable)

Your commitment fee is payable to the Escrow Account of Labron K. Shuman, Esquire, Escrow Counsel for Citation Mortgage Corporation. If wiring, funds are to be wired as follows:

Labron K. Shuman, Esquire
Escrow Account No. 435-707-8
Provident National Bank
Broad and Chestnut Streets
Philadelphia, Pennsylvania
Attn: Robert Rowe

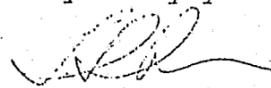
Upon receipt of funds in the form of bank wire, certified check, cashier check or bank check and subject to the clearance of these funds, your commitment will be issued stating fully all the terms and closing requirements. Ten banking days after receipt of your check must be allowed for clearance.

Exhibit H

A charge of one-quarter of 1% of the loan amount will be made against the commitment fee upon issuance of the commitment. This charge shall be deemed earned by the lender at the time of issuance. The balance of the commitment fee shall be earned by acceptance of the commitment.

If your commitment fee is not received by the closing of the banking day, Friday, October 29, 1977, at 3:00 o'clock p.m., EST, this notice of commitment shall be void.

Very truly yours,


LABRON K. SHUMAN
LKS:k

cc: Citation Mortgage Corporation

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

APPENDIX II

THE
FACTS
&
REFERENCES

CITATION Mortgage Corporation

515 COOPER STREET
CAMDEN, N. J. 08102
PHONE 963-5510

CITATION MORTGAGE CORPORATION & CITATION EQUITIES CORPORATION

THIRTY YEARS OF FINANCIAL SERVICE AS
LENDERS, BROKERS, PARTICIPANTS & CONSULTANTS

President.....N. TYLER McHUTT
Vice-President.....SIDNEY E. LITT
Secretary.....DORIS S. McHUTT
Treasurer.....JANE A. MARTIN

REFERENCES

Accountant.....BERNARD J. EGAN, CPA
Bernard J. Egan Associates
721 Cooper Ave.
Cooper Street, Camden, New Jersey 08102
609 - 964 - 7500

Banks.....WILLIAM ROHRER, PRESIDENT
First Peoples National Bank of New Jersey
Cuthbert Road & MacArthur Blvd.
Haddon Township, New Jersey
609 - 858 - 4300

BARNEY BROWN, PRESIDENT
Citizens United Bank
Vineland, New Jersey 08360
609 - 692 - 1500

Legal Counsel.....ROBERT E. GLADDEN, ESQ.
Gladden, Batenly & Paglione
501 Cooper St.
Camden, New Jersey
609 - 964 - 0160

REFERENCES

West Coast Counsel.....WALTER F. PETTIT, ESQ.
Pettil, Evers & Muzen
600 Montgomery St.
San Francisco, California 94111
415 - 434 - 4000

International Counsel.....JACK ARNOLD, ESQ.
120 E. 56th St.
New York, New York
212 - 755 - 3162

GEORGE BECKER, ESQ.
Becker & London
Gate 3 Western Building
15 Columbus Circle
New York, New York 10023
212 - 541 - 7070

Management Counsel.....SIDNEY E. LITT
Sidney E. Litt Associates
Huntingdon Valley, Pa. 19005
215 - 947 - 2700

Financial Consultant.....KARL D. PETTIT, JR.
104 Bayard Lane
Princeton, New Jersey 08540
609 - 924 - 3414

Bond Consultant.....WALTER G. KOHOPS, JR.
7-3 Tollgate
Florence, New Jersey 08518
609 - 499 - 3649

European Consultant.....GUTTFRIED FUGGER
11 Ritter Gasse
Basel, Switzerland

CONTINUED

1 OF 2

PARTIAL LIST OF COMPLETED PROJECTS

Office Building Financing.....SPERRY - RAND CORPORATION
Construction Financing.....Univac Division
Blue Bell, Pa.

Condominium Financing.....MAN, INC.
T/A California Villas
Atlantic City, New Jersey

Accounts Rec. Financing.....AEC CREDIT & ACCEPTANCE CORP.
Huntingdon Valley, Pa.

Wrap - Around Financing.....PAUL'S SUPER MARKETS, INC.
Surf City, New Jersey

Restaurant Financing.....SURF CITY HOTEL & RESTAURANT
Surf City, New Jersey

Mortgage Financing.....EASTERN ELECTRIC SUPPLY CORP.
Bellevue, New Jersey

Land Development Financing.....DATCO ENTERPRISES
Quakertown, Pa.

Link Financing.....FOX CHASE FEDERAL SAVINGS & LOAN ASSN.
Fox Chase, Pa.

Acquisition Financing.....WILKES - GARRE STEAM HEAT CO.
Wilkes Barre, Pa.

Mortgage Financing.....TEXACO BUILDING
Construction Financing.....New York, New York

Hotel Financing.....DIPLOMAT HOTEL
Construction Financing.....Atlantic City, New Jersey

Lease - Buy Back Financing.....AMERICAN EDUCATIONAL COUNCIL
Phila., Pa.

The above situations are a sample of the various types of financing that the Citation Companies have to offer. Our ability to analyze and package any project is the key to our three decades of success.

APPENDIX III

A SCHEMATIC BIOGRAPHICAL & EVALUATION OF "OFF-SHORE" OPS.

OF/BY

EVYAN JACOB LOUERSE-WALTON
CHAIRMAN, THE WALTON GROUP

The above-named is a British subject, married with two daughters. He has travelled to 87 countries, with recognised ability in the majority of these countries; the major ones being: GENEVA-ZURICH, (Switzerland), LONDON, (United Kingdom), NEW YORK (U.S.A.), MUNICH-BERLIN-BONN-FRANKFURT-COLOGNE (W.Germany), PARIS-LYON-JAN LE PAIN (France), ROME-NAPLES-FLORENCE-VENICE-MILAN (Italy), LUXEMBOURG, AMSTERDAM-ROTTERDAM-MASSTRICH (Holland), TORONTO-CALAGRY-VANCOUVER, B.C., MONTREAL (CANADA), BAHAMAS, GRAND CAYMAN ISLANDS, (B.W.I.) DUTCH ANTILLES, BARBADOS, SEOL (Korea), TOKYO-KOBE-KYOTO (Japan), BANGKOK (Thailand), LA PAZ (Bolivia), PANAMA (Republic de Panama), BRAZILIA-SAN PAOLO- RIO DE JANEIRO-BELEM (Brazil), BUENOS AIRES-MENDOZA (Argentina), LIMA (Peru), ATHENS (Greece), MALAYSIA, MANILA (Phillapines), TAIWAN, TEL AVIV, JERUSALEM (Israel), TEHRAN (Iran), HONG KONG, MADRID (Spain), SYDNEY-MELBOURNE-CANBERRA-BRISBANE-ADELAIDE-PERTH (Australia), STOCKHOLM (Sweden), COPENHAGEN (Denmark), COLUMBO (Ceylon), NEW DELHI (India), MEXICO, ANDORRA, LIBERIA, LIECHTENSTEIN, CENTRAL & SOUTH AMERICA as well as countries in North Africa.

Banks and certain affluent contacts that have been established over the years:-

C. Henry BUHL - James ROOSEVELT - Pasquale CHIOMENTI - Dr. Erich MENDE - Eli WALLITT - Sir Eric Wynham WHITE - Bruno A. HUGI - Jack DREYFUS - w.w.WYATT - Baron E. CLIQUE - Baron von BUCHEARODE - J. HUNTER - Erik SIGRIST - Jacob TZUR - Harold KAPLAN - Baron Edmond de ROTHSCHILD - Dr. Reinhold POHL - Presidente Jose REMON - Presidente Jose FIGUERES - BANQUE INTERNATIONALE à LUXEMBOURG - Bank H. ALBERT de BARY, Amsterdam - BANQUE PRIVEE, Zurich - CREDIT SUISSE, Switzerland - MONTREAL TRUST (a subsidiary of Royal Bank of Canada), ODB (Overseas Development Bank, Switzerland - International Credit Bank de Geneva, Switzerland - FIDUCIARY TRUST, Bahamas - INVESTORS BANK, Luxembourg - BANQUE ROTHSCHILD de PARIS, France - SOCIÉTÉ de BANCA ANDORRANA, Andorra - ORBIS BANK, Munich, W. Germany - FINTEK BANK DE Zurich (Switzerland) and Lake Como (Italy) - IVM Invest Management, Curacao (Dutch Antilles) - ENSKILDA BANK, Sweden (a holding company of Interford) - Resots International, Bahamas - POSEIDON NICKEL MINES, Australia - Sassoon Bank, London (U.K.) - WESTMINSTER BANK, London (U.K.) - LOEB, RHOADES & BEAR, STEARNS CO. - BANQUE LAMBERT, BELGIUM.

Have held Directorship in over 40 leading Banks and firms plus innumerable equity positions with government and private holdings.

SIDNEY E. LITT AND ASSOCIATES

Borrower	State	Fee Paid	Recipient of Fee	Amount Returned	Loss to Borrower
H.R. Worthington	PA	\$ 77,895	Sidney Litt	-	
		\$ 3,500	Financial Energy Corp. (FEC)	-	
		\$ 5,000	Anderson-Prichard	-	
		\$ 600	Nancy Brundle	-	\$ 86,995
Mitchell Hammer	PA	\$ 2,500	Sidney Litt	-	
		\$ 3,500	FEC	-	\$ 6,000
James Steadman	PA	\$ 3,400	Sidney Litt	-	
		\$ 6,000	Anderson-Prichard	-	\$ 9,400
Sam Lebidine	PA	\$ 2,500	Sidney Litt	-	\$ 2,500
Paul Stephano	PA	\$ 9,000	Anderson-Prichard	-	
		\$ 1,400	Sidney Litt	-	\$ 10,400
William S. Ayre	PA	\$ 1,500	Sidney Litt	-	\$ 1,500
Herbert Lazar	PA	\$ 3,000	Sidney Litt Alpha Mortgage Corp.	-	\$ 3,000
Eugene Sall	PA	\$ 4,375	Sidney Litt	-	\$ 4,375

SIDNEY E. LITT AND ASSOCIATES

Borrower	State	Fee Paid	Recipient of Fee	Amount Returned	Loss to Borrower
Gordon Reid	TX	\$200,000	Sidney Litt	-	\$200,000
Melvin Williams	TX	\$ 2,750	Nation-wide Funding Inc.	-	
		\$ 2,500	L. Brian Trachman	-	
		\$ 5,800	Sidney Litt	-	\$ 11,050
A.L. Simmons	TX	\$ 18,000	Sidney Litt Labron K. Shuman	\$ 18,000	
		\$ 1,900	Sidney Litt Nancy Brundle	-	
		\$ 3,500	FEC	-	\$ 5,400
Joseph Rechenchide	Minn	\$ 3,500	Citation Mortgage Corp. Sidney Litt	-	\$ 3,500
Echstein Department Store	Minn	\$ 1,152	Mark Equities Ltd. Inc.	-	\$ 1,152
Pleasant Hills Nursing Home	Minn	\$ 1,500	Mark Equities Ltd. Inc.	-	\$ 1,500
St. Croix Mall	Minn	\$ 1,000	Mark Equities Ltd. Inc.	-	\$ 1,000
Hanson House Restaurant	Minn	\$ 1,585	Mark Equities Ltd. Inc.	-	\$ 1,585
Prospect Park Nursing Home	Minn	\$ 500	Mark Equities Ltd. Inc.	-	\$ 500
Peppermint Square Shopping Center	Minn	\$ 1,152	Mark Equities Ltd. Inc.	-	\$ 1,152

SIDNEY E. LITT AND ASSOCIATES

Borrower	State	Fee Paid	Recipient of Fee	Amount Returned	Loss to Borrower
Ralph Akin	NV	\$ 3,000	FEC	-	
		\$ 4,500	Mark Equities, Ltd. Inc.	-	\$ 7,500
Paul Unruh	NV	\$ 10,598	Citation Mortgage Corp. Gottfried Fugger	-	\$ 10,598
Herb Toms	NJ	\$ 12,850	Sidney Litt	\$ 7,750	
		\$ 500	L. Brian Trachman	-	\$ 5,600
Laurel Pacers & Trotters Inc. Ann Maurene Burke	NJ	\$ 80,000	Sidney Litt	-	\$ 80,000
Southern AGRI Ltd.	Ark	\$220,000	Sidney Litt	-	\$220,000
Grant Yost	Wash	\$ 30,9000	Sidney Litt Labron Shuman	-	
		\$ 20,000	Sidney Litt Nancy Brundle Jeff Holland	-	
		\$ 3,500	FEC	-	\$ 54,400
Vern Stacey	UT	\$ 4,000	Sidney Litt	-	
		\$ 4,000	Mark Equities, Ltd. Inc.	-	\$ 8,000
Paul Shambo	NY	\$ 4,300	Sidney Litt	-	\$ 4,300
Pack & Company	Mont	\$ 16,593	Sidney Litt Nancy Brundle	-	\$ 16,593

SIDNEY E. LITT AND ASSOCIATES

Borrower	State	Fee Paid	Recipient of Fee	Amount Returned	Loss to Borrower
Jack Sharpe	Ontario Canada	\$ 25,750	Sidney Litt Labron Shuman	-	
		\$ 2,183	Mark Equities, Ltd. Inc.	-	
		\$ 1,500	FEC	-	\$ 29,433
Carl Richardson	ID	\$ 7,500	Labrun K. Shuman Sidney Litt	-	\$ 7,500
June S. Bourget	ID	\$ 3,500	Sidney Litt	-	\$ 3,500
Lee Scott	ID	\$ 10,000	Sidney Litt	\$ 2,500	\$ 7,500
John Maxwell	ID	\$ 7,500	Sidney Litt	\$ 2,500	\$ 5,000
Jim Erwin	N.M.	\$ 10,100	Sidney Litt	\$ 2,500	\$ 7,600
R.J. Philips	IA	\$ 55,000	Sidney Litt	-	
		\$ 3,500	FEC	-	\$ 58,500

Borrower	State	Fee Paid	Recipient of Fee	Amount Returned	Loss to Borrower
Reading Motor Inn Fred Lippold	Pa.	\$67,500	Frank A. Colletti	-	\$67,500
IRA Swartz	Pa.	\$32,500	Frank A. Colletti	-	\$32,500
R.B.R. Corporation Edward Ressler	Pa.	\$33,500	Frank A. Colletti	-	\$33,500
Peter Wirs	Pa.	\$9,500	Frank A. Colletti	-	\$9,500
Terry Buckwalter	Pa.	\$4,250	Frank A. Colletti	-	\$4,250
Wilmer Hoffman	Pa.	\$11,500	Frank A. Colletti	-	\$11,500
3-D Corporation Ken Hoffman	Pa.	\$6,125	Frank A. Colletti	-	\$6,125
George Selb Robert Selb	Pa.	\$4,570	Frank A. Colletti	-	\$4,570
Eleanor Stoops Richard Bailey	Pa.	\$7,500	Frank A. Colletti	-	\$7,500
Wayne Pocius	Pa.	\$3,500	Frank A. Colletti	-	\$3,500
Richard Fretz	Pa.	\$3,000	Frank A. Colletti	-	\$3,000
Herriott Trucking Company Joseph G. McElroy	Pa.	\$5,250	Mario Cocci Frank A. Colletti	-	\$5,250
K-Metal Fabrication, Inc. Vincent J. Cerniglia	Pa.	\$5,000	Frank A. Colletti	-	\$5,000
R & R Datsun John Ricco	Pa.	\$9,000	Frank A. Colletti	-	\$9,000

FRANK A. COLLETTI

Borrower	State	Fee Paid	Recipient of Fee	Amount Returned	Loss to Borrower
Robert D'Agostino	Pa.	\$3,500	Frank A. Colletti	-	\$3,500
Dominic Foscone	Pa.	\$13,500	Frank A. Colletti	-	\$13,500
The Deli Store William Weigner	Pa.	\$7,500	Len Carlson Frank A. Colletti	-	\$7,500
Tony Schera	Pa.	\$6,500	Frank A. Colletti	-	\$6,500
Alfalfa's Restaurant Donald Rossiter	Pa.	\$7,500	Frank A. Colletti	-	\$7,500
Golden Eagle Inn Kenneth Rhinesmith	NJ	\$22,000	Frank A. Colletti	-	\$22,000
S & S Racket Club Gene Schaeffer Morris Smith	Pa.	\$24,500	Mario Cocci Frank A. Colletti	-	\$24,500
Park Associates Incorporated John B. O'Connell	DE	\$12,000	Frank A. Colletti	-	\$12,000
Tom Hollenbach	Pa.	\$16,000	Len Carlson Frank A. Colletti	-	\$16,000
Paul D'Sabatino	DE	\$3,000	Frank A. Colletti	-	\$3,000
John Vallese	NJ	\$3,550	Frank A. Colletti	-	\$3,550
Harry Forrest	Pa.	\$3,500	Frank A. Colletti	\$2,250	\$1,450
Louis Bodo Brooke Cottman	Pa.	\$3,500	Frank A. Colletti	-	\$3,500
Brian Stuhlmuller	Pa.	\$3,500	Frank A. Colletti	-	\$3,500

APPENDIX VI

ANALYSIS

Scheme	Pennsylvania Victims Interviewed	Amount Lost	Out-of-State Victims Interviewed	Amount Lost	Individual Totals	
					Victims	Amount Lost
Sidney E. Litt	8	\$124,170	26	\$752,863	34	\$ 877,033
Frank A. Colletti	25	\$296,645	5	\$ 45,325	30	\$ 341,970
Combined Totals	33	\$420,815	31	\$800,188	64	\$1,219,003

END