

MEMORANDUM

Mr Flanigan and the Postal Service Bond Sale

I. Treasury and Postal Service Disagreement

There were two issues brought to Mr. Flanigan's attention during the early planning stages of the Postal Service's bond sale. The first issue concerned a disagreement between the Postal Service and Treasury during the latter part of 1970. The Postal Service desired to sell its proposed first bond issue to the public while the Treasury wished to exercise its option and purchase the debt. Since the conflict involved a department of the Executive Branch and could have required Presidential resolution, Mr. Hargrove brought the disagreement to Mr. Flanigan's attention. Mr Flanigan responded by asking the Treasury Department and the Postal Service to each prepare a memorandum outlining their respective positions. Mr Flanigan then forwarded their respective reports to each other. Finally, in March of 1971, shortly after Secretary Connally was appointed to office, the conflict was settled. Agreement was reached after discussions between the Treasury and Postal Service staffs and discussions between Postmaster General Blount and Secretary Connally. Mr. Flanigan was not involved in this ultimate solution of the problem.

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II. Specific Inquiries from Mr. Hargrove

The second issue brought to Mr. Flanigan's attention during the Postal Service's debt planning involved two questions from Mr. Hargrove (1) Would it be advisable to include a commercial bank in the underwriting syndicate? (2) Would Morgan Guaranty Trust Company be a good bank for that purpose? Mr. Flanigan responded in the affirmative to both questions. Indeed, the Committee Report of the Postal Service Subcommittee of September 21, 1971 states that Morgan Guaranty was clearly qualified.

III. Charges About Mr. Flanigan

Charges have been made that Mr. Flanigan continued to have an interest in his prior firm of Dillon, Read and Co., and that he influenced the decision of the Postal Service to select Dillon, Read as one of the underwriters for the postal bond issue. Mr. Flanigan had no interest whatever in Dillon, Read during this period having sold his interest upon entering government services in April, 1969. Furthermore in no way was he ever consulted nor did he advise on the investment banking members of the underwriting syndicate. Mr. Flanigan's role was limited to the two issues described above.

IV. Mr. Flanigan and the Federal Financing Bank

Mr. Flanigan has had principal White House responsibility for developing and proposing the Federal Financing Bank Legislation which was submitted to Congress in December, 1971. This legislation would

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subject agency borrowing to Treasury debt coordination and, in addition, would establish a Federal Financing Bank which would be authorized to acquire agency debt issues. Mr. Flanigan has been a strong advocate for including all agencies including the Postal Service, under this legislation and has made several attempts to persuade the Postal Service that it would be desirable for it to be included. Thus, Mr. Flanigan is an advocate for legislation which includes concepts of agency financing which were endorsed in the September 27, 1971, report of the Postal Service Subcommittee.

V. Mudge, Rose, Guthrie & Alexander and the Postal Service Underwriting

Charges have been leveled that Mr. Hargrove should have insisted that the managing underwriters, Solomon Brothers, fire Mudge, Rose because of the prior connection of President Nixon and former Attorney General Mitchell with that firm. Mr. Hargrove has responded that he was unwilling to fire a respected firm in this field, Solomon's regular counsel for this type of work, merely because of the prior association of Messrs. Nixon and Mitchell. Mr. Flanigan was in no way involved in this matter.

VI. General Allegation of Impropriety of White House Involvement

This kind of charge is purely political and appears not worthy of comment. In the two cases in which Mr. Flanigan was involved, Mr. Hargrove came to him as a responsible member of the federal

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establishment with the relevant expertise necessary either to give advice or to perform a normal White House coordinating function. The allegation that this implied political influence on the Postal Service is baseless and without foundation in fact. In considering the validity of charges of improper White House involvement in Postal Service matters leveled in the September, 1971 Committee print, the following comments of Chairman Udall in a December 8, 1971 letter to Mr. Hargrove appear relevant.

".... You (Hargrove) have always impressed me as an especially talented, knowledgeable and conscientious member of the Postal team. You have performed well in a task of immense complication and difficulty during a particularly crucial period of postal history. Because I always did, and still do, consider you an honorable man, I deeply regretted the differences we had relating to the bonding matter. While I remain deeply and sincerely convinced of the validity of the main thrust of my criticisms relating to it, I have never believed or intended to imply that you acted illegally or in any way for personal gain. If any language in the special report can be read to the contrary then I regret it and hope this letter will clear the air...."

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How Did Nixon's Old Law Firm Get Postal Service Plum?

BY WILLIAM VANCE
Free Press Washington Staff

WASHINGTON — President Nixon's former law firm has been named counsel for a U.S. Postal Service bond issue even though most underwriters handling the issue preferred other attorneys.

The preferences are revealed in documents the Postal Service itself used in choosing five underwriting firms for the first \$250 million under its \$10 billion bond program.

Their disclosure comes amid allegations on Capitol Hill that political considerations may have influenced selection of the underwriters and legal counsel.

Only one of the five underwriters rated the former Nixon firm — Mudge, Rose, Guthrie & Alexander — as its top choice for legal advice, postal records show.

That broker, Solomon Bros. & Hutzler of New York, subsequently was appointed "managing underwriter" among the five firms selected.



Udall

Presumably Solomon Bros. had the deciding voice because its preference for Mudge-Rose prevailed over

the others. However, repeated attempts to question Solomon Bros. officials on the selection process brought no response.

President Nixon and Attorney General John Mitchell were senior partners in Mudge-Rose prior to the 1968 election.

One other underwriter — Dillon, Read & Co. — listed Mudge-Rose among four possible choices for counsel. A former vice-president of the Dillon firm, Peter Flanigan, is a special assistant to President Nixon.

THE REMAINING three underwriters selected by the Postal Service did not include the former Nixon firm on their preference lists. Two of the

three agreed on different New York law firms as their first choice.

The question of political influence was raised by Rep. Morris Udall, D-Ariz., chairman of the House subcommittee on the Postal Service. Udall, a strong supporter of the Postal Service, was principal author of legislation that transformed the old Post Office Department into a quasi-

public corporation supposedly insulated from politics.

White House and Postal Service spokesmen flatly denied that political pressure was applied.

They point out that the underwriters, not the Postal Service or the administration, were responsible for hiring bond counsel. Postal officials said they told the underwriters that any of the seven law

firms the companies suggested would be acceptable.

Udall said he was informed by a responsible Postal Service official that the underwriters had told postal authorities that the former Nixon firm "had to be hired." Udall has refused to name the official.

Mitchell and a Mudge-Rose representative declined to comment on the question of political considerations in se-

lection of the firm.

Arnold Tracy of Mudge-Rose said the firm does not represent the federal government on any matter and will not be doing so now. "We represent the underwriters," he said.

A Justice Department spokesman for Mitchell noted that the law firm "has represented these underwriters in bond matters for 25 years. It is not a new arrangement."

It is not new except that indirectly, and perhaps for the first time since Mr. Nixon and Mitchell left the firm, Mudge-Rose stands to profit from an arrangement involving Uncle Sam.

Udall said the "old Nixon-Mitchell firm" may collect "millions" in fees on the issue. But no one knows for sure. The commission probably won't be negotiated until

shortly before the scheduled bond sale in October.

The Postal Service points out that Mudge-Rose will be paid by the underwriters, not by the Postal Service. Udall dismisses that argument as a technicality, noting that the fee still represents a cost to the Postal Service because it will be paid from the bond sale proceeds.

Udall admits he does not

have clear evidence of political influence but believes the implication is too strong to ignore. He has ordered his subcommittee staff, with General Accounting Office help, to investigate the contract procedures.

By the end of August he expects to have enough information to determine whether to hold Congressional hearing on the issue.

THE WHITE HOUSE
WASHINGTON

January 28, 1972

MEMORANDUM FOR JOHN DEAN

FROM: PETER FLANIGAN



You will be interested in the attached letter to Hargrove from Udall. Based on the letter, it is hard to envisage Udall making a convincing case of impropriety. The genesis of the letter was a note from Hargrove to Udall saying that he was leaving the Postal Service.

Attachment

File
info & file
Postal Service

Congress of the United States
House of Representatives
Washington, D.C. 20515

December 8, 1971

Mr. J. W. Hargrove
Senior Assistant Postmaster
General
United States Postal Service
Washington, D. C. 20260

Dear Jim:

Thanks for your personal note of December 6th. You have always impressed me as an especially talented, knowledgeable and conscientious member of the Postal team. You have performed well in a task of immense complication and difficulty during a particularly crucial period of postal history.

Because I always did, and still do, consider you an honorable man, I deeply regretted the differences we had relating to the bonding matter. While I remain deeply and sincerely convinced of the validity of the main thrust of my criticisms relating to it, I have never believed or intended to imply that you acted illegally or in any way for personal gain. If any language in the special report can be read to the contrary then I regret it and hope this letter will clear the air.

At the time this matter first arose I was flattered that you had enough confidence in my fairness to come here face to face, give me the facts and answer my questions. You developed in that meeting in your typically clear and forceful manner the rationale behind the basic decisions which were made. My initial reaction that day was more favorable to that philosophy than the judgments I reached on further reflection and investigation. I conceded then and now that there was a strong, rational case to be made for negotiation over bid and non-guarantee over guarantee. As reasonable men we differed on this judgment question.

Mr. J. W. Hargrove

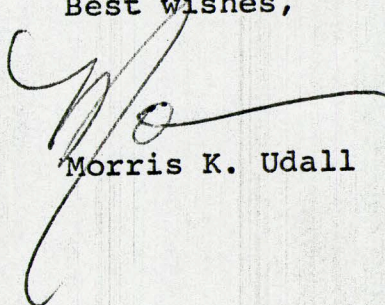
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December 8, 1971

My major misgivings which still persist were over the damage done to the image of the new enterprise by the unfortunate appearances which arose from selection of investment firms and their legal counsel. In the context of P.O.D. history, our fight for a new non-political system and the bruises I acquired during my role in it -- these disclosures were disappointing and troublesome.

In any event, this is water over the dam. Taken as a whole your performance in a difficult public job reflects credit on you, and I wish you well in whatever you undertake. I hope our paths cross again under more pleasant circumstances.

Best wishes,

A handwritten signature in dark ink, appearing to be 'M. Udall', with a long horizontal flourish extending to the right.

Morris K. Udall

mbk

PMF STATEMENT

The Staff Report to the Postal Service Subcommittee attempts to draw the inference that I had some part in the choice of Dillon Read & Co. Inc., as one of the managing underwriters of the Postal Service's bond issue. This inference is completely false. I was in no way involved with the choice of Dillon Read as one of the five bankers for the bond issue. I have no connection whatever with Dillon Read, as a result of entering government service I sold my interest in that firm and put my other investments in a blind trust. Nor is there any understanding, either explicit or implicit, of any future connection with Dillon Read.

FOR

CONGRESSMAN EDWARD J. DERWINSKI

Mr. Udall's partisan attack on the Postal Service for its choice of managing underwriters and their choice of counsel, has no basis in fact and is completely uncalled for. The inferences are wrong and improper.

I have reviewed with the Postal Service their procedures in making their selection and the reasons for their choices. I am completely convinced that that choice is justified on the basis of sound business judgment and was not influenced by political considerations. All five firms are leaders in their industry and the combination of their particular talents will afford the Postal Service as strong a sponsorship as could be achieved.

Mr. Udall has not alleged any misconduct (or impropriety) as indeed he could not in view of the record. The Postal Service has promptly and ~~completely~~ ^{completely} replied to all of Mr. Udall's requests for information. There is not a shred of evidence to support any claim of ~~patronage~~ ^{wrong doing}.

This partisan action has all the earmarks of a purely political attack as a prelude to next year's election.

Men of good will in both parties fought long and hard to take the Post Office out of politics. It is deplorable that Mr. Udall, who in the past supported this cause, has now seen fit to play politics with Postal affairs.

He ~~completely~~ raises the question of impropriety based on incorrect facts, apparently with little or no effort to verify the facts.

UPI-10

(RELEASE AT 10:30 A.M., EDT)

(POSTAL)

WASHINGTON--A SENIOR MEMBER OF THE HOUSE POST OFFICE COMMITTEE TODAY ACCUSED A WHITE HOUSE AIDE AND AN OFFICIAL OF THE U.S. POSTAL SERVICE OF "MISCONDUCT AND IMPROPRIETY" IN CONNECTION WITH A PLANNED \$250 MILLION POSTAL BOND ISSUE.

REP. MORRIS K. UDALL, D-ARIZ., CHAIRMAN OF THE SUBCOMMITTEE ON POSTAL SERVICE, SAID IN A REPORT SUMMING UP A MONTH-LONG INVESTIGATION BY HIS SUBCOMMITTEE STAFF THAT INVESTMENT COMPANIES WITH WHOM THE TWO OFFICIALS HAD CLOSE PERSONAL TIES AND PRESIDENT NIXON'S OLD LAW FIRM STOOD TO MAKE "MILLIONS OF DOLLARS" BETWEEN THEM IN HANDLING THE SALE OF THE BONDS.

UDALL ALSO CHARGED THAT THE POSTAL SERVICE'S DECISION TO SELL THE BONDS ON THE PRIVATE MARKET RATHER THAN THROUGH THE TREASURY DEPARTMENT WITH GOVERNMENT GUARANTEES WOULD COST TAXPAYERS EXTRA INTEREST RATES TOTALLING ABOUT \$125 MILLION.

UDALL WAS MAINLY CRITICAL OF THE ROLES PETER FLANIGAN, A SPECIAL ASSISTANT TO NIXON, AND JAMES HARGROVE, AN ASSISTANT POSTMASTER GENERAL, PLAYED IN SELECTION OF THE INVESTMENT FIRMS.

"THERE IS NO COMPELLING EVIDENCE AT THIS TIME OF VIOLATIONS OF THE CRIMINAL CODE," HE SAID. "WE ARE FACED RATHER WITH A LESSER DEGREE OF MISCONDUCT AND IMPROPRIETY."

HE SAID "IT SMACKS OF CRONYISM IN THE WHITE HOUSE," BUT THAT THERE WAS NO EVIDENCE THAT NIXON OR ATTORNEY GENERAL MITCHELL KNEW ABOUT THE NEGOTIATIONS THAT RESULTED IN CHOICE OF THEIR OLD NEW YORK LAW FIRM -- MUDGE, ROSE, GUTHRIE AND ALEXANDER -- TO HANDLE LEGAL DETAILS OF THE BOND ISSUE.

"I THINK PRESIDENT NIXON WOULD BE HORRIFIED IF HE KNEW HIS UNDERLINGS WERE CARRYING ON IN THIS MANNER," UDALL SAID. "I WOULD BE SURPRISED AND SHOCKED IF I THOUGHT THE PRESIDENT AND THE ATTORNEY GENERAL WERE PART OF THESE MANEUVERINGS WHICH UNFORTUNATELY GIVES THE APPEARANCE THAT THEY WERE A PART OF SOME SHABBY MANEUVERING."

THE BOND ISSUE WILL BE THE FIRST MADE BY THE POSTAL SERVICE SINCE IT BECAME AN INDEPENDENT AGENCY UNDER THE 1970 POSTAL REORGANIZATION ACT, WHICH UDALL SUPPORTED.

9/27--GE852A

[CONFIDENTIAL COMMITTEE PRINT]

92d Congress }
1st Session }

COMMITTEE PRINT

{ COMMITTEE
PRINT No. 11 }

A REPORT ON THE CIRCUMSTANCES
SURROUNDING THE PROPOSED SALE OF
UNITED STATES POSTAL SERVICE BONDS

PREPARED BY THE STAFF OF THE
POSTAL SERVICE SUBCOMMITTEE

U.S. DEPARTMENT OF POST OFFICE AND
MARINE SERVICE
REPRESENTATIVES

SE1

Printed for the use of the Committee on Post Office and Marine Service

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1971

67-276

This material is embargoed until 10:30 a.m., Monday, September 27, 1971. It is not for release in the Monday AM newspapers.

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LETTER OF SUBMITTAL

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTAL SERVICE,
OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C., September 24, 1971

HON. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service, U.S. House of
Representatives, Washington, D.C. 20515*

DEAR MR. CHAIRMAN In August, just before the Congressional recess, I advised you of my concern regarding developments relating to the proposed issuance of bonds by the United States Postal Service and of my intention to make some preliminary investigations into this area during the August recess. With your permission and cooperation we arranged for a General Accounting Office employee to be detailed to assist the Subcommittee. Mr. Robert Schremp, an experienced auditor from the GAO (who was with the Banking and Currency Committee on a similar assignment for some six years), joined the Subcommittee staff on assignment and has been of great assistance. In addition, we arranged for a special consultant to assist in the preparation of the staff report. Mr. John Nash, a six year staff member of the Investment Bankers Association and more recently a private consultant, assisted the Subcommittee during this period.

In addition, I spent some time directly involved in the investigation and analysis, including a trip on August 12 to New York City, during which time we spent a full day interviewing leaders in the investment banking community as well as conferring with top officials of the Federal Reserve Bank of New York.

Based on this intensive investigation and analysis, a preliminary study has been prepared by the staff. Based on my own considerations and those of the staff I have reached certain conclusions and offer certain recommendations to you and the Subcommittee.

Introduction

The Postal Reorganization Act of 1970 (PL 91-375) completely restructured the Postal Service of the United States, replacing a Cabinet level department with an independent agency of government. The agency is run by a Board of Governors appointed by the President with the advice and consent of the Senate and it has wide ranging authority to efficiently and economically move the mail of the United States. As a part of that authority the agency may issue revenue bonds for purposes largely related to capital expenditures and Congress gave the agency great flexibility in the management of this authority. The bonds may total \$10 billion outstanding at any one time and may either be sold directly to the Treasury of the United States or upon the open market. In addition, the bonds may or may not be guaranteed by the full faith and credit of the United States. If the

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guarantee of the United States is not attached to specific issues of the bonds, there is an implicit guarantee that the revenues of the Postal Service will be sufficient to meet all interest and principal costs at maturity

While the Postal Service agency was not activated until July 1, 1971, much preliminary planning went on in late 1970 and early 1971 looking forward to the new status. In the fall of 1970 and in early 1971 the Postmaster General and his principal assistants made public their intention to use the financing authority and the bonding authority, and indicated that an initial issue of some \$250 million in bonds would be tried sometime in the fall of 1971. The Postmaster General and his staff—in making this crucial step into the financial market—had several major decisions to make

1. Should the bonds be sold directly to the Treasury or to the public utilizing the open market of Wall Street? The Postal Service decided that they would sell the bonds to the open market utilizing the investment banking industry

2. Should the bonds be guaranteed by the United States or carry no such guarantees? The decision was that these bonds would carry no guarantees.

3. If the decision was to go to the open market, (it was), should the underwriters be selected through private negotiations or through some type of competitive bidding? It was decided that the Postal Service would negotiate with a variety of investment bankers and then decide, based on those negotiations, which firms would be the underwriters.

4. If a negotiated arrangement was decided upon, which of the several dozen major underwriting firms should be selected and under what terms and conditions? The Postal Service selected five investment banking firms, through a negotiated process and many questions have been raised about their selection. These will be discussed in greater detail in this letter and in the attached report. (Details on this subject can be found in Part II of the attached report.)

Because of the very large amounts of public money involved and because of the important precedents to be set it was important that each of these four major questions be answered carefully and wisely. It was also vitally important, in view of the history of the old Post Office Department and the great difficulty in enacting the Postal Reform bill, and the huge sums of money involved, that these first actions be most carefully handled so as to avoid at all costs any appearance or suggestion of impropriety.

Based on my investigation I have reached two principal conclusions: 1) this important bond issue has been handled in such a way that the strong appearance of impropriety has arisen, and 2) that the method chosen for this financing may eventually and unnecessarily cost the taxpayers and the Postal Service large sums of money

I am recommending to you and the Committee that we take appropriate action to correct the mistakes of the Postal Service and that preventive measures be adopted to insure against similar errors in the future. The following report will include some suggestions as to possible changes in the Postal Reorganization Act so as to create a financing system that will be of greater benefit to both the Postal Service and the general public. (Details on this subject can be found in Part III of the attached report.)

You will recall the long controversy which surrounded the subject of postal reform in 1969 and 1970. It was only through the cooperation and public spirited efforts of dozens of members of both Democratic and Republican parties that a postal reform act was finally signed by the President. A group called "The Citizens Committee for Postal Reform"—headed by a former chairman of the Democratic National Committee and a former chairman of the Republican Committee—spearheaded much of this effort. Implicit in all of this was the desire to make a clean break with the past history of the Post Office Department in which from the beginning of the republic the party in power had used the Department for political purposes. It was no secret that postmasters were appointed, promotions arranged, building architects and contractors selected, banking depositories selected, and many other decisions of this kind were made by politicians for political considerations. When the bill was finally signed, Postmaster General Blount with commendable zeal indicated that one of his highest priorities would be to eliminate the last vestiges of politics from the decision-making in the department. Throughout his term as a Cabinet member Mr. Blount resisted vigorous and persistent efforts by members of his own party to revive the old advisory system of postmaster appointments. Those of us who fought for reform supported him in these efforts and it is clear that to a very high degree this ancient practice has been rooted out of the department.

In addition, Congressman Henderson and I were greatly concerned that the setting of postal rates be removed from any political context and were among those who fought for an independent Postal Rates Commission. Shortly after the Act was signed, we dispatched a letter to the President setting forth in strong terms our concern that the postal rate agency not go the way of some other federal agencies in which the regulatory board may become dominated by or subservient to the very economic interests it is designed to regulate. (A copy of that letter and Mr. Blount's supporting statement appear in the Appendix A-8 of the report.) The President promulgated a strong order to this effect and it had the full support of Postmaster General Blount.

I had supposed that having taken these constructive and far-reaching steps, the officers of the department—most of whom continued in similar capacities when the conversion occurred—would be even more vigilant against any appearance of politics, especially when such huge sums of money were to be involved in revenue financing.

That is to say, if it is vital to the establishment and success of a non-political postal service for such minor matters as postmaster appointments in small towns to be removed entirely from politics or the appearance of political considerations, how much more vital is it to assure that hundreds of millions or billions of dollars are handled without any reference to political considerations or to the appearance thereof. In this hope, at least to date, I have been seriously disappointed.

There is no compelling evidence at this time of violations of the criminal code. We are faced rather with a lesser degree of misconduct and impropriety. In several instances I find strong suggestions that political considerations were involved in major decisions of this supposedly independent, non-political agency. Regardless of the actual existence of such involvement, it is clear beyond any doubt that some

of these actions have an appearance of serious impropriety and these will be documented in some detail below. In sustaining public confidence the appearance of evil is almost as serious as the actual thing.

I wish to leave with you, Mr. Chairman, and the Subcommittee these following conclusions.

1. The Postal Service made a serious mistake in deciding to issue the first group of bonds without a government guarantee. The reasons given for this decision of the Postal Service are not irrational and the best possible face has been put upon them by those in charge. But it is clear that any minor advantage to the Postal Service—by dispensing with a government guarantee—is more than outweighed by the cold fact that the decision will undoubtedly cost, at a minimum, tens of millions of dollars. Mr. James Hargrove, Senior Assistant Postmaster General for Support, and the Board of Governors seem genuinely convinced that the "fiscal discipline" of the Postal Service agency was worth these extra costs. I am not convinced this is the case.

2. Serious mistakes were made in the selection of the five firms to make up the underwriting team. I make no charges against the integrity of any of these firms but from the standpoint of economy, efficiency and wisest use of public funds, the selection of two of the five simply cannot be justified.

3. Three of the five firms selected, Salomon Brothers and Hutzler, Merrill Lynch, Pierce, Fenner, and Smith, and The Morgan Guaranty Trust Company, are clearly qualified and no criticism can be made of their selection. While some others are as well qualified and are certainly competent, no suggestion is made that an error in judgment or any improper action was involved in the selection of these three firms. (Details on the selection of underwriting firms can be found in Part II of the report.)

4. It seems clear that Dillon, Read and Company, while an honorable, experienced firm in certain aspects of financing, was poorly qualified for this particular assignment and that it was chosen largely because of the personal relationship between the Senior Assistant Postmaster General, Mr. Hargrove, and various representatives of Dillon Read. Mr. Hargrove throughout this investigation has been cooperative and voluntarily furnished us details of his long standing relationship. However, Mr. Hargrove presents an almost complete insensitivity on this matter. He quite openly indicates that he sees no conflict of interest in favoring one firm over another because of his prior relationship in the private sector. I was shocked to discover that it was widely assumed on Wall Street that Dillon Read would be picked because of Mr. Hargrove's prior association with that firm. (Details on this subject can be found in Part I of the report.)

5. The selection of Kidder, Peabody and Company causes a similar appearance of impropriety and should not have been made. The various criteria involved in the selection of these firms could lead the public to conclude that the predominant factor in the selection of Kidder Peabody might have been the large amounts of money given by the Chairman of the Board, Mr. Albert Gordon, to the Republican Party during the last presidential election. Mr. Gordon personally contributed approximately \$38,750 to various Republican committees during 1968. Kidder, Peabody and

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Company is a medium-sized investment banking firm that is certainly not exceptional in the area of governmental financing. Mr Hargrove's main recommendation of Kidder Peabody was his belief that "The selection of Kidder, Peabody and Company was based largely upon a desire to include in the management group a 'generalist' firm" Kidder Peabody is considered to have significant retail outlets but its retail outlets are certainly not nearly as numerous as those of a number of other applicant firms which were rejected. It should be specifically noted that Kidder Peabody's expertise in the area of federal government bond issues is minimal. They have been involved in two agency bond issues, both of which have occurred during the past two years. Absolutely no other factor stands out to diminish the selection of Kidder Peabody when contrasted with the many firms who were not selected.

The blatant appearance of the Kidder Peabody selection as it might look to a knowledgeable observer can be summarized by comparing that firm with First Boston. The Post Office itself established five objective criteria. First Boston ranked first on three of the criteria among the 21 firms considered, and was third and tenth on the other two. Kidder Peabody did not even qualify on one of the five criteria and ranked 7th, 8th, 15th, and 15th on the others.

Kidder Peabody had *never handled* an issue of this kind, First Boston is the industry leader. First Boston is a publicly owned, basically apolitical firm with only one \$500 contribution we could identify in the 1968 election. Kidder Peabody is not publicly owned and its partners are intensely politically oriented with more GOP political contributions than any other firm considered. Which did this new "non-political" Postal Service select? The argument that personal political considerations played no part simply will not wash. The "Dear Jim" letter to Mr Hargrove from Chairman of the Board Albert Gordon of Kidder Peabody thanking him for the "high honor, [but] it is also a first for us" stands out in bold relief.

This is *not* to argue that First Boston should have necessarily been selected, while it seemed the clear first choice, there were other choices which could have been justified on a rational, merit basis. It is *not* to argue that there is something wrong with the Kidder Peabody involvement in GOP political financing. It is to argue that a brand new non-political government agency should not expect to make these kinds of decisions and the public to believe that everything is objective and above-board.

In addition we would note that Kidder Peabody has had a consistent record of contributions by its principals to the Republican Party (\$63,143 in the 1968 Presidential election) While the First Boston's principals contributed a total of \$500 in 1968.

In conclusion it is clear that the underwriting team selected was not the best qualified. Two of the five were poor selections on any rational, objective basis and in each case personal or political considerations appear to have played a significant part, or at least strong inferences can be drawn to that effect. (Details on this subject can be found in Part II of the report)

6. It was, and is, a serious mistake for the Postal Service not to insist—as it has the right to do—that the law firm in which President Nixon and Attorney General Mitchell were formerly senior partners, be excluded from employment by the underwriters. This factor superimposed on all the others above simply reinforces the suspicion that this critical first, important trip to the money market was influenced by considerations other than the best interests of the Postal Service. (Details on this subject can be found in Part IV of the report.)

7 Peter Flanigan is a Special Assistant to the President and was formerly a Vice President of Dillon, Read and Company. There is ample evidence to indicate that he has been involved in discussions and meetings involving the issuance of the bonds by the Postal Service. I emphasize again as of July 1, 1971, the U.S. Postal Service is no longer a Cabinet or Executive Branch agency. It is (or was intended to be) a nonpolitical service business of the federal government.

The fact that a White House official is involved in any aspect of this issuance raises serious questions of impropriety. Both the Postal Service officials and Mr. Flanigan should have been sensitive and alert to the appearance of this relationship and Mr. Flanigan should not have been involved in any manner with the decisions being made in this regard. That he has, both in fact and in appearance, is a serious breach of propriety. Even worse is the fact that Postal Service officials know very well that Mr. Flanigan's interests go beyond his current job and that he still continues to have a substantial interest in Dillon Read. (Details on this subject can be found in Part I of the report.)

8. There has been considerable comment and discussion concerning the possibility of the creation of a Federal Financing Bank. This proposed Bank, under discussion by the Treasury Department, would become a central purchaser of all government agency securities, including those of the Postal Service. The Federal Financing Bank, in its turn, would sell regular government securities to the investor public. This would allow a coordination and bring under one roof all of the various agency financings. The Postal Service, as one agency, would be able to sell all the bonds needed for its capital outlays directly to this Federal Financing Bank. When and if this proposal is considered by the appropriate committees, our Committee should make sure our views are known. It is my present opinion that the Federal Financing Bank may provide the Postal Service, and other government agencies, a far better mechanism that should certainly be given close study. (Details on this subject can be found in Part III of the report.)

9. There is considerable merit to the approach used by other government agencies in having a fiscal agent represent the agency in all of its dealings with the investment banking industry. Rather than having a small, select group of investment bankers doing all of the underwriting for the Postal Service, it is feasible that a career employee of the Postal Service be retained to act as

fiscal agent in selling the bonds of the Postal Service. This employee would be stationed in New York City and coordinate all dealings in Postal Service bonds.

This choice was never seriously studied by the Postal Service and there are strong arguments for its use. It certainly would assist the Postal Service in demonstrating its objectivity and nonpolitical approach to the sale of these Postal Service bonds were it to utilize the fiscal agent approach. The attached report goes into this method in some detail and certainly merits consideration by the Postal Service. (Details on this can be found in Part III of the report.)

Having stated these conclusions, Mr Chairman, let me now suggest some recommended actions that the Subcommittee may want to review

Recommendations

1. In order to prevent these important bonds from being issued under questionable circumstances and to clarify the selection procedures of the underwriters, the Postal Service should rescind the decision to select the five managing underwriters and all actions the underwriters have taken to date.

The bond issue should be managed by firms selected by a committee, rather than one person, and objective ratings should be established. No rankings were ever prepared based on the proposals solicited by the Postal Service and the five firms selected were selected by one man, Mr James Hargrove, with more or less *pro forma* ratification by the Board.

No firm which has a direct relationship, either previous or current, should be allowed to participate in this issue, if that relationship was with any senior manager of the Postal Service.

2. Unless the full faith and credit of the United States is made a part of the bonds, the Treasury should purchase the first \$2 billion of issues by the Postal Service.

3. The law firm of Mudge, Rose, Guthrie, and Alexander should be disqualified from doing business due to the prior relationship of President Nixon and Attorney General Mitchell. This has nothing to do with the well recognized ability or integrity of the firm but rather with creating public trust in decisions of its officials and establishing beyond any doubt the non-political, independent nature of the new Postal Service.

4. Chairman Patman and the Banking and Currency Committee of the House should be encouraged to investigate the interlocking relationships of the investment bankers doing business with the various federal agencies, especially as to the fact that a select few firms seem to be doing most of the business with the federal government.

5. The Secretary of the Treasury and the appropriate congressional committees should give serious consideration to the proposal that all government security issues, including those of the Postal Service, should be made directly through the Treasury, thus saving billions of dollars in fees and commissions to the investment banking industry and various legal firms. A proposal on this subject is currently under study in the Treasury Department.

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6. The Post Office and Civil Service Committee, acting through the Postal Service Subcommittee, should pursue the implementation of these recommendations with the Postal Service. If necessary, public hearings should be initiated to verify the conclusions reached by this report.

7 If the Postal Service insists on following policies which are outlined and criticized above, we should consider immediate and appropriate legislative action to prevent it.

I will be discussing these matters with you and the other members of the Subcommittee in due course and I am hopeful that the Postal Service will take this report in the spirit in which it was prepared and will assist us in the implementation of the Postal Reorganization Act as it was intended to be implemented by the Congress.

With best regards,

MORRIS K. UDALL, *Chairman.*

INTRODUCTION

This report was occasioned by developments and disclosures that followed the United States Postal Service's announcement of its choice of underwriters for the \$250 million bond issue it has scheduled for October 1971. Salomon Brothers & Hutzler, Merrill Lynch, Pierce, Fenner & Smith, Inc., Morgan Guaranty Trust Company, Kidder, Peabody and Company, and Dillon, Read and Company, Inc. were chosen by the U.S. Postal Service Board of Governors, who acted upon the recommendation of Mr. James W. Hargrove, Senior Assistant Postmaster General for Support.

Various people indicated concern about this choice of underwriters immediately after it was announced, expressing their views to Congressman Morris K. Udall, Chairman of the Postal Service Subcommittee. In the ensuing months there was continued criticism of the methods and criteria used to select underwriters for the first Postal Service bond issue, and Congressman Udall asked the Postal Service Subcommittee staff to begin a review of the matter.

On July 27, 1971, it became known that the law firm of Mudge, Rose, Guthrie and Alexander, formerly Nixon, Mudge, Rose, Guthrie, Alexander & Mitchell, were to serve as counsel to the underwriters of the Postal Service issue. Because at least the appearance of impropriety had been given, it was suggested that Mudge Rose might have been selected for political reasons rather than on its merits. Therefore Chairman Udall requested that the Postal Service Subcommittee, assisted by the General Accounting Office, begin an intensive investigation of the circumstances surrounding the selection of legal counsel and managing underwriters for the bond issue.

The investigation has shown that there were major improprieties that seemed to exist *prima facie*. There were also questions about the disposition of millions of dollars in legal fees, underwriters' commissions, and consultation costs, since the Postal Service plans ultimately to issue \$10 billion in bonds. If any special consideration was given to individuals or firms for personal or political reasons, the Postal Service Board of Governors' actions may have been unethical and/or illegal.

This report has been prepared to protect the integrity of the Postal Service and to preserve the spirit of the Postal Reorganization Act. Its first section is a chronology of events leading up to the selection of underwriters and legal counsel. Most of the facts were gathered from records of meetings, letters, and other memoranda collected with the cooperation of the Postal Service, the Treasury, and other government agencies. Chairman Udall and members of his staff met with certain investment bankers on August 12, 1971, at the New York Federal Reserve Bank to obtain further information.

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Part II is an analysis of the proposals solicited from the candidates for handling the bond issue. The Subcommittee reviewed these documents in great detail, comparing the information they contained about the firms' capabilities with the actual choices that were made. It is to be emphasized that the Postal Service itself stated the criteria that would be used in making decisions, outlining these in its April 13, 1971, letter soliciting proposals. Thus part II evaluates the selection only in the light of the Postal Service's own stated criteria.

Part III questions the methods by which the Postal Service plans to market its initial bond issue. Should the bonds be sold using a negotiated process or through competitive bids? Another important question is whether they should be sold with the guarantee of the full faith and credit of the United States, or whether they should be sold as non-guaranteed bonds as the Postal Service now intends.

Part IV reviews the entire matter and seeks to determine whether the best interests of the Postal Service were served in the selection of counsel and underwriters. The influence of personal relationships and political affiliations on the Board of Governors' decisions is examined and the question of the relative competence of the firms chosen is discussed.

This report was prepared under the direction of the Chairman, Representative Morris K. Udall, to assist the Subcommittee in its deliberations. It is the work of the staff and does not reflect any decisions or judgments of the members of the Subcommittee.

PART I—A CHRONOLOGY OF EVENTS

On April 30, 1969, James W. Hargrove, Senior Assistant Postmaster General for Support met with representatives of the Chase Manhattan Bank, the Chemical Bank of New York, First National City Bank of New York, The First Boston Corporation, the Equitable-Mutual Company, Lehman Brothers, Merrill, Lynch, Pierce, Fenner and Smith, and Dillon, Read and Company. Mr. Hargrove called this meeting to discuss the financing provisions of the Administration's forthcoming Postal Reform bill. Before joining the Postal Service, Mr. Hargrove had had extensive contact with the firm of Dillon Read in his capacity as a Vice President of Eastern Texas Transmission Corporation, and at this meeting it was obvious that Mr. Hargrove was very familiar with Dillon-Read's representatives.

Following that meeting on May 1, 1969, a senior member of Dillon Read wrote to Mr. Hargrove suggesting that he should ask for help from "the leading firms in this area," which included the First Boston Corporation, Merrill, Lynch, Pierce, Fenner & Smith, Salomon Brothers & Hutzler; and the Morgan Guaranty Bank. Thus from the beginning these four firms had been recommended as being outstanding.

In May of 1969 the Administration introduced its version of Postal Reform, H. R. 11750, of which Mr. Udall was the principal Democratic sponsor, and hearings progressed. On October 7, 1969, Assistant Postmaster General Hargrove wrote to his former long-time associate Mr. August Belmont IV, the President of Dillon Read. This letter included a draft of the testimony Mr. Belmont planned to give before the Senate Committee the following week as the "industry" spokesman in support of the new Postal Reform legislation's financing provisions. Two letters written during the July 1969 House hearings on Postal Reform comprise the only recorded criticism of the Postal Service's financing proposal. The first, from First Boston Corporation's Senior Vice President James Morrison argued through a lengthy and detailed analysis of the bill—that the lack of Treasury guarantee; and in fact the entire concept of financing through the private market, were incompatible with current market behavior and the long-term market situation.

Another leading firm, the Discount Corporation of New York, wrote that "an investor will think in terms of to what extent the postal system can go to the Treasury to meet its commitments." Both of these letters referred to the desirability of a Treasury guarantee for the bonds. Both advisors felt strongly that the Postal Service could not sell these bonds on the open market at a competitive price, as though it were a private corporation, without incurring additional costs.

These unfavorable letters of July and August 1969 were closely followed by three others dated August 4, 5, and 6, from representatives of Dillon Read and Salomon Brothers. All approved of the financing

provisions and minimized the problems, if any, of the lack of Treasury guarantee. The two critical letters were never entered in the record of the Congressional Committees, yet the written approval of Dillon Read representatives became part of the testimony given before the House and Senate.

The Postal strike occurred in March of the next year and on June 18, 1970 the House passed a version of Postal Reform, incorporating the financing provisions recommended by Mr Hargrove.

On July 7, 1970, Mr Hargrove wrote to Mr Belmont, with whom he was on a first-name basis, sending copies of both the House and Senate bills so that Dillon Read would have an opportunity to review them immediately. Mr Hargrove commented that there was a slowdown at the Government Printing Office but that nevertheless he had obtained the enclosed copies for Dillon Read's immediate perusal. He asked the firm to indicate which approach was best from their standpoint and to give their comments. On July 9 Mr Robert Christie, Senior Vice President of Dillon Read, wrote to Mr Hargrove, addressing him as "Dear Jim", and stated that from Dillon Read's standpoint both bills could accomplish the main purpose although he thought the House version somewhat better than the Senate version. No other firm was asked to evaluate the legislation.

Within two weeks, on July 21st, Mr Alvin Shoemaker, Vice President of the First Boston Corporation, wrote requesting copies of the legislation and on July 28 Mr Hargrove answered that no copies were available but that ultimately he hoped to be able to send a copy of the conference-approved final law. Note that there was complete cooperation with Dillon Read, but that from the very beginning First Boston Corporation received a lesser degree. Remember, too, that First Boston was one of the firms critical of the proposed legislation.

In mid-August, the President signed the bill (PL 91-375)

From mid-July through the early fall of 1970, Mr Hargrove and Mr James McKinnon, Treasurer of the Postal Service, met with various investment bankers in New York and Washington to discuss the financing mechanism of the new Postal Reorganization Act. On September 29, 1970, Mr Hargrove received the first letter from Salomon Brothers specifically referring to the underwriting proposal. This letter was from a Vice President, Mr Robert LaBlanc, who also knew Mr Hargrove on a first-name basis. On November 6, the Vice President of Goldman Sachs, Mr. Daniel W Hoffgren, also wrote referring to the forthcoming bond issue of the Postal Service and indicating his firm's interest in it. On December 2, Mr Hoffgren wrote again to Mr Hargrove and in this letter he referred to a meeting of the day before with the Postmaster General and Mr Hargrove and thanked them for it. The following excerpt is also from the letter

I will take the opportunity, with discretion, to talk to Peter about the problem we discussed. In the meantime, I strongly suggest you send a copy of your memo to John Mitchell, as my experience has indicated he has an understanding of this problem.

This is the first written reference to the involvement of Peter Flanigan of the White House staff and Attorney General Mitchell with the question of bonding.

It should be noted here that Mr Hoffgren had only recently joined Goldman Sachs, having previously been Mr Flanigan's assistant in the White House.¹

In a letter dated August 11, 1971, Mr James Hargrove acknowledged that "Peter" in Mr Hoffgren's letter was indeed Peter Flanigan. Mr Hargrove stated that their intent was to prevail upon the White House, through Mr Flanigan, to intervene with the Treasury Department. He said the Postal Service feared that the Treasury Department objected to the proposed methods of selling the bonds and might preempt the whole issue. It was hoped that Mr Flanigan would intervene to protect the position of the Postal Service and the managing underwriters.

Mr Hargrove stated that he had no correspondence with Attorney General Mitchell, on this subject, nor did he discuss the matter with him. Mr Hargrove's memoranda of this period are technical arguments in behalf of the Postal Service's position regarding the issuance of non-guaranteed bonds. Mr Hargrove did not mention why Mr. Mitchell should have been involved at all in this matter, which clearly does not concern the Justice Department, or touch upon the duties of the Attorney General. The only possible connection Mr Mitchell had with the bond issue would have been through his former association with Mudge, Rose, Guthrie & Alexander.

On December 3, 1970, Mr Hargrove gave his first major speech on the Postal Service's bond issue before the Investment Bankers' Association winter meeting at Boca Raton, Florida. He told the bankers that the Postal Service preferred and intended to sell its bonds without a Treasury guarantee to the private market, and that if such a sale were not arranged, there would be no business at all for the investment bankers' industry. The investment banking industry would get business from the Postal Service only if non-guaranteed revenue bonds backed by the estimated \$9-10 billion revenue of the Post Office were placed on the private market like any other corporate bond.

However, he stated that there was an implied guarantee, i.e., for while the U.S. Government might allow Lockheed or Penn Central to fail, it would never let the Post Office go without meeting its debts. Mr Hargrove was saying "You investment bankers will sell Postal Service bonds as though they were non-guaranteed private bonds, but at the same time I suggest you tell your customers, *sub rosa*, that there really is a guarantee." Thus the bonds would be sold at a higher cost to the taxpayer and the users of the Postal Service, ultimately forcing the cost of money higher.

Mr Hargrove's rationale for this marketing method was that the Postal Service management needed the discipline of knowing that the Treasury would not bail them out. That is, that the discipline of the marketplace would force the Postal Service to meet its obligations in paying interest and principal on these bonds, and thus the system would induce efficiency. This rationale was put forth by the Postal Service in spite of criticism raised by two of the most preeminent investment bankers in the United States, the First Boston Corporation.

¹ It should be further noted that Mr. Gustav Levy, Chairman of the Board of Goldman Sachs and Company, personally gave an estimated total of \$7,000 to various Republican committees in New York State during the 1968 campaign.

and the Discount Corporation of New York, but with the full approval of Dillon Read and Company

After this speech in December, 1970, there was a predictable spate of letters from investment bankers. Not surprisingly they supported the non-guaranteed private sale Postal Service bond. On February 3, 3, 1971, Kuhn, Loeb and Company, represented by Mr Thomas Dewey, Jr., made known its support of the negotiated bid/non-guaranteed bond. On March 8, Dillon Read—again represented by Mr Robert Christie—wrote a long letter which seemed to paraphrase Hargrove's speech in Boca Raton. On March 12, in response to a specific request by Mr Hargrove, Salomon Brothers wrote. "negotiate and have a non-Treasury backed bond."

On March 26, 1971, Mr. Hargrove wrote a detailed memo to the file justifying the negotiated bid/non-guaranteed bond, and noting support from the investment banking industry.

The memo mentions other market makers in the Federal Government, such as the Federal Home Loan Bank Board, and Fannie Mae, who supported Hargrove's approach. (See Part III for detailed analyses of other agencies' views.)

On April 8 Assistant Postmaster General Hargrove wrote to three members of the Postal Service's Board of Governors requesting them to allow him to solicit proposals on the \$250 million bond issue. Approval was given by conference call and on April 13 a generalized letter was sent to more than thirty bonding houses asking them to describe themselves in terms of specific areas of competence. Ostensibly, this was where the decision-making began on the underwriting in April of 1971.

Just prior to this, on April 9, Mr Edward A. Fox, Director of the Federal Home Loan Bank Board, wrote a letter to Mr Hargrove in response to conversations they had had. Mr Fox favors a complete restructuring of the method by which the Federal Home Loan Bank Board sells its securities to the public. Before Mr Fox became its Director, the Federal Home Loan Bank Board had an extremely large securities group of more than 200 agents, both regional and New York-based. Centralization was totally lacking. Mr Fox decided to centralize the operation with a small syndicate of pre-eminent bonding houses. In his April 9 letter Mr Fox said to Mr Hargrove "I was warned and threatened by many that further reductions in the syndicate regardless of criteria, would be politically unpalatable." The letter continues, "as it appears that the political pressure that has always threatened is not as severe as you are led to believe." This makes reference to a previous conversation in which Mr. Hargrove apparently believed that there would be some political pressure if only a few underwriters for the Postal Service issue were selected. Mr Fox reassured him that that had not been his experience.

On August 11, 1971, in response to further subcommittee inquiries regarding the memoranda between Mr Hargrove and Mr Fox, Mr Hargrove verified that he was indeed concerned about political pressure if he selected a few underwriting firms, rather than using the fiscal agent approach as the Federal Home Loan Bank Board had used for over thirty years. He said he feared Congressional concern that underwriters from different geographical areas be included, and that the "pressure" did not concern the actual firms to be selected. He did not indicate that political pressure emanated from the Executive Branches to influence the selection of managing underwriters.

At this same time, the end of April, Mr Hargrove recommended that the following five firms be included in the bond issue Salomon Brothers, Merrill Lynch, Pierce, Fenner & Smith, Inc., Dillon, Read & Co.; Kidder, Peabody & Company, and the Morgan Guaranty Bank. He submitted a statement to the Subcommittee that he was somewhat confused about allowing a commercial bank to be involved in this business and, in spite of the specific legal exemption for it, he had discussed it with Mr Blount. The Postmaster General had recommended that he discuss the matter with Mr Peter Flanigan at the White House. He did so. Mr Flanigan recommended that they go ahead with Morgan Guaranty, an exceptionally good commercial bank. Mr Hargrove said that he discussed no other issues with Mr Flanigan. It should be noted that for 15 years before joining the White House staff Peter Flanigan was a Vice President of Dillon Read, the same firm that Mr Hargrove had so much contact with in the private sector before coming to the Postal Service. From the written record, it appears that Mr Hargrove had considerable continued contact with Dillon Read representatives, present and past, and that Mr Flanigan was certainly one of these.

On May 4, 1971, the Board of Governors selected the five managing underwriters that Mr Hargrove had recommended for the proposed bond issue.

At about this time, Mr William Simon, as a representative of Salomon Brothers and Hutzler, the lead underwriter, selected Mudge, Rose, Guthrie & Alexander as bond counsel for the underwriters and informed them of his choice.

On July 26, 1971, Congressman Udall became aware of this selection and immediately asked the Subcommittee to initiate this investigation.

PART II—THE SELECTION OF UNDERWRITERS

A review of the 33 proposals submitted to the Postal Service by the underwriters who wanted to manage the first \$250 million of a proposed \$10 billion in bonds revealed two things.

1 The stated criteria in the Postal Service questionnaire sent to managing underwriters were seriously biased, ignoring a substantial segment of the investment banking industry, whose expertise is in the area of revenue bond financing for governmental agencies.

This bias favored the inclusion of some firms, including some of those ultimately selected, who otherwise would definitely not have been considered.

2. A majority of the firms submitting proposals were qualified to participate as managers or co-managers of the bond issue. However, a comparative analysis of their abilities shows that the Postal Service did not select the five most qualified firms.

A QUESTION OF CRITERIA

In a December 1970 speech before the convention of the Investment Bankers Associations of America at Boca Raton, Florida, and one given before the Municipal Forum of New York in April of 1971, Assistant Postmaster General James Hargrove laid the groundwork for the selection of underwriters

The Postal Service is authorized to create and sell \$10 billion worth of postal *revenue* bonds.¹

The Postal Service is not a corporation, but is in every respect a *government agency* [at the same time] it is in every respect a *viable, strong, self-supportive, all-pervasive monopoly-powered utility* in a benign regulatory framework. (Our italics in both quotations.)

These statements are crucial to the criteria by which the underwriter would ultimately be selected. Mr. Hargrove described the issue as *revenue* bonds, whose principal and interest would be paid out of the revenues of the Postal Service. At the same time, the Postal Service was still a government agency, with the implicit guarantee of the United States behind it. In addition the Postal Service was described as a *utility*, and its issue was said to be similar to that of a gas/electric or telephone company

At no time were the revenue bonds compared to those of a municipality or state government. For example, bonds issued by cities for sewage-line expansion or capital construction may be more akin to a Postal Service bond than are ITT's telephone bonds. Firms specializing

¹ Recent conversations with Postal Service officials confirm their belief that these are definitely *revenue* bonds.

in government agency and private utility bond issues were given preference in the terms of the questionnaire and firms that manage or co-manage billions of dollars of state and municipal revenue bonds for municipally owned transportation, water and power facilities, were effectively eliminated.

The most telling evidence is the following, taken from the questionnaire soliciting proposals.

Question 3

Please indicate, by separate categories, financings in 1970 and thus far in 1971 of (1) Government and Government agency securities not exempt from Federal income tax and (2) corporate utility debt securities. "

No information on revenue bonds handled for governmental units is solicited in the questionnaire though some fairness would seem to have demanded the inclusion of such a question.

Thus commercial banks submitting proposals were able to describe their competence in only one category, government issues, since they are forbidden by law to deal in corporate issues.

Note that a specific exemption to existing law was inserted in the Postal Reorganization Act to allow commercial banks to handle Postal bond issues (12 USC 24, seventh). That provision, which also allows commercial bank dealings in securities of a variety of federal and state or local agencies, is premised on the full faith and credit guarantee of the United States. The Postal Service's continuing insistence that its bond issue will not carry the full faith and credit guarantee makes their choice of Morgan Guaranty an improper one.

Thus, we now have a situation where the law stipulates that commercial banks can underwrite securities so long as they are guaranteed except for Postal Service bonds which will be underwritten by banks without a guarantee.

As is probably clear, this provision of law was written into effect after the great collapse of the banking industry in the early 1930's.

A QUESTION OF COMPETENCE

Aside from the biased nature of the criteria, we must examine the selection process itself. Even assuming that the questionnaire is fair, were the firms top-rated in terms of its criteria indeed the ones selected?

Appendices A2 through A7 are the latest available data showing the relative position of the five underwriters in the investment banking industry in a number of areas of competence. We assume that volume of business is one indicator of competence; i.e., if X company handles more government agency issues than Y company, we assume it has more competence in handling agency issues.

A review reveals that in at least two cases there were at the very least excellent alternative choices to the ones actually made.

Postal Service officials were very much aware of the necessity for complete objectivity in their selection procedures and, even more importantly, knew which firms had the most demonstrated competence in bonding for government agencies. The memoranda that demonstrated this awareness came not from interested firms, but from disinterested professionals in government. The following is representative of the advice that seems to have been ignored:

. . . the underwriters will add a cushion in the commission, normally \$1.50 to \$2.00 more per \$1000. The amount charged will vary with the length of the issue and the condition of the market.

Prior relationships are the normal way an underwriting syndicate is formed and participation is based on this relationship, hence a syndicate is fairly static. On the other hand, a selling group can be more tailored to fit the situation and greater control over the issue can be exercised, therefore a selling group is more flexible.

An occasional visitor to Wall Street should use an underwriter to distribute an issue. But a continuing participant [like the Postal Service] in the market place is best suited using the selling group method of distribution, not only is the selling group method *less expensive*, it remains more flexible. (Our italics.)

The above is an internal memorandum to a key Postal Service official recommending that a selling group be used when a bond issuer is going to market over and over again, as the Postal Service will, and advising against a syndicate. It points out that syndicates are based on "prior relationships" and not objective criteria. In spite of this advice the Postal Service set up a syndicate based on prior relationships; that would be more expensive than a selling group. Thus it ignored competent advice and even its own criteria, as expressed in its letter of solicitation to the underwriting firms.

Another item is of relevance, and appears here in full

Agency financing of less than five year maturity is not included in this list.

Agency	Placement	Sold	Amount in thousands	Due	Coupon	Management
TVA	Comp	June 1, 1969	\$100,000	June 1, 1974	8.0 percent at 101	1st Boston, Lazard, East Dillon, Solomon Bro., Bank of America, Do.
TVA	Comp	Oct. 15, 1969	100,000	Oct. 15, 1994	8 1/4 percent at 100	Halsey Stuart, Equitable, Smith Barney, 1st National City, White Weld, Morgan Guaranty, Chase Manhattan, Chemical Bank, Merrill Lynch, 1st National of Chicago.
TVA	Comp	Mar. 15, 1970	100,000	Mar. 15, 1995	9.0 percent at 101	Bank of America, 1st Boston, Solomon Bro.
TVA	Comp	do	50,000	June 15, 1975	8.75 percent at 101	Halsey Stuart, Equitable, Smith Barney, 1st National City, White Weld, Morgan Guaranty, Chase Manhattan, Chemical Bank, Merrill Lynch, 1st National of Chicago.
TVA	Comp	do	50,000	June 15, 1995	8.75 percent at 101	Do.
International Bank for R. & D.	Negoc	July 23, 1970	200,000	Aug. 15, 1995	8 3/8 percent at 100	Morgan Guaranty, 1st Boston.
Do	Negoc	Jan. 15, 1971	200,000	Jan. 15, 1976	6 1/2 percent at 100	1st Boston, Morgan Guaranty, Solomon Bro.
International American Development Bank	Negoc	Oct. 1, 1970	100,000	Oct. 1, 1995	8 3/4 percent at 99 1/4	Blyth, Lazard, Lohman.
Penn Central transportation certificate guaranteed by Secretary of the Treasury.	Negoc	Jan. 26, 1971	50,000	Jan. 15, 1976	6 1/8 percent at 100 1/2	Merrill Lynch.
Penn Central	Negoc	do	50,000	Jan. 15, 1986	7.05 percent at 100 1/2	Do.
Federal National Mortgage Association guaranteed by Government National Mortgage Association.	Negoc	June 1, 1970	250,000	June 1, 1975	8 3/8 percent at 100	1st Boston, Morgan Guaranty, Merrill Lynch, Solomon Bro.
Do	Negoc	Sept. 29, 1970	200,000	Oct. 1, 1990	8 3/8 percent at 100	Morgan Guaranty, Merrill Lynch, Solomon Bro., 1st Boston, Goldman Sachs.
Federal home loan mortgage guaranteed by Government National Mortgage Association.	Negoc	Nov. 19, 1970	140,000	Nov. 27, 1995	8.60 percent at 100	Solomon Bro., Morgan Guaranty, 1st National City Bank, Lehman, Merrill Lynch.
Federal National Mortgage Association	Negoc	Apr. 1, 1970	200,000	Apr. 1, 1975	8 percent at 100	Solomon Bro., 1st Boston, Morgan Guaranty, Merrill Lynch.
Farmers Home Administration, Department of Agriculture, insured notes.	Negoc	Feb. 3, 1970	200,000	Jan. 31, 1975	8 7/8 percent at 100	Merrill Lynch, 1st Boston, A. G. Becker.
	Negoc	Feb. 3, 1970	150,000	Jan. 31, 1980	8.90 percent at 100	Do.
	Negoc		300,000	July 1, 1985	8 3/4 percent at 100	Do.
	Negoc	Dec. 22, 1970	300,000	Nov. 30, 1980	7 percent at 100	Do.
	Negoc	Apr. 6, 1971	200,000	Mar. 31, 1981	6.40 percent at 100	Do.
Federal Home Loan Bank	NA	Aug. 25, 1969	201,000	Aug. 25, 1974	7.65 percent at 100	Alan Knowles, fiscal agent and manager.
Do	NA	Nov. 25, 1969	250,000	Nov. 25, 1974	8.0 percent at 100	Do.
Do	NA	Mar. 25, 1970	350,000	Feb. 25, 1980	7.75 percent at 100	Do.
Do	NA	July 27, 1970	300,000	Aug. 25, 1975	7.95 percent at 100	Do.
Do	NA	Aug. 25, 1970	265,000	May 26, 1975	8.05 percent at 100	Do.
Do	NA	Oct. 15, 1970	200,000	Oct. 15, 1980	7.80 percent at 100	Do.
Federal Land Banks	NA	Feb. 20, 1970	210,000	Jan. 20, 1975	8 and 3/8 percent at 100	Glen Brown, fiscal agent and manager.
Do	NA	Feb. 23, 1971	224,000	Apr. 20, 1981	6.70 percent at 100	Do.
Federal National Mortgage Association	NA	Sept. 10, 1969	250,000	Sept. 10, 1974	7.85 percent at 100	John Claybourne, fiscal agent.
Do	NA	Dec. 10, 1970	250,000	June 10, 1977	6 and 3/8 percent at 100	Do.
Do	NA		250,000	June 10, 1981	7.25 percent at 100	Do.
Do	NA	Feb. 10, 1971	250,000	Feb. 10, 1982	6.65 percent at 100	Do.
Do	NA	Mar. 11, 1971	200,000	June 10, 1983	6.75 percent at 100	Do.
Do	NA	Apr. 12, 1971	200,000	June 11, 1984	6.25 percent at 100	Do.

Federal Intermediate Credit Bank and Bank for Cooperatives sold short term issues until 1970 when they both marketed 3 year maturity paper.

Note that in the foregoing document, Dillon Read and Kidder Peabody are not listed at all. First Boston Corporation, a firm not selected, appears in almost all of them. Note further that the Tennessee Valley Authority, an agency usually compared to the Postal Service, takes competitive bids on all its bond issues. There are no syndicates based on prior relationships nor are the issues negotiated in private.

The chart below demonstrates that neither Dillon Read nor Kidder Peabody possesses the same level of qualifications as the other three firms selected, which consistently rank in the top ten for all categories.

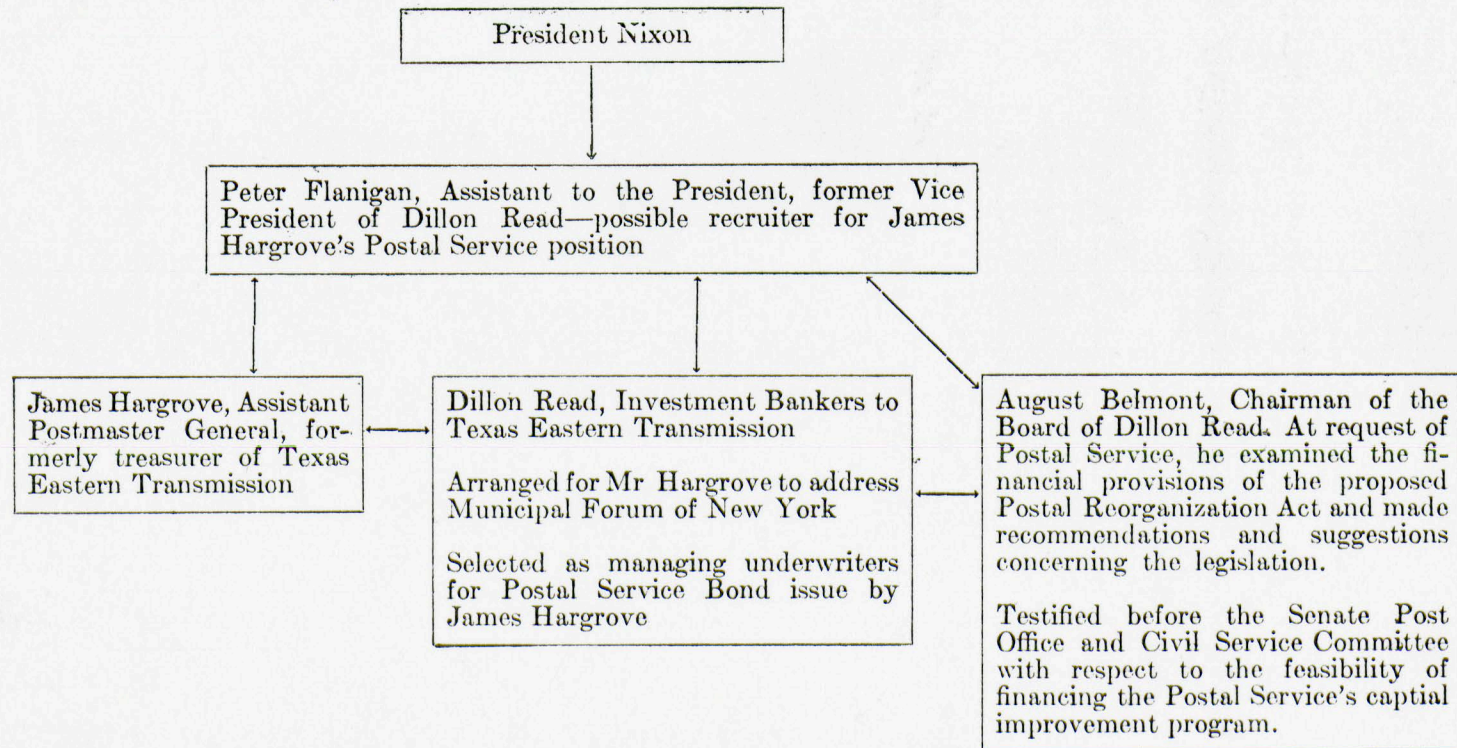
Criteria ¹	Dillon Read ranking	Kidder Peabody ranking
Federal agency/quasi-government underwritings (management).....	Did not qualify.....	20 out of 21.
Leading underwriters of municipal bonds.....	do.....	15 out of 25.
Leading underwriters of corporate issues.....	12 out of 25.....	8 out of 25.
Combined underwriters of corporate and municipal issues.....	10 out of 37.....	14 out of 37.
Leading underwritings of utility bonds.....	14 out of 20.....	7 out of 20.
10-year (1930-69) total ranking of top 10 investment firms based on total dollar amount of public offerings of taxable securities managed or co-managed.	Did not qualify.....	Did not qualify.

¹ Except for the last item, this data is based on information provided by the Investment Bankers Association for the year 1970. The last item (10-year ranking) is taken from the Investment Dealers Digest-Corporate Financing Directory.

These data suggest the Postal Service may have applied other unstated criteria in making their final choices. The relationship of Dillon Read's principals with the top management of the Postal Service and the White House has been outlined in this report. Time and time again clear evidence appears that the selection of Dillon Read was anticipated. Consider that President Nixon's recruiter for top policy positions,² Peter Flanigan, was formerly a Vice President of Dillon Read. There is a good possibility that Mr. Flanigan recruited Mr. Hargrove for his present job at the Postal Service. They continued their relationship during the present Administration, well beyond the time when the Postal Service became non-politically dependent. Conversations and written memoranda passed between them as late as the spring of 1971, well after the Postal Service had instituted the non-political policies affecting its day-to-day operations. Yet no admonitions against high-level politics seem to have affected the Postal Service management.

The following chart succinctly outlines the close ties that have long existed between Dillon Read and Mr. James Hargrove of the Postal Service.

² *Newsweek* magazine of April 28, 1960, said of Peter Flanigan: "He came to be known—and feared—as the Administration's chief headhunter doing the President's hiring and . . . much of the firing. . . . Flanigan concentrates on top-level jobs . . . [and] after a slow start, Flanigan [has] been making solid headway in stocking the Nixon Administration with Nixon loyalists."



Considering the preceding data, at least an appearance of impropriety exists. It is suggested that Civil Service Commission and U.S. Postal Service regulations be reviewed to determine if any conflict of interest occurred in the selection of Dillon Read as one of the managing underwriters of the Postal Service bonds.

Kidder, Peabody and Company deals in a broad range of securities and has a large volume of sales office dealings with the general public. Beyond this, nothing sets them apart as particularly qualified to manage the bond sale of the Postal Service. They have little experience in government issues, either as manager or co-manager. Some of the firms not selected have more expertise in specialized areas while others have a greater range of retail outlets. Bache and Company, the second largest retail firm in the United States after Merrill Lynch, Pierce, Fenner and Smith, was not selected and yet is substantially larger than Kidder, Peabody and Company.

A search for other criteria that might explain the selection revealed that, in comparison to the other firms selected, Kidder Peabody had made very significant contributions to the Nixon Presidential campaign.

It is clear that members of the financial community have as much legal right as anyone else to make political contributions. It is suggested here, however, that the crucial first use of the bonding authority of a new, nonpartisan public agency the Postal Service should have avoided any suspicion that selections were influenced by past political support. The clear intent of the Postal Reorganization Act is to place the Postal Service beyond the political control of the President or any of his advisors. The Board of Governors and long tenure of the Postmaster General were designed to free the Postal Service from politics.

What is the evidence that the selection of Kidder Peabody may have been influenced by political considerations? The Chairman of the Board of Kidder Peabody, Mr. Albert Gordon, who personally contributed \$38,750³ to various Republican committees in the Presidential election of 1968. The Citizens Research Foundation's list of political contributors shows that at least 13 other Vice Presidents of Kidder Peabody contributed a total of \$24,393.00 to various Republican committees.

Members of other firms also contributed money to election committees, some gave only to Republican committees, others gave to a mixed group, and some gave insignificant amounts when viewed from a firm's standpoint (See Appendix B.) Kidder Peabody stands out as the firm whose principals contributed most to the Republican Party—a total of \$63,143.00.

No other firm considered has this same pattern of campaign contributions and thus it appears that this factor must have played some role in the selection of Kidder, Peabody and Company as one of the five underwriters for the Postal Service bond issue.

³ The New York Times listed this amount in the June 20, 1971 edition.

Here follows a company-by-company analysis of all 33 proposals submitted to the Postal Service. As will be seen, there is ample evidence to conclude that (1) the five *best* firms were not selected, (b) the selection criteria were biased to favor certain firms, (c) even by the biased criteria, the five highest-ranking firms were not selected, and (d) personal and political considerations may have played an important, if not crucial, role in the selection of Dillon, Read & Co., Inc., and Kidder, Peabody and Company

SUMMARY OF UNDERWRITERS' PROPOSALS

Note. All political contributions referred to were made during the 1968 Presidential Election Campaign.

Bache and Company, New York, the second largest brokerage firm in the United States, is expert in the underwriting and distribution of corporate and municipal securities. It also distributes and deals in general market securities, mutual fund shares, and Canadian securities.

The firm, which has over 100 branch offices throughout the United States, managed or co-managed \$96 million in utility issues in 1970. It retailed in excess of \$250 million in General National Mortgage Association issues. Bache has never managed or co-managed a government agency issue. The company ranks 8th in net worth of firms submitting proposals to the Postal Service and 16th in ranking among underwriters of utility issues.

Political contributions none.

Summation Bache and Company, while never having served as a manager or co-manager of government agency issues, has sold these issues successfully. By virtue of its distribution capabilities, through its 100 branch offices, and experience as a manager or co-manager of utility and municipal bond issues, Bache possesses the qualifications to manage or co-manage Postal Service and/or other government agency securities.

Bank of America. Unlike investment banking firms, commercial banks are limited underwriting corporate bonds. Under the Glass-Steagel Act of 1934, commercial banks are prohibited from underwriting corporate and revenue securities. They may underwrite general obligation bonds of states and municipalities and most government issues.

The Bank of America is the largest privately owned bank with a capital base in excess of \$1.2 billion. It is one of the major participants in the nation's money markets and deals in virtually all debt instruments. The bank has managed TVA issues and has participated in agency issues totalling \$8.7 billion.

Summation Because commercial banks lack expertise and management ability in handling revenue bonds there is doubt whether any bank should be considered for a management position in the Postal Service issue? Considering its distribution capabilities and previous experience in government issues, the Bank of America possesses credentials to participate in the Postal Service issue in line with other banks.

A.G. Becker and Company is a Chicago-based investment banking firm which underwrites and distributes corporate and municipal securities. They are stock and bond brokers, dealing in commercial paper and short-term discount notes of the Federal National Mortgage

Association and the Export-Import Bank of the United States, along with issues of the Farmers Home Administration. In 1970-71, A.G. Becker ranked 6th by agency debt issues participations among underwriters submitting proposals. The firm also served as a manager or co-manager of \$1.2 billion of a Farmers Home Administration issue during the same period. The firm ranked 23rd by net worth among major companies submitting proposals. For the period 1970-71 the firm did not serve as a manager or co-manager of a utility issue but was responsible for the private placement of \$53 million of utility debt securities.

Political contributions \$3,100 was contributed to the Republican Party by principals of the firm.

Summation A. G. Becker, by virtue its experience, has all the credentials to be considered for a management position in the Postal Service issue. The firm maintains an active secondary market on all issues it manages or co-manages.

Blyth and Company Inc., New York, is held in high regard in the investment banking and corporate communities. The firm's expertise is mainly as an underwriter of corporate securities. It is also experienced in utilities and tax-exempt bonds. During 1970-71 the firm did not act as a manager or co-manager in government or government agency issues.

Blyth and Company in net worth ranks 22nd among major investment banking firms submitting proposals. On the basis of total dollar amount of public offerings of taxable securities managed or co-managed in 1969 it ranked 6th and for the 10-year period 1960-69, 7th. The firm makes markets in all issued it manages or co-manages. Their daily inventory runs to more than \$15 million. The firm is not a factor in agency debt issues.

Through its 39 offices the firm has wide distribution with institutions and retail buyers.

Political contributions \$2,500 to the Republican Party by principals of the firm.

Summation Despite the firm's lack of experience in government agency business, considering its experience in all other areas of investment banking, Blyth could adequately fulfill a manager's position for the Postal Service issue.

Chase Manhattan Bank is one of the 10 largest commercial banks in the United States. By law commercial banks cannot underwrite corporate securities or revenue bonds and Chase Manhattan cannot therefore demonstrate any expertise in these areas. However, it is a leading underwriter of municipal general obligation bonds and maintains a sizeable sales force which markets its bonds at the wholesale and retail levels. The bank has never been a sole manager of government or government agency issues. Chase Manhattan acted as a co-manager during 1970-71 on two TVA issued and Government National Mortgage Association issues on a fully modified pass through bond issue.

Political Contributions. There is no record of political contributions.

Summation Setting aside the fact that commercial banks cannot underwrite corporate or revenue bond securities, and recognizing that they lack the experience of the other banks in government agency

issues, Chase Manhattan's experience in municipal bonds would qualify it to be considered for a manager's position in competition with other banks.

Dean Witter is a highly respected West Coast firm headquartered in San Francisco with a major branch office in New York City. The firm, according to the *Investment Dealer's Digest*, was the nation's second largest retail distributor of new underwritings in 1970. *Dean Witter* maintains 76 branch offices in 21 states, the District of Columbia, two Canadian provinces, and London, England. The firm has never managed a U.S. Government or government agency issue. It has utility bond experience but is not considered a major factor in this area.

By net worth of major investment banking firms, *Dean Witter* ranks 14th. The firm has no standing on the basis of total dollar amount of public offerings of taxable securities managed or co-managed. The firm is not considered a factor in ranking by utilities or agency debt issues for the period 1970-71.

Political contributions Totalled \$2900, \$500 of which was earmarked for a specific Republican candidate.

Summation *Dean Witter's* experience is mainly in the distribution of equity securities. The firm does not meet the criteria set forth for a management position in Postal Service securities.

Dillon, Read and Company, Inc., New York, is a small to medium-sized investment banking firm engaged in the underwriting and distribution of corporate municipal securities. The firm is a financial advisor to governmental instrumentalities, and power and transportation authorities. It is actively engaged in the financing of utility debt issues.

The firm's experience in the government and government agency area in 1970 and 1971 has been as a seller of 38 debt issues totalling \$1,775,000,000. The last issues it managed or co-managed were those of the Export-Import Bank in 1967-1968.

While the firm maintains a secondary market in issues it manages or co-manages, it does not have an active government bond department. In ranking of net worth by firms submitting proposals *Dillon Read* was 32nd out of 33. In ranking of the nation's top 100 underwriting firms, it placed 90th. The firm has no ranking in agency debt issues among the top 18 firms of the 33 submitting proposals. In utility debt issues they were 13th.

Political Contributions \$4000 to Republican Party contributed by August Belmont.

Summation *Dillon Read* possesses experience as a manager in utility and municipal debt issues. However, in comparison with the credentials and experience of other firms submitting proposals for the position of a manager or co-manager of the Postal Service issue and other government and government agency issues, it is doubtful if *Dillon Read* would place in the top ten for consideration.

Discount Corporation of New York, a 50-year-old company, possesses expertise in the distribution of equity securities. It considers itself one of the most active and largest primary dealers in U.S. Treasury issues, federal agency obligations and obligations of the International Bank, Inter-American and Asian Development Banks. It also distributed issues of the Federal National Mortgage Association.

Since members of the Corporation's Board of Directors serve on the boards of commercial banks, the Corporation is not permitted by the Federal Reserve Board to deal in corporate securities. Discount Corporation has never served as a manager or co-manager of government agency issues. The Corporation, in its proposal, stated that at this time it did not consider itself qualified to be a manager or co-manager. But principals of the firm stated they could contribute to the managing group in the distribution of Postal Service bonds. In ranking by net worth of major companies submitting proposals, Discount Corporation placed 28th. In all other categories Discount Corporation was not a factor.

Summation At its own request, Discount Corporation should not be considered for a manager or co-manager's position in the Postal Service bond issue.

Eastman Dillon, Union Securities, New York, is widely respected. Its credentials are in the area of corporate, utility, and municipal bond underwriting and it serves as investment bankers to leading U.S. corporations. In the area of revenue bond financing, and in particular industrial revenue bonds, Eastman Dillon has developed a reputation for innovative financing concepts. The company has never managed or co-managed government or government agency securities. It has been a distributor of government bonds for over 20 years, and has a major distribution network incorporating 650 institutional and retail brokerage houses.

In ranking by net worth, among major companies submitting proposals Eastman Dillon was 18th. In utilities they placed 8th. In agency debt issues for 1970-71, they distributed in excess of \$1,300,000,000 of such issues. For the year 1969 Eastman Dillon ranks 7th on the basis of total dollar amount of public offerings of taxable securities. The firm maintains a secondary market in all security issues they underwrite or manage.

Political contributions. To the Republican Party, \$14,000 by the principals of the firm.

Summation Eastman Dillon, on the basis of its experience in underwriting corporate, municipal, and industrial revenue bonds, and its 20-year history of distributing government securities, possesses the necessary credentials and expertise to act as a manager or co-manager for the Postal Service issue, or government or governmental agency issues.

Equitable Securities, Morton and Company, New York. Equitable Securities is a small to medium-sized investment banking firm originating in Nashville, Tennessee, with a major New York office and 12 branch offices throughout the country. The firm is a subsidiary of the American Express Company.

The firm's expertise is in the underwriting of municipal and corporate securities. It is institutionally oriented and is accustomed to dealing in large amounts of debt securities. Equitable Securities makes active markets in all issues it underwrites and as well as others its clientele would have an interest in.

The firm has been in a major position in agency financing for a number of years. Equitable Securities has been a manager or co-manager on two TVA issues for the year 1970 and ranks 14th in underwriting of utilities for the same period. In net worth of major

companies submitting proposals, it rated 30th and 13th in agency debt issues for 1970-71. In its proposal covering letter, Equitable Securities stated that there are two or three or possibly more firms that are outstanding in their ability to negotiate, manage, or co-manage Postal Service issues based on past performance. The firm went on to state that it is not a leading candidate, but feels because of its distribution capability it would qualify as a manager in the underwriting group.

Political Contributions. None.

Summation Equitable Securities would qualify as a participant in the selling group.

The First Boston Corporation, New York. First Boston Corporation is considered one of the nation's most prestigious banking firms. The company raises more money for more corporations than any other investment banking house in the world. The First Boston Corporation ranks at or near the top in the underwriting of government securities, municipal bonds, and in third market issues where exchange lists of stocks are traded away on the floor at net prices.

The company, which buys and sells to institutions, managed or co-managed \$6.2 billion of underwriting in 1970. This placed it in the position of participating in more than 25% of the \$23 billion in federal agency securities.

In the ranking of underwriting firms submitting proposals to the Postal Service, on the basis of total dollar amount of public offerings of taxable securities managed or co-managed, First Boston was first with \$4,098,657,000, representing 90 issues. For the 10-year period 1960-69 it was first with \$32,603,991,000, representing 535 issues. In the ranking of utilities for the 1970-71 period, the firm placed 3rd with \$4,812,000,000. In 1970 First Boston ranked 10th among the nation's underwriters of municipal bonds. First Boston maintains one of the largest government bond departments and secondary markets for securities it manages or co-manages.

Political contributions. \$500 was contributed by a principal of the firm to the Republican Campaign Committee.

Summation First Boston's credentials speak for themselves. The firm's expertise in all phases of investment banking qualifies it as a top choice for a management position in the Postal Service issue and in government and government agency securities. It is one of the four leading firms that are essentially non-political.

First National Bank in Dallas is a major bank in the Southwest, and acts as a fiscal advisor to the State of Texas. The bank is a major underwriter and distributor of U.S. government agency securities in the Southwest, and maintains active secondary markets in their issues. It claims to be the principal underwriter and distributor of state and municipal bonds in the area, and according to figures of the Investment Bankers Association, places among the top 25 managing underwriters in the country for municipal debt securities. The bank under prevailing federal statutes can issue only securities issued by public bodies.

Summation For distribution purposes, the First National Bank in Dallas would rate a major position among underwriters for the Postal Service bonds or other government and governmental agency securities.

First National City Bank, New York, is one of the nation's 10 largest commercial banks. Under prevailing statutes, it can only issue securities issued by public bodies and U.S. Government securities. First

National City Bank distributed for the government debt securities issued by fiscal agents valued at \$1.25 billion in 1970-71. The bank served as a co-manager on \$350 million of General National Mortgage Association securities. The bank maintains a secondary market in all securities they underwrite. First National City Bank claims to be one of the top 5 dealers making markets in government securities and considers itself a leader and primary dealer in U.S. government and government agency securities.

The bank is also an underwriter of state and municipal bonds. It is the opinion of First National City that the approach to government financing should be different than to private issuers. In their proposal they stated the following: "Whether one likes it or not, government agency financing tends to be thrown into the political arena and therefore an additional unmeasurable ingredient is automatically introduced and underwritings are held up for public scrutiny and congressional criticism whether valid or not."

In comparison with other commercial banks being considered for bank participation in the Postal Service bonds, First National City possesses the necessary credentials to fulfill the role as a bank manager or co-manager. The biggest asset of commercial banks is their ability to distribute issues.

Goldman, Sachs and Company, New York, is an old-line, highly respected investment banking house and has been the leading commercial paper dealer since 1869 and acts as an investment banker to some of the nation's largest corporations. As an underwriter, the company has developed a high degree of prestige.

In the area of financing debt issues of states and municipalities, the firm has established a reputation as an innovator, particularly in industrial revenue bond financing and air and water pollution abatement financing. The firm states that it has made a major commitment to enter the federal agency market. It has set up an independent department which will include a specialized sales force of over 100 men with a high degree of expertise in the sale and positioning of agency issues. In 1970-71 the firm was a manager or co-manager of U.S. government agency issues for the Federal National Mortgage Association, Federal Home Loan Bank, and the U.S. Department of Agriculture. It has participated as a seller of notes for the Bank for Cooperatives, Federal Intermediate Credit Banks, and the Federal Home Loan Bank. The firm ranks 12th in net worth of all companies submitting proposals. In agency debt issues for 1970-71 the company was 4th and 13th in ranking by utilities for the same period.

Political Contributions For the 1968 campaign, the principals of the firm contributed a total \$22,000 to 10 Republicans and 4 Democrats.

Summation Goldman Sachs possesses a high degree of expertise in all areas of investment banking, including their knowledge of the government area. The firm would rank near the top for consideration as a managing underwriter of Postal Service or other government agency securities.

Halsey, Stuart & Co., New York and Chicago, has developed its reputation in the field of debt security financing of established corporations and governments in the United States and Canada. The firm in 1968 extended into the field of corporate finance by establishing a corporate finance department offering a full range of investment banking services.

Halsey Stuart has an excellent reputation as a manager or co-manager of debt securities of states and municipalities, having held first place among underwriters of these issues in 7 out of the last 13 years. Records of the Investment Bankers Association show a volume of \$9.30 billion.

In 1970, Halsey Stuart was second, after the Chase Manhattan Bank, in the underwriting of bond issues of states and municipalities totalling \$1,007,619,000. Halsey led the underwriters in managing the greatest number of municipal issues with 240 during 1970. In 1970 the firm managed or co-managed \$3.1 billion of corporate securities and \$0.5 billion in Canadian bonds. In utility ranking of all firms submitting proposals to the Postal Service, Halsey ranked 5th. In ranking of underwriting firms for the years 1969, of total dollar amount of public offerings of taxable securities, the firm was 5th. In ranking by government agency, the firm placed 11th among the underwriters. Halsey Stuart, in 1970-71, was a manager or co-manager of two TVA issues. The firm customarily makes secondary markets on the more important issues it manages or co-manages.

Political Contributions None.

Summation Halsey Stuart's long-standing reputation as a managerial house in debt securities and its experience in all types of securities including government issues would give them consideration for a position as manager or co-manager of Postal Service or other government issues.

Harris Trust and Savings Bank, Chicago, a well respected mid-West bank, has established a national reputation for the marketing and selling of municipal bonds. In the Chicago area the firm is one of the leading syndicate managers. In 1970 it distributed approximately \$362 million of government agency securities and \$357 million in 1971. The bank's participation has been in issues of the Farmers Home Loan, Federal Home Loan Bank, Federal National Mortgage Association, Small Business Administration, and Bank for Cooperatives, among others. Like other commercial banks, it is prohibited by law from underwriting corporate securities. Harris has a sales staff of 14 government agency specialists in New York and Chicago. The bank markets securities for all 48 continental states.

Summation Harris Trust, because of its expertise in the management of municipal bond syndicates and its capabilities in the marketing and distribution of municipal and government agency issues, is well qualified among banks for consideration as a manager of Postal Service bonds and government and government agency issues.

Hornblower and Weeks-Hemphill, Noyes, New York, is one of the major investment banking firms in the country and has 66 offices throughout the United States. Its forte is the underwriting and distribution of equity securities. The firm is also active in the obligations of states and municipalities. The firm has participated in two debt issues of government agencies in 1970-71. In the same period it co-managed two Government National Mortgage Association issues. Hornblower Weeks also maintains a secondary market in all issues it underwrites. The firm's experience in utilities for the 1970-71 period total three issues valued at \$86 million. Hornblower Weeks ranked 15th among firms submitting proposals for underwriting debt issues for the period 1970-71. In utilities the firm placed 18th. In total dollar amount of public offerings of taxable securities for the period 1969, the

firm was not among the top 10. In net worth of major companies submitting proposals the firm was 10th.

Political contributions To the Republican Party by principals of the firm, \$17,500.

Summation Hornblower Weeks' strong point is its ability to distribute issues through the firm's 66 offices. While its strength is not as great as other underwriters in government agency business, the firm is capable of a managing position.

E. F. Hutton and Co., New York, is one of the nation's respected underwriting firms. It ranks 14th in order of net worth of the nation's top 100 underwriters for the year 1970. The firm is one of the leading underwriters of equity securities. It has had many years of experience in structuring and consummating several billion dollars worth of debt and equity financings and managing national syndicates of investment banking and brokerage firms.

The firm has never been a manager or co-manager of any government or government agency issue. *E. F. Hutton* makes secondary markets in all issues in which it participates. The company is an active participant in the distribution of government securities. In utilities the firm ranks 15th among firms submitting proposals to the Postal Service. No information was available with regard to the ranking of the firm by agency debt issues.

Political contributions: Total \$2000 to the Republican Party by principals of the firm

Summation The firm's strength lies in its investment banking and syndicate staff of 20 professionals and 1300 account executives in 82 branch offices throughout the nation. From a distribution point of view, the firm deserves consideration for a manager's position.

W. E. Hutton & Co., New York, is a medium-sized firm dealing primarily in the area of the underwriting and distribution of equity securities. The firm has 20 U.S. branch offices and 9 overseas.

In its proposal to the Postal Service, *W. E. Hutton* indicated that it has participated in the past in offerings of the World Bank and governmental agencies. It further stated that it has never been a manager or co-manager for the sale of an issue of a government agency security. Therefore, *W. E. Hutton* felt it could not answer all the Postal Service questions as to experience in the managing or co-managing of issues. The firm does not feel that the public utility offerings that it has managed or co-managed are entirely comparable to a government agency issue. The firm claims an outstanding record for the distribution of new offerings.

Summation *W. E. Hutton* feels that it could make a substantial contribution in the distribution of Postal Service bonds in the capacity of a co-manager. In the absence of their furnishing data as to expertise in government agency, municipal and utility issues, and in the firm's presentation, there is an indication that that firm is not interested becoming actively engaged in the underwriting of the Postal Service issue.

Kidder Peabody and Company, New York, is one of the oldest investment banking firms in the country. It maintains 31 sales offices in the U.S., and 5 overseas offices. As an investment banking house, the firm's primary function is to serve as a financial advisor to corporate clients and to assist them in meeting their capital requirements and financial goals.

The firm is widely recognized for its expertise in mergers, acquisitions and evaluations, private placements, venture capital, real estate financing and international financing. Kidder Peabody is also active in debt issues of states and municipalities.

Of the major companies submitting proposals to the Postal Service Kidder Peabody ranked 19th in net worth for the year 1970. In a ranking by utility debt issues, 7th. The firm was not among the top 18 in ranking by government agency debt issues for the same period.

Kidder Peabody in 1970 was a co-manager for a rights offering of \$1,130,000,598 common shares of the Federal Mortgage Association. In 1971 the firm co-managed a \$30 million issue for the Small Business Administration. It maintains no government bond department and is not considered a factor in the secondary market.

Political contributions Albert H. Gordon, Chairman of the Board, and Mrs. Gordon contributed to the Republican Party a minimum of \$23,500. An additional \$24,393 was contributed by principals of the firm for a total contribution of \$47,893.

Summation Kidder Peabody possesses all of the attributes of an investment banking firm in the area of corporate, municipal, and utility underwriting. It has also demonstrated its management abilities in these areas. This would justify consideration for a manager position in Postal Service or government agency issues, but the firm's lack of a government bond department and a secondary market capability would tend to minimize Kidder Peabody's managerial and distribution strength compared with other qualified firms.

Kuhn, Loeb and Company, New York, is an old-line investment banking house with excellent credentials in the corporate and international area. However, it has never been a real factor in the government or revenue bond areas. The firm has no retail distribution capabilities. Of the major companies submitting proposals, the firm placed 15th in the management of utility underwritings. In ranking of underwriting firms on the basis of total dollar amount of public offers of taxable securities managed or co-managed in 1969, it was 10th.

Political Contributions Principals of the firm made political contributions totalling \$27,500 to the Republican Party.

Summation In view of its overall experience and other benchmarks to be considered, Kuhn Loeb would not compete as successfully as others for a managerial position in the Postal Service bond issue.

Lazard Freres & Co., New York, has been involved as a manager or co-manager in negotiated TVA issues and 3 Inter-American Development Bank issues. The firm maintains no secondary market in issues it manages or co-manages. Its expertise lies in creative corporate and international financings. Lazard Freres maintains a small municipal bond department. By agency debt issues it does not rank in the top 18 for 1970-71. Net worth ranking places them 24th out of the nation's top 100 firms. In the management of utility issues the firm did not rate in the top 18.

Political Contributions Individuals in the firm made contributions in the amount of \$9,900 which was divided equally between Republicans and Democrats.

Summation In fulfilling the criteria set forth by the Postal Service, particularly the maintenance a secondary market, Lazard Freres lacks the required credentials to be a manager of the Postal Service issue.

Lehman Brothers, Inc., New York, has been a strong house in municipal revenue bonds, utilities, and governments in the past. In recent years, the firm experienced difficulties, particularly in turnover of key bond department personnel. It has participated as a manager or co-manager for the Federal Home Loan Bank, Federal National Mortgage Association, Export-Import Bank, and Inter-American Development Bank. The firm has been a major participant in short term agency paper. Lehman was financial advisor to the TVA from its inception and recently informed TVA that they possessed the ability to handle their bond issues themselves. While recommending a negotiated bid, the firm also said that it would be willing to participate on a competitive basis.

The firm maintains a secondary market in agency securities. The range of the firm's spread on government underwritings is within established norms. Lehman Brothers ranks 16th by net worth of major companies submitting proposals, 5th in utility underwritings, and 3rd in the rankings of underwriting firms on the basis of total dollar amount of public offerings of taxable securities for the year 1969.

Political Contributions Lehman, through its principals, has been a major contributor to the Republican Party. A total of \$60,636 was given for the 1968 period.

Summation Lehman Brothers continues to possess management capabilities, and is considered to have the necessary expertise to be a manager of the Postal Service issue.

Loeb, Rhoades & Co., New York, has considerable prestige in investment banking circles. The firm's expertise is in the corporate area, particularly in the underwriting of equity securities. It is not considered a factor in the underwriting of securities of states and municipalities. Its government bond experience is based on being a co-manager of two government bond underwritings for the Export-Import Bank. Loeb Rhoades maintains a secondary market in all issues managed or co-manage and maintains an active bond trading market for its institutional clients and correspondents.

The company has 18 offices in the U.S., 12 of which are located in New York State. The firm ranks 9th by net worth of major investment banking firms submitting proposals. On the basis of total dollar amount of public offerings of taxable securities managed for the period 1969, and the 10-year period 1969-69, the firm did not rate in the top 10. It was not among the top 18 firms specializing in utility debt issues and the same holds true for agency debt issues.

Political Contributions The firm through its principals contributed \$78,250 to various individuals and committees, divided between 13 Republicans and 17 Democrats.

Summation Based on the firm's utility and government bond experience and other criteria set forth by the Postal Service, it would be difficult to justify a manager's position for Loeb Rhoades in the Postal Service issue.

Merrill Lynch, Pierce, Fenner & Smith, Inc., New York, is the largest investment banking and brokerage house in the United States. It maintains over 200 branch offices and 18 offices in foreign countries. The firm engages in all areas of investment banking, including the underwriting of corporate, municipal, and government and government agency securities.

The firm has been a manager or co-manager or seller of nearly every government or agency security in recent years. For the period 1970, it ranked first as a manager or co-manager of government or government agency issues. The firm has an outstanding reputation in the underwriting of the nation's utilities. The firm's volume of business in U.S. Government issues and the obligations of government agencies and negotiable certificates of deposit amounted to \$122 billion. In ranking by utilities for the period 1970-71, among firms submitting proposals to the Postal Service, Merrill Lynch was number one with over \$7 billion of utility underwritings. For the year 1969 in ranking of underwriting firms on the basis of total dollar amount of public offerings of taxable securities managed co-managed the firm was 3rd. For the 10-year period 1960-69, it was also 3rd. In agency participations Merrill Lynch ranked 1st, and the same is true of its ranking by agency debt issues of firms submitting proposals. Merrill Lynch, by net worth, ranked 4th, second only to three of the nation's largest commercial banks.

Political Contributions Contributions of the firm through its principals amounted to \$7500 to the Effective Government Association.

Summation Merrill Lynch, by virtue of its size and experience in management of all types of securities is qualified to participate in the management group of government and government agency securities including the Postal Service.

Morgan Guaranty Trust Company, New York, is one of the nation's largest commercial banks. The bank serves clients in all 50 states and 124 foreign countries. One of its main strengths is in the area of international money management.

The bank, like all other commercial banks, is prohibited by law from the underwriting of corporate securities. In 1970 it ranked 4th among the nation's top underwriters of debt securities of states and municipalities. In government and government agency issues, Morgan Guaranty in 1970 managed or co-managed 7 issues comprising TVA, Federal National Mortgage Association and Government National Mortgage Association in excess of \$1 billion. The bank also acts as a major underwriter for issues of the Farmers Home Administration and the Federal Home Loan Mortgage Corporation. It acted as a joint manager for more than \$1 billion of project notes of the Department of Housing and Urban Development.

Summation Morgan Guaranty, by virtue of its size, experience, and expertise in the management of government and municipal securities possesses credentials of the highest order to be a manager of Postal Service or other government agency securities.

Morgan Stanley & Co. is a name synonymous with prestige in investment banking circles and is the banker to some of the nation's leading corporations, railroads, and utilities. The firm has participated in government and government agency securities and has been a manager or co-manager in issues for the International Bank for Reconstruction and Development, Federal Home Loan Bank, and the Federal Home Loan Mortgage Corporation.

Morgan Stanley jointly managed 21 issues totalling \$2,810,000,000 over the last 19 years and the firm is noted for its leadership in managing negotiated issues as well as its reputation for quality of business.

While Morgan Stanley does not maintain a secondary market in issues it manages or co-manages, it is the firm's opinion that the Postal Service bonds would be actively traded by those banks and firms which make markets in government securities and Federal agency bonds. In lieu of secondary market capability, it is relying on its ability and experience in performing specialized management functions. The firm does have extremely strong ties to institutions that would be customers for Postal Service bonds.

In the case of U.S. Postal Service issues, the firm stipulated it would not take a management fee. Its belief is that the selling concession would be adequate to induce maximum selling effort. Morgan Stanley ranks 31st by net worth of managing companies submitting proposals, and 9th on the basis of total dollar amount of public offerings of taxable securities managed or co-managed. In utilities for the period 1970-71, it was 10th among the top 18 firms. In agency debt issues for the same period, it placed 7th out of 17.

Political Contributions. \$750 to the Republican National Finance Committee.

Summation Based on the firm's credentials, its reputation in the financial community with industry and government, and its experience as a manager of utilities and government issues, Morgan Stanley possesses the expertise to be a manager of Postal Service or government issues. However, the lack of a secondary market capability should be taken into consideration.

John Nuveen & Company is a Chicago-based firm specializing in debt securities. John Nuveen has historically specialized in the field of public finance. John Nuveen is a wholly-owned subsidiary of Investors' Diversified Services, Inc. It underwrites and/or distributes issues of the U.S. government, federal agencies, states and cities, and other governmental entities. A significant portion of the securities handled by Nuveen are issued for utility purposes, public and private. The firm has demonstrated its ability to market large volumes of securities. Total volume in 1970 was \$9.7 billion, of this amount \$1 billion par value was in government agency securities, including issues for the Federal National Mortgage Association, International Bank for Reconstruction and Development, InterAmerican Development Bank, TVA, Asian Development Bank, Federal Home Loan Bank, Federal Land Bank, and in the distribution of Federal Intermediate Credit Bank Debentures. Nuveen maintains a large secondary market in all issues it manages or deals in.

John Nuveen ranks 27th by net worth of major firms submitting proposals to the Postal Service. The firm has managed or co-managed in excess of \$1,717,000,000 of revenue bonds in 1970.

Political Contributions: None.

Summation In 1970 John Nuveen was ranked third in the nation as a manager of municipal issues. Nuveen possesses the necessary qualifications and experience to be a manager or co-manager for the Postal Service issue and/or government and government agency securities.

Paine, Webber, Jackson & Curtis, Inc., Boston and New York, is an old-line Boston firm with major offices in New York, Boston, Chicago, and Los Angeles. The firm has a total of 70 branch offices throughout the United States. Its expertise is in the underwriting and distributing of corporate and municipal securities.

The firm has considerable experience in the utility bond area but it has never been a manager in government or government agency securities. Paine Webber has participated in the selling group for a number of government agency and quasi-agency securities. By net worth it ranks as 20th among underwriters submitting proposals to the Postal Service and 11th for utilities managed or co-managed in 1970-71.

The firm is not a factor in agency debt issues or in the managing or co-managing of underwriting firms on the basis of total dollar amount of public offerings of taxable securities.

Political Contributions. The principals of the firm contributed \$3,000 to the Republican Party.

Summation. Paine, Webber, Jackson & Curtis' expertise in the underwriting and distribution of equity securities, in the management of utilities, and in the distribution of government agency securities is sufficient to warrant consideration for a management position. However, one must take into consideration that the firm does not maintain a government bond department or secondary market facilities.

Salomon Brothers, New York, is a highly respected full-line investment banking firm which serves as dealer and broker in U.S. government, municipal, public utility, industrial, railroad, and Canadian securities. The firm also serves as underwriters for many of the nation's corporations.

Salomon Brothers maintains branch offices in Atlanta, Boston, Chicago, Cleveland, Dallas, Los Angeles, Philadelphia, St. Louis, and San Francisco. In 1970 it ranked 11th as an underwriter of debt issues of states and municipalities. Salomon Brothers makes markets on a full range of money market instruments. It is a recognized dealer in government and government agency securities. In 1970 it managed or co-managed 15 debt issues totalling \$2,940,000,000 of the following government agencies: Farmers Home Administration, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporation, and others. It also managed 2 issues valued at \$230 million of Farmers Home Administration, and U.S. Government Guaranteed New Communities Act debentures. The firm is a leading factor in secondary markets for all debt securities. In 1970 the volume exceeded \$160 billion. The firm gives priority to issues they manage or co-manage.

In 1970 Salomon Brothers underwrote 69 utility debt issues valued at \$3,423,000,000.

In ranking by agency debt issues for 1970-71, it placed 7th among firms submitting proposals. In net worth of major companies, Salomon Brothers was 8th, and second in the ranking by utilities.

Political Contributions. A member of the firm contributed \$1500 to the Humphrey and Johnson Clubs.

Summation. Salomon Brothers has amply demonstrated its expertise and credentials as a manager and co-manager in government, municipals, and utilities to qualify as a manager in the Postal Service and/or other government agency issues.

Shearson Hammil & Co., Inc. is not a factor in the bond business. It requested that the firm not be considered for a management or co-management position.

Smith Barney & Company, New York, is principally active in the underwriting and distribution of new capital issues. It also provides senior and equity capital. The company represents some of the nation's largest corporations, and maintains 17 U.S. offices 2 offices overseas.

For many years the company has been identified with the underwriting and distribution of obligations of states and municipalities and those of the Federal Land Bank and federally sponsored municipal housing authorities, and other governmental agencies. In the area of revenue bond financing, Smith Barney has established an outstanding record. The firm has played a prominent role in over 130 revenue bond issues for bridges, toll roads, electric power and airport facilities among others.

Smith Barney was a manager of the following government or government agency bonds United States Government Insured Merchant Marine bonds, TVA, and New Housing Authority bonds. In utilities Smith Barney ranks 16th among those submitting proposals and 12th for agency debt issues. In ranking by net worth of major companies, Smith Barney placed 12th, in agency participations, 8th.

Political Contributions A senior member of the firm contributed \$6,000 to the Republican Victory Committee.

Summation Smith Barney's expertise has been demonstrated in utilities, revenue bond financing, and the management and distribution of government agency securities. The firm also maintains secondary markets in all the securities it manages. Judged by the criteria set forth by the U.S. Postal Service, the firm possesses all the credentials to be a manager or co-manager of U.S. Postal Service bonds and other government agency issues.

White, Weld & Company is a respected investment banking house with 12 U.S. offices and 8 branches overseas. The firm in 1970-71 managed no government or government agency securities. However, it was an underwriter in all issues of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Banks for Cooperatives, Federal Intermediary Credit Banks, Federal National Mortgage Association, and the Farmers Home Administration. The firm has also participated in TVA authority issues. White Weld has also managed or co-managed 46 corporate debt utility issues with a dollar value in excess of \$2 billion. The firm maintains a government and municipal bond department. At one time it was a major factor in municipals, but in recent years strength in this area appears to have declined. On the scale of 33, White Weld ranks 13th by net worth of major companies submitting proposals to the Postal Service. The firm ranks 6th in the underwriting of total dollar amount of public offerings of taxable securities managed or co-managed. For the period 1960-69, White Weld ranked 8th. In utilities for the period 1970-71, it ranked 7th and 14th by agency debt issues.

Political Contributions White Weld through its principals contributed \$9,500 to the Republican Party

Summation Based on its management experience in utilities, municipal bonds, and participation in government issues, White Weld possesses the credentials to be considered for a manager's position in Postal Service and other government agency securities.

PART III—THE NATURE AND NECESSITY OF THE BOND ISSUES

POSTAL SERVICE CAPITAL REQUIREMENTS

The Postal Reorganization Act (Public Law 91-375, 39 U.S.C. 2005) empowers the Postal Service to obtain funds for capital improvements and operating expenses by issuing interest-bearing obligations. The obligations may be sold directly to the U.S. Treasury or to the public, with or without the stated guarantee of the Federal Government.

Although the Postal Service will not need additional funds either for capital improvements or operating expenses for the next several months, the Service believes that its borrowing ability should be established with the investing public before a substantial need for capital expenditures arises. The issuance of \$250 million of 25-year Postal Service revenue bonds would familiarize the investing public with the Service's debt obligations, establish its public credit, and provide a ready market for future issuances of bonds or notes as the need may arise.

Government agencies and corporations have sold debt obligations to the investing public by two principal methods—competitive bidding and negotiated sale. A negotiated sale may be arranged with a syndicate of banking institutions or through the agency's own fiscal agent who in effect organizes a syndicate of banking institutions to underwrite the bond issue.

Some questions can be raised as to the comparative values of a negotiated versus competitive bid process. Taking competitive bids would allow the Postal Service completely objective pricing, since the group offering the lowest cost to the Service would win the right to resell the bonds. A negotiated process, on the other hand, is a strictly private arrangement between the issuer and those persons or firms with whom they choose to do business. One can not unequivocally determine exactly by what criteria such a selection was made—one must rely on circumstantial evidence. The purpose in using either method is the same, that is, the prompt sale of substantial amounts of debt instruments, most of which will be retained by buyers for extended periods of time.

No other government corporation or agency is closely comparable to the United States Postal Service. The Service has a long history of delivering the mail at prices that do not cover costs, but because it has a working monopoly of a necessary economic service, profitable operation seems probable if rates are established which provide for one. The Act, however, recognizes that the Service is expected to continue to provide certain traditional services for which there is no prospect of complete cost recovery, hence substantial Congressional appropriation subsidies are expected over the next ten years.

The operations in recent years of the Post Office Department and projected operations for the foreseeable future, would not engender investor confidence in the Postal Service's ability to repay or even to meet interest charges on its debts. For example, operating losses before United States Government subsidies and reimbursements amounted to about \$1.6 billion for fiscal year ended June 30, 1970, and \$2.3 billion for fiscal year 1971. The projected loss for fiscal year 1972 is about \$1.8 billion. Despite these losses the Service began fiscal year 1972 with current assets in excess of \$3 billion and uncommitted funds carried forward amounting to about \$560 million. In addition, under the Act, the Service "may require the Secretary of the Treasury to purchase obligations of the Postal Service in such amounts as will not cause the holding by the Secretary of the Treasury resulting from such required purchases to exceed \$2 billion at any one time." The Secretary of the Treasury may purchase obligations of the Postal Service in excess of such amount.

The Service has a capital investment program for fiscal years 1972 through 1976 that estimates commitments and payments as follows

CAPITAL INVESTMENT PROGRAM—TO 1976

[In billions]

Fiscal year	Commitments	Payments
1972.....	\$1.4	\$0.6
1973.....	1.3	.9
1974.....	1.2	1.0
1975.....	1.1	1.0
1976.....	1.0	1.0
Total.....	6.0	4.5

Since the Service has been discussing the possible sale of obligations to the investing public, its needs for cash in the immediate future should be considered. The computation seems simple

Funds available, July 1, 1971

Cash and investments.....	\$2,984
Borrowing authority, U.S. Treasury.....	2,000
Total.....	4,984

Funds applied, July 1, 1971–June 30, 1973

Operating loss, 1972.....	1,400
Fixed asset investment.....	600
Applied 1972.....	2,000
Balance.....	2,984
Operating loss, 1973.....	1,400
Fixed asset investment.....	900
Applied 1973.....	2,300
Balance June 30, 1973.....	684

¹ Assumes there will be no Congressional subsidy appropriation and no improvement in operations.

If one accepts the above schedule, showing a balance of over \$.5 billion, it is difficult to understand why the Service should borrow \$250 million in the open market at least 18 months before the monies are

needed. At a rate of 8% per annum the cost would be \$30 million, and additional debt would add to this cost. (There would, however, probably be an income offset, presuming the cash received would be invested by the Service in income-producing securities with U.S. Treasury Department approval.) One can only conclude that the Service has no need for public borrowing at this time, and that such a plan is questionable in many respects.

Postal Service Management may acknowledge that funds are not needed for at least another year, but it argues that investment in capital improvements will extend far into the future and will require about \$250 million in commitments every three months for many years to come. Presumably the United States Treasury stands ready to provide funds as the need arises but the Service chooses, with Treasury Department approval, to sell its obligations to the public with no guarantee by the United States Government.

The Service plans to operate independently of the United States Government and to subject itself to the, "discipline of the market place," presumably in the interest of more profitable operations. It is difficult to reconcile this viewpoint with attendant facts. Apparently the Service wishes to have the existing monopoly arrangement continued, that is, they want their operation protected. As to public borrowing, representatives of leading investment banking firms informed us that United States Postal Service bonds would be readily saleable even without a United States Government guarantee simply because the investing public would regard them as U.S. Government agency securities that the Government would not permit to default on payments of principal or interest. Without this belief in an implicit guarantee by the U.S. Government—the bonds would not be saleable. In other words, the Service seems to be saying that the public has confidence in its ability to make the U.S. Postal Service an efficient profitable operation without Government assistance, and the investing public is saying—"That may or may not be true, it is extraneous. We know the government will always pay off on the bond's interest and principal payments, no matter how the Postal Service is managed.

A variety of methods have been employed by government agencies to sell their securities. We are concerned here mainly with the sale of 25-year maturity bonds by the Postal Service. The funds borrowed are to be used prospectively for a capital goods investment program expected to extend over many years.

In recent years the only government agencies that have marketed guaranteed securities with a 20-year or longer maturity date have been the Government National Mortgage Association and the Tennessee Valley Authority. The Farmers Home Administration issued some insured notes in August 1970 due for payment July 31, 1985, a 15-year maturity, and Federal National Mortgage Association in April 1971 issued securities payable June 11, 1984, a 13-year maturity. One should distinguish between short-term (up to 5 years), medium-term (5 to 16 years), and long-term (over 15 years) securities because certain investment buyers may not purchase medium- and long-term securities, particularly commercial banks and corporations. This market condition is undoubtedly weighed by government agencies in planning their debt funding operations, that is to say, there is a broader market for short-term securities.

The interest cost of money for direct U.S. Treasury obligations as compared with U.S. government agency sponsored issues is illustrated by the following income basis yields as quoted in the New York bond market on August 24, 1971.

Year	Description	Yield
1990	Treasury 3½ percent	5.59
1987-92	Treasury 4¼ percent	6.12
1988-93	Treasury 4 percent	5.86
1989-94	Treasury 4¼ percent	5.99
1995	Treasury 3 percent	4.70
1998	Treasury 3½ percent	5.15
Average yield		5.68
1992	World Bank 5½ percent	7.40
1993	World Bank 5½ percent	7.51
1994	World Bank 6½ percent	7.57
1994	World Bank 6½ percent	7.57
1995	World Bank 8½ percent	8.01
1996	World Bank 8½ percent	7.89
Average yield		7.66

Note: World Bank bonds sell generally on a basis comparable with U.S. Government agency bonds.

The schedule above shows that the average interest cost for long-term maturities on U.S. Treasury obligations compared with U.S. government sponsored obligations is the difference between 5.68 and 7.66 or about two percent per annum. At the time this is written it is estimated that Postal Service bonds due in 25 years would be saleable to the public at 100, if carrying an eight percent coupon, while the U.S. Treasury could finance the Service's borrowing needs at a rate of about six percent. The main argument against public bond sales by the Postal Service appears to be that the added cost to the Service and the public eventually will be two percent per year for 25 years, that is 50 percent, or \$1 billion for every \$2 billion borrowed. Ultimately, for the \$10 billion worth of postal bonds, add-on interest costs might total \$5 billion.

The Postal Service may sell its bonds to the public at considerable additional cost as demonstrated above. The management of the Service may burden itself with additional millions of dollars in added interest costs by the public sale of its bonds. If it chooses to offer bonds publicly with Treasury Department approval it may (1) negotiate the sale to a syndicate made up of investment and commercial bankers or (2) it may, with the cooperation of the U.S. Treasury, advertise and arrange for competitive bidding on its prospective bond issuances or (3) it may organize its own underwriting group through a permanent fiscal agent.

We discussed the above three methods of selling agency bonds to the public informally with representatives of major investment banking and commercial banking firms, and with government agency officials involved in the distribution of agency bonds. There was general agreement that the first issue of hypothetical Postal Service bonds due in 25 years in an amount of about \$250 million might be best handled by a negotiated sale to an underwriting syndicate made up of firms familiar with the underwriting, distribution, and secondary marketing of government agency bonds. However, we were assured by several investment bankers that if the Postal Service were to offer its first

issue for competitive public bidding, at least two groups would probably be anxious to buy the bonds on that basis. The main argument favoring a negotiated sale as compared with a competitive bidding sale appeared to be that the former gives the underwriting group a more permanent interest in the securities sold, and enables the group to engage in an educational campaign with the buying public. The fiscal agent method of bond financing has been used extensively by the Federal National Mortgage Association which works as follows.

The main function of the fiscal agent is to organize and manage the group of commercial banks and investment bankers who underwrite and distribute FNMA bonds. The fiscal agent is also expected to be familiar with the national market for bonds in general and FNMA securities in particular. His expertise and knowledge are used by the top management of FNMA in reaching decisions regarding the issuance of new securities.

The prime responsibility in reaching decisions regarding funds that will be needed by the agency lies with the executives of FNMA. That is to say, the amount of moneys needed, the majority of the issues, the coupon rate, and time of issuance are decided upon by the FNMA executive officers after consultation with the Fiscal Agent. Their proposal is submitted to the Treasury Department for permission and advice.

This method would seem to have been a logical choice for the Postal Service. A career postal employee could act as fiscal agent, thus saving commissions and fees that would be paid to various companies who may have been selected for dubious reasons. Using a fiscal agent the managers of the Postal Service and the Board of Governors would retain strict control of this vitally important part of the Service.

As another possibility, the General Accounting Office has for many years advocated the financing of Government agency debt through the U.S. Treasury Department. The Comptroller General in his report on the audit of the Export-Import Bank of the United States for fiscal year 1970 stated

... the Congress may wish to consider whether to require Eximbank to obtain its funds from the least costly source. Normally, the source will be the Treasury, however, there may be some instances in which Eximbank may be able to borrow funds in the private market at less cost than from the Treasury. We therefore believe that Eximbank should retain the latitude to borrow in the private market only when it can do so at less cost than through the Treasury.

Elsewhere in the report it is stated

Financing in the private market for Federal budget purpose through the issuance of participation certificates of beneficial interest costs Eximbank a minimum of $\frac{1}{2}$ of 1 percent, and sometimes as much as $1\frac{1}{2}$ percent, above comparable Treasury borrowing rates.

Unquestionably, borrowing directly from the Treasury rather than borrowing from the public would be less costly for the Postal Service, in interest charges, legal fees, and marketing costs. If the differential in interest costs amounted to one percent and \$10 billion of bonds were issued for 25-year terms, the added cost would amount to a possible

maximum \$2.5 billion. This great sum should certainly not be paid for the sole purpose of creating a false image of the credit worthiness of the Postal Service.

To operate a business profitably it is necessary to obtain income greater than the cost of producing the income. Prudent managers are expected to maximize income by achieving the most favorable possible balance between price and volume. Conversely, the costs of production of goods and services from which income is derived should be controlled at the lowest reasonable level if the enterprise is to make a profit.

The management of the Postal Service has been charged with its efficient and loss-free operation. Specific areas of its functioning have been designated by Congress to operate at a loss and are to be subsidized by Congress to reimburse the Service for losses incurred by congressional directive. All other Service operations presumably should be made to break even.

The Postal Service obviously plans to invest billions of dollars in machinery and equipment over the next ten years and presumably expects to amortize the cost of this capital investment as a charge to operations over the next 25 years and longer. It is expected that the cost of amortizing the equipment will be considerably less than the cost of paying people to do the repetitive and mechanical work the machines will do.

However, in planning for the future, the management of the Postal Service has made a serious oversight. The cost of borrowing money to buy equipment is inescapably a cost of production, just as losses from depreciation and obsolescence are costs of production. In consideration of this fact we find it incomprehensible that the Postal Service would choose to burden itself with additional interest charges that may well amount to many millions over a 25-year period of operations. This is particularly distressing when it is justified solely on the basis of a "psychological" need to force Postal Service managers to be more efficient. That seems a high price to pay for "psychological" treatment.

And where would this additional money come from? Would it come from increased postage rates, or increased congressional appropriations, or decreased services? In any event such unsatisfactory solutions would seem to negate the purpose of the Postal Reorganization Act. The only visible beneficiaries of the public sale of Postal Service bonds are a small, select group of legal firms, investment bankers, banks and investors. We sincerely hope that the U.S. Treasury exercises its rights under the Act to prevent the Postal Service from incurring unnecessary and excessive interest costs.

Summarizing, then, these points are clear:

1. The decision to negotiate this sale with a syndicate should be re-evaluated. At the very least, appearances require that the public believe this decision is not tainted by unethical behavior.

2. The October, 1971, timing of the first sale seems premature. The additional cost of the money (\$30 million) seems excessive, since the capital raised won't be needed for at least 18 months.

3. The Postal Service is incurring at least tens of millions of dollars in additional interest charges by insisting that the bonds not carry a Treasury guarantee. Customers see this as superfluous, since they believe the bonds will be implicitly guaranteed, and therefore add-on costs are the only consequence of this lack. We do not believe that the added cost is worth the psychological effect on postal managers.

4. The Postal Service should consider the fiscal agent method of selling bonds, if they insist on going to the public, since it is cheaper, tends to be more honest, and has proved successful over the years for other agencies.

5. Overall, the U.S. Treasury should be the purchaser of these bonds as the cost would be tremendously reduced as to interest and commissions and fees to the investment banking industry

GOVERNMENT AGENCY AND GOVERNMENT SPONSORED AGENCY DEBT

The Postal Service's bond issue will join a myriad of other government agency issues in the market place. It will have to compete successfully for the same investors as these other bonds. As noted previously, the record of the Postal Service is not good and that is one reason why a Treasury guarantee would enhance their marketability.

In order to have a clear picture of this market situation, we have prepared a descriptive analysis of the Federal bond market and sales. An ever increasing number of securities that are not direct obligations of the U.S. Treasury but which do involve U.S. Government guarantees or sponsorship have been purchased by the investing public. The increase in volume of such securities from June 1962 through May 1971 is about \$38 billion as shown in the schedule below

INTEREST-BEARING SECURITIES ISSUED AND OUTSTANDING BY GOVERNMENT AGENCIES¹

[End of month in millions of dollars]

	June 1962	May 1971
Defense Department: Family housing mortgages and homeowners assistance mortgages...	2,130	1,692
Housing and Urban Development Department:		
Federal Housing Administration.....	424	488
Government National Mortgage Association, participation — fund.....	0	6,075
Federal National Mortgage Association ²	2,558	0
Export-Import Bank of the United States.....	300	3,125
Farm Credit Administration ⁴ :		
Banks for cooperatives.....	467	0
Federal intermediate credit banks.....	1,903	0
Federal Home Loan Bank Board.....	(⁵)	6
Tennessee Valley Authority.....	145	1,327
Other.....	(⁵)	3
Total.....	7,927	12,716

¹ Includes unredeemed matured securities outstanding on which interest has ceased.

² Effective Sept. 30, 1968, Federal National Mortgage Association was converted to private ownership.

³ Includes 1,226 participation certificates.

⁴ Effective Dec. 31, 1968, banks for cooperatives and Federal intermediate credit banks were converted to private ownership.

⁵ Less than \$500 000.

INTEREST-BEARING SECURITIES ISSUED AND OUTSTANDING BY GOVERNMENT SPONSORED AGENCIES¹

[End of month in millions of dollars]

	June 1962	June 1971
Banks for cooperatives ²	0	1,789
Farmers Home Administration.....	0	1,150
Federal home loan banks.....	1,797	7,659
Federal intermediate credit banks.....	0	5,683
Federal land banks.....	2,551	6,797
Federal National Mortgage Association ³	0	14,996
District of Columbia stadium fund.....	20	20
Total.....	4,368	38,094

¹ Includes unredeemed matured securities outstanding on which interest has ceased.

² Effective Dec. 31, 1968, banks for cooperatives and Federal intermediate credit banks were converted to private ownership.

³ Includes mortgage backed bonds beginning June 1970.

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A relatively small percentage (about 17 percent) of the \$38 billion of government sponsored agency securities may be classified as long-term obligations. All of the Postal Service issues will be long-term. Three of the specific issues in that category are listed below. The market of late August 1971 reflects an interest rate return of about eight percent to investors. Thus, we can expect Postal Service Bonds to return about same.

June 30, 1971

Description	Outstanding (In millions)
Farmers Home Administration (FHA) 8% percent due July 1985	\$300
Federal Home Loan Banks (FHLB) 8.60 percent due November 1995	140
Federal National Mortgage Association (FNMA) 8% percent due October 1990	200
Total	640

Based on a survey by the United States Treasury Department the categories of investors in the above listed three issues were as follows at June 30, 1971

	FHA		FHLB		FNMA	
	Number	Percent	Number	Percent	Number	Percent
Commercial banks	8	2.7	2	1.3	8	4.0
Mutual savings banks	22	7.3	11	7.7	20	10.0
Life insurance companies			(1)		1	.5
Fire, casualty, and marine insurance companies	6	2.0	1	.6	6	3.0
Savings and loan associations	51	17.0	29	20.6	14	7.0
Corporations						
State and local governments:						
General funds	5	1.7			2	1.0
Pension and retirement funds	24	8.0	4	2.8	21	10.5
Other investors	184	61.3	94	67.0	128	64.0
Total ²	300	100.0	140	100.0	200	100.0

¹ Less than \$500,000.

² May not add due to rounding.

The vast majority of Postal Service bonds will be sold to these large investors. The large savings and loan associations and mutual savings banks who participate in many of these issues will be the ones to reap the additional interest costs. Of course, the legal exemption granted large commercial banks will allow them to participate in the issues also.

An indication of the type of investor that holds government agency securities is provided by the semiannual survey report of the United States Treasury Department. As of June 30, 1971, it shows the following

Securities covered in survey

	In millions
U.S. Government accounts and Federal Reserve banks	\$2,023
Private investors (see below)	8,992
Total	11,015

Held by private investors covered in survey

	In millions	Percent
Commercial banks.....	\$1,438	16.0
Mutual savings banks.....	517	5.8
Life insurance companies.....	157	1.8
Fire, casualty, and marine insurance companies.....	318	3.5
Savings and loan associations.....	302	3.4
Corporation.....	45	5
State and local governments:		
General funds.....	497	5.5
Pension and retirement funds.....	1,012	11.2
All other private investors.....	4,706	52.3
Total.....	8,992	100.0

These investors stand to reap extraordinary benefits from the method of selling these bonds. We question the fundamental decision which allows private investors who cannot be classified as "small business" to make billions of dollars in additional money simply because the Postal Service chooses the most expensive alternative available to it.

PART IV—POLITICS AND THE POSTAL SERVICE

Under ordinary circumstances, the choice of Mudge, Rose, Guthrie, and Alexander would not have been considered unusual. It is an outstanding municipal bonding law firm, widely regarded for its excellent capabilities in that area. However, the circumstances surrounding the selection of legal counsel for the first bond issue of the U.S. Postal Service cannot be considered usual.

As has been stated, the Postal Service suffered for many years from political interference at both the Congressional and Executive levels. All actions of the newly reorganized quasi-independent Postal Service must be free from any taint of political influence. Thus, to select as bond counsel the firm of which President Richard Nixon and Attorney General John Mitchell are former senior partners seems, at best insensitive to appearances and at worst highly political.

The question that needs to be answered is why this law firm was selected over a number of others that are equally qualified.

In order to answer this question it is necessary to examine statements by Senior Assistant Postmaster General for Support, Mr. James Hargrove. When the Subcommittee Chairman, Congressman Udall, questioned him about the selection of this law firm, Mr. Hargrove insisted that the underwriters had chosen Mudge Rose. He said it was the underwriters' prerogative to make the decision, not that of the Postal Service. However, in a memorandum dated August 20, 1970, Mr. Hargrove wrote "The issuer [U.S. Postal Service] would normally have a good deal to say about the counsel the underwriters select, although the underwriters themselves engage such counsel and pay their fees." Obviously then, the Postal Service could have had considerable influence on the underwriters choice of counsel.

Although Mr. Hargrove claimed that the underwriters made the selection, in reviewing the proposals of the selected five managing underwriters we find that this can only be partly true. The questionnaire asked the candidate firms whom they would choose as counsel, and only one of the five managers gave Mudge Rose as their first choice for bond counsel. This was the firm of Salomon Brothers and Hutzler. One other firm listed Mudge Rose as its third choice while the remaining three did not mention the firm at all. Thus, at the time proposals were submitted, the firm of Mudge, Rose, Guthrie, and Alexander was not the choice of the majority of the five underwriters.

Subsequently a representative of Salomon Brothers and Hutzler indicated that the decision was made solely by Salomon Brothers as leading managing underwriter. By "solely", the Subcommittee understood that no other underwriter was involved in that decision. No information directly connecting any representatives of the U.S. Postal Service and Salomon Brothers in selecting Mudge Rose has been revealed to this date.

As to the fee that will be paid by the underwriters for the services of bond counsel, one report of the *Los Angeles Times* indicated if the same bond counsel were to handle all of the issues that will total \$10 billion in bonds, its fees could approximate \$2½ million. Mr. William Simon, Vice President of Salomon Brothers and Hutzler, told the Subcommittee Chairman that he did not necessarily anticipate that Mudge, Rose, Guthrie, and Alexander would be the bond counsel for all future underwritings. However, interviews with other bonding houses indicated that it is the current practice of all government agencies to retain the same bond counsel throughout the subsequent bond issues. Therefore, it is our conclusion that Mudge Rose would probably be continuously employed by the underwriters of the Postal Service bond issues.

Salomon Brothers and Hutzler indicated that the initial payment to Mudge Rose for preliminary work would be about \$100,000. However, one year earlier, Mr. Hargrove had stated that he felt confident the U.S. Postal Service could hire a law firm directly to do basically the same work for no more than \$10,000. In that memo he said "The survey should be done by one of the Wall Street legal firms that normally does such things for corporate and government clients. We will obviously incur a fee of some significance, but not more than \$5,000 or \$10,000 for this particular purpose." Thus, there is apparently a great difference in what a law firm would be paid if hired by the Postal Service directly rather than by the bond counsel.

The evidence that has been developed showing the involvement of various members of the Executive Department in this entire process, indicates that in the selection of Mudge Rose an appearance of impropriety exists at the very least. A law firm that formerly has as its senior partners the current President and Attorney General of the United States should have been excluded from consideration, if only for appearance's sake. The insensitivity to appearances shown by its actual selection is a mistake of a high magnitude.

Discussions with representatives of the investment banking industry reveal that though Mudge, Rose, Guthrie, and Alexander was qualified to counsel the bond issue, there are a number of other law firms equally qualified and willing to do the work, much of which is *pro forma* and does not require unique expertise.

Taking all of the above into consideration, it is clear that (1) the Postal Service could have influenced the selection of the underwriters, (2) the managing underwriters had no real voice in selecting bond counsel, notwithstanding Postal Service statements to the contrary, (3) while Mudge Rose is competent to do the work, there are a number of other qualified firms whose selection could have prevented any appearance of impropriety, (4) an appearance of gross impropriety did occur when Mudge Rose was selected, especially in light of the Postmaster General's statement that it was important to avoid the appearance of impropriety as actual improper actions.

While there is no direct evidence linking the selection of the bond counsel to any political decisions of either the U.S. Postal Service or Salomon Brothers and Hutzler, there is a great deal of circumstantial evidence to indicate that improprieties did exist. The future ability of the U.S. Postal Service to deal objectively with the Congress may

depend on its rescinding the selection it has made, and we heartily recommend that it do so. A suggestion to the underwriters from the Postal Service that another firm be selected would end the matter, since obviously the managing underwriters will not retain a law firm the choice of which does not meet with Postal Service approval. For the sake of avoiding an appearance of impropriety, the Postal Service should take such action immediately

CONCLUSION

If one general conclusion can be drawn from this report, it is this. The timing, nature, and prospective sales of the Postal Service bond issue should be reviewed and altered to reflect the information provided herein.

APPENDIX

APPENDIX A-1

POST OFFICE DEPARTMENT,
ASSISTANT POSTMASTER GENERAL,
BUREAU OF FINANCE AND ADMINISTRATION,
Washington, D.C., April 13, 1971

GENTLEMEN As you are aware, the United States Postal Service is contemplating the sale of bonds to the public in the fall of this year. For planning purposes we are assuming an issue of \$250 million of 25-year maturity bonds on October 1, 1971. It is contemplated that the bonds will not be guaranteed by nor have the full faith and credit of the United States. The bases on which we believe the bonds will be salable without such guarantee are outlined in a speech made by me to the Investment Bankers Association, Boca Raton, Florida, December 3, 1970, a copy of which is enclosed for your information.

In order that we might be able to consider possible candidates for managing a negotiated underwriting group, we are asking a number of firms to confirm to us their interest in being a manager or co-manager of such a group and to supply certain basic data for comparative analysis. If you are interested in being considered in this respect, please provide me with answers to the questions below. It will be appreciated if you will keep your answers as brief and to the point as may be appropriate.

1. Please provide an annual report for your firm for the last fiscal year or in lieu thereof a descriptive statement of your management organization and a balance sheet as of a recent date.

2. Please state the particular person in your organization who would represent you in negotiations with the U.S. Postal Service if you are selected as a managing underwriter, indicating the particular background and experience of that person.

3. Please indicate, by separate categories, financings in 1970 and thus far in 1971 of (1) Government and Government agency securities not exempt from Federal income tax and (2) corporate utility debt securities, for which you have been either (a) the sole managing underwriter or (b) one of a group of managing underwriters. Please indicate the maturity of such issues.

4. For the last five Government agency underwritings in which you have participated as manager or one of a group of managers, you please indicate the "spread" for each such underwriting, whether or not it was competitive or negotiated, the size of the issue, the name of the agency, the maturity of the issue, and any other members of the managing group.

5. If, in connection with financings you have managed alone or jointly, you have been primarily responsible for arranging meetings with investor groups to acquaint them with securities of new issuers, particularly in the Government agency area, please describe your role in such arrangements.

6. Please indicate the extent to which you make secondary markets in issues which you manage or co-manage.

7. If you were to be selected as our managing underwriter, please indicate, if you have no objection, the name of the firm which you would select as counsel to the underwriters.

8. If you were to be selected as our managing underwriter, would you agree to have your legal counsel conduct a legal investment survey with respect to the sale of the indicated Postal Service Bonds in each of the states?

9. Please indicate the particular strengths which you believe your firm would bring to the position of managing underwriter, either alone or as a member of a group of managing underwriters.

10. Please indicate the various factors which should be taken into account in determining the "spread" on the sale of an issue of Government agency bonds such as we propose. Please comment on spreads on other Government agency offerings with which you are familiar, such as Federal National Mortgage Association, Home Loan Bank Board, Farm Credit Administration, Farmers Home Administration, World Bank, etc.

I would appreciate receiving an answer to this inquiry by April 28. Many of the questions asked have already been discussed with you and other firms who have indicated similar interests, so I hope it may not be too difficult for you to accommodate me by replying so promptly.

Sincerely,

J W HARGROVE,
Assistant Postmaster General.

APPENDIX A-2

FEDERAL AGENCY AND QUASI-GOVERNMENT UNDERWRITER MANAGEMENT SUMMARY
FOR THE FULL YEAR 1970

Name of underwriter	Number of issues	Management credit (in millions)
Merrill Lynch, Pierce, Fenner & Smith, Inc.*	16	\$756.8
Salomon Bros.*	15	(3,315.0)
The 1st Boston Corp.	11	753.8
Morgan Guaranty Trust Co. of New York*	7	(3,215.0)
Lehman Bros.	6	620.0
A. G. Becker & Co.	5	(2,400.0)
1st National City Bank	4	285.5
Goldman, Sachs & Co.	2	(1,350.0)
The Chase Manhattan Bank N.A.	2	267.1
Chemical Bank	2	(1,115.0)
Equitable Securities, Morton & Co. Inc.	2	245.8
Halsey, Stuart & Co. Inc.	2	(1,000.0)
Smith, Barney & Co. Inc.	2	78.5
White, Weld & Co.	2	(456.0)
Blyth & Co. Inc.	1	120.0
Lazard Freres & Co.	1	(600.0)
Bank of America N.T. & S.A.	1	15.5
Eastman Dillon, Union Securities & Co.	1	(150.0)
The 1st National Bank of Chicago	1	15.5
Kidder, Peabody & Co. Inc.*	1	(150.0)
Dean Witter & Co. Inc.	1	15.5
Dillon-Reid not qualified for listing	1	(150.0)

*Firms selected as managing underwriters for Postal Service bond issue.

APPENDIX A-3

LEADING 25 MANAGING UNDERWRITERS OF MUNICIPAL ISSUES, 1970¹

[Thousands omitted]

Firm	No. issues	Total management credit
Chase Manhattan Bank	138	\$1,356,961
Halsey Stuart & Co.	243	1,007,619
First National City Bank	129	942,508
Morgan Guaranty Trust Co.*	132	843,463
Merrill Lynch *	238	705,187
Bankers Trust Co.	147	647,853
Lehman Bros.	102	610,910
Bank of America	134	572,975
Blyth & Co., Inc.	149	554,999
First Boston Corp.	112	544,210
Salomon Bros *	80	543,494
Nuveen & Co., John	229	503,393
Smith Barney & Co.	109	490,691
First National Bank of Chicago	124	446,150
Kidder, Peabody *	91	371,558
Harris Trust & Savings	135	335,225
Northern Trust Co.	184	329,258
duPont F. I., Glore Forgan	59	324,114
Morton & Co. W. H. (equit. sec.)	62	303,619
Drexel Firestone Inc.	57	301,331
Cont. Ill. N.B. & Tr. Co.	153	290,038
White Weld & Co.	67	267,638
Eastman Dillon	51	203,471
First of Michigan Corp.	113	198,328
United California Bank	64	188,450
Dillon-Read not qualified for listing*		

¹ Represents distributed or proportionate management credit. That is, the value of each issue managed or comanaged is credited proportionately to each comanager, the proportion being determined by the number of firms in the management group.

*Firms selected as managing underwriters for Postal Service bond issue.

APPENDIX A-4

LEADING 25 MANAGING UNDERWRITERS OF CORPORATE ISSUES, 1970¹

[Thousands omitted]

Firm	Number issues	Total management credit	Firm	Number issues	Total management credit
First Boston	146	\$3,800,565	Lazard, Freres	15	\$642,607
Morgan Stanley	41	3,019,072	Paine, Webber	35	494,665
*Merrill Lynch	135	2,967,953	Dean Witter	33	484,399
Lehman Bros.	101	2,056,772	Drexel Harriman	24	448,270
Goldman, Sachs	57	1,734,643	Stone & Webster	31	418,693
*Salomon Bros.	125	1,658,171	DuPont Glore Forgan	27	206,068
Blyth & Co., Inc.	89	1,594,150	Hornblower & Weeks	13	170,728
*Kidder, Peabody	63	1,383,867	Equitable Securities	18	113,069
Smith Barney & Co.	37	1,352,803	Johnston, Lemon	10	110,339
Eastman Dillon	68	1,138,040	E. F. Hutton	10	105,420
White, Weld & Co.	62	1,103,243	Bache & Co.	14	95,936
*Dillon, Read	23	984,697	*Morgan Guaranty (forbidden by law in participation)		
Halsey, Stuart	58	912,332			
Kuhn, Loeb	19	730,835			

¹ Represents distributed or proportionate management credit. That is, the value of each issue managed or comanaged is credited proportionately to each comanager, the proportion being determined by the number of firms in the management group.

² Includes F. I. duPont, Glore Forgan Staats, A. C. Allyn.

*Firms selected as managing underwriters for Postal Service bond issue.

APPENDIX A-5

LEADING MANAGING UNDERWRITERS OF MUNICIPAL AND CORPORATE ISSUES, 1970

[In thousands]

Firm	Total management credit		Firm	Total management credit	
	Number of issues	Total management credit		Number of issues	Total management credit
First Boston Corp	258	\$4,344,775	Bankers Trust Co.	147	647,853
Merrill Lynch ¹	373	3,673,140	Bank of America	134	572,975
Morgan Stanley	41	3,019,072	duPont, Glorie Forgan	86	530,182
Lehman Bros.	203	2,667,682	Paine Webber	47	504,520
Salomon Bros. ¹	205	2,201,665	Nuveen & Co., John	229	503,393
Blyth & Co.	238	2,149,149	Dean Witter	35	487,174
Halsey Stuart & Co. Inc.	301	1,919,951	First National Bank of Chicago	124	446,150
Goldman Sachs	77	1,849,086	Stone Webster	35	422,289
Smith Barney	146	1,843,494	Equitable Sec. W. H. Morton	80	416,688
Kidder Peabody ¹	154	1,755,425	Harris Trust & Savings	135	335,225
White Weld	129	1,370,881	Northern Trust Co.	184	329,258
Chase Manhattan Bank	138	1,356,691	Cont. Ill. National Bank & Trust Co.	153	290,038
Eastman Dillon Union Sec.	119	1,341,511	Hornblower & Weeks	30	232,493
Dillon Read ¹	36	1,088,170	First of Michigan Corp.	113	198,328
First National City Bank	129	942,508	United California Bank	64	188,450
Kuhn Loeb	41	857,451	Bache	35	179,147
Morgan Guaranty Trust Co. ¹	132	843,463	Johnston Lemon	10	110,339
Drexel Firestone	81	749,601	E. F. Hutton	10	105,420
Lazard Freres	16	657,607			

¹ Firms selected as managing underwriters for Postal Service bond issue.

APPENDIX A-6

RANKINGS BY UTILITIES, 1970-71 COMBINED

1. Merrill Lynch, Pierce*	\$7,158,000,000
2. Salomon Bros*	5,632,000,000
3. First Boston Corp.	4,812,000,000
4. Blythe & Co.	4,681,000,000
5. Halsey Stuart & Co.	4,570,000,000
6. Lehman Brothers	3,882,000,000
7. Kidder, Peabody & Co.*	2,407,000,000
8. White, Weld & Co.	2,236,000,000
9. Eastman Dillon	1,629,000,000
10. Dean Witter & Co.	1,609,000,000
11. Morgan Stanley & Co.	915,000,000
12. Paine, Webber Jackson	749,000,000
13. Goldman, Sachs & Co.	735,000,000
14. Dillon, Read & Co.*	643,000,000
15. Equitable Securities	550,000,000
16. Kuhn, Loeb & Co.	335,000,000
17. Smith Barney & Co.	283,000,000
18. Bache & Co.	96,000,000
19. Hornblower & Weeks	86,000,000
20. A. G. Becker & Co.	53,950,000
Morgan Guaranty,* not listed	

*Firms selected as managing underwriters for Postal Service bond issue.

APPENDIX A-7

RANKINGS OF UNDERWRITING FIRMS ON BASIS OF TOTAL DOLLAR AMOUNT OF PUBLIC OFFERINGS OF TAXABLE
SECURITIES MANAGED OR COMANAGED*

	Amount	Number of issues
1969:		
The First Boston Corp.	\$4,098,567	90
Merrill Lynch	3,617,359	94
Lehman Brothers	3,531,758	92
Salomon Brothers	3,018,932	86
Halsey, Stuart & Co.	2,561,325	56
Blyth & Co., Inc.	2,456,577	63
Eastman Dillon	1,837,837	69
White, Weld & Co.	1,798,439	71
Morgan, Stanley & Co.	1,440,403	24
Kuhn, Loeb & Co.	664,707	18
10 year totals 1960-69:		
First Boston Corp.	32,603,991	535
Merrill Lynch	25,440,550	515
Salomon Brothers	22,546,166	539
Lehman Brothers	19,986,214	525
Morgan, Stanley & Co.	16,060,956	196
Halsey, Stuart & Co.	14,653,764	429
Blyth & Co., Inc.	13,815,443	418
White, Weld & Co.	10,668,264	460
Eastman Dillon	7,497,646	355
Kuhn, Loeb & Co.	7,288,228	163

*Source: Investment Dealers Digest—Corporate Financing Directory.

APPENDIX A-8

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., August 12, 1970.

HON. RICHARD NIXON,
President of the United States,
The White House, Washington, D.C.

DEAR MR. PRESIDENT The undersigned are proud to have played active roles in the long and difficult legislative battle to achieve passage of the Postal Reform Act of 1970. We have high hopes that this Act will in time bring savings, efficiency and better postal service to the American people. We are most anxious that this new postal service succeed and that it meet the expectations which led us to fight for its creation.

Our pleasure at the enactment of this legislation is tempered, however, by our realization that the approach taken toward operational aspects of the new postal service will largely determine whether the enterprise succeeds or fails. We write this letter to underline our joint concern about risks and pitfalls which need to be avoided as the transition is made to the new system. We believe that many features of that system will require close attention in the coming months, but our object in writing to you at this time is to discuss the new Postal Rate Commission.

Mr. President, we recognize the large and important role played in our society by independent regulatory commissions. Some have earned

the complete confidence of the public, while others have at times fallen short of this goal. While the Postal Rate Commission is not an independent regulatory agency and shares a large measure of its rate-setting procedures with the Board of Governors, there are certain similarities between the Commission and the independent regulatory agencies. These similarities are most apparent in the relationship of user groups to the Rate Commission.

These observations lead us to believe that the patterns and attitudes within and about an agency are often set in the early months and years of its existence. We urge you to employ your influence and prestige to insure that the new Postal Rate Commission becomes a model of what an independent regulatory commission ought to be. We think the decisions you make in the next few weeks and the leadership you exhibit in launching the new postal service can have far-reaching and permanent benefits that will help achieve the goals we all sought in advocating postal reform.

Our strong feelings about the Postal Rate Commission are built upon participation, as members of the House Post Office and Civil Service Committee, in Congressional action on several postal rate bills in past years. We have learned that rate decisions involve hundreds of millions of dollars and are of great concern and interest to large organized groups of mail users. We have also learned that these decisions involve complex technical questions. The philosophy of the new Act is that Congress will lay down broad guidelines for policies governing postal rates, but that we will leave the task of applying those guidelines to the combined efforts of the Board of Governors and the Postal Rate Commission. There is a shared responsibility between the Postal Service and the Rate Commission in this effort in that the Service must make the initial recommendations which the Commission must act upon. After the final recommendation, the Board of Governors must place the final decision into effect. The Commissioners will have to be conscious of the heavy burden placed on the Board of Governors in recommending rate changes and should give great weight to the needs of this huge enterprise in their deliberations. Within this context, the Rate Commissioners and their professional staff should act in producing a rate structure consistent with Congressional policy.

Given the transfer of rate setting authority from the Congress to the Postal Service and Rate Commission, it is apparent to us that one of the potential dangers of the new arrangement is that the intensive, well-financed, and expert lobbying activities previously directed to Congress will be primarily focused on the five members of that commission. We do not suggest that the interested parties have in the past or will in the future resort to dishonest or dishonorable means. We recognize that there are legitimate business interests which have a large stake in decisions that are made. These groups have every right to be heard and should have every opportunity to make their case in an honorable way using accepted techniques of persuasion.

But if we are to have fair and just rate policies, if the public is to have confidence in the way rates are determined, and if the Post Office is to generate the revenues necessary to bring about the modernization and improvements we all seek—then it is vital that the Rate Commissioners not only be exceptionally well qualified and above

reproach, but that the general public believes this is the case. As we have all learned over the years, the appearance of impropriety can be just as damaging to the public confidence as impropriety itself.

Much has been said in recent days, particularly by opponents of postal reform, about the inability of the new system to preserve requisite ethical standards. These comments reflect a cynicism about whether the new Postal Service can avoid politics as usual in its operations. Fears have been expressed that the Rate Commissioners and members of the Board of Governors will be individuals who are closely identified with large mail user groups. It has been contended that if Congress is removed as a buffer between special interests and the public, the new Service will in time be heavily influenced and perhaps captured by user groups.

Mr President, we believe that these potential problems can be largely if not entirely avoided if you take certain steps at the outset. Specifically, we solicit your consideration of several main points

- 1 We urge that exceptional care be used in the search for talented individuals to serve as the first Postal Rate Commissioners. It is vital, in our judgment, that these individuals have no prior connections with or background in the commercial operations of the large mail users. We recognize the advantages that previous familiarity with postal matters would bring to the rate setting function. We believe, however, that rate decisions are not so complicated that a person of exceptional ability cannot quickly overcome a lack of prior experience, and that there would be a great deterioration of public confidence if the Commissioners were picked from the ranks of those who have been connected with or who have represented large mailer groups.

2. We urge that you meet with the first Rate Commissioners prior to their formal appointment, and that you indicate to them in the strongest possible terms that the hopes of all of us rest on their objectivity, complete impartiality and fidelity to the public trust.

3. We urge that you advise the new Commissioners of your strong desire that they initially and immediately establish administrative practices and procedures within the Commission designed to make it a model for other regulatory agencies in terms of complete impartiality and public confidence. We assume that Executive Order 11222 of May 8, 1965, will be applicable to the new commission, but if it is not we think the Commissioners would want to adopt its terms by regulation to apply to themselves and to chief staff employees.

4. We hope you will urge the Rate Commissioners not only to adopt the standards of ethical conduct defined in Executive order 11222, but to expand and to enlarge them as necessary in order to insure—

- a. That all Rate Commissioners and key staff employees are annually required to disclose to the Civil Service Commission and/or the appropriate Congressional Committees the financial information referred to in Part IV of the Executive Order cited above,

- b. That strict rules are adopted regarding informal or ex parte contacts with individuals, groups, or their representatives having business with the Commission. Such rules should

require a public record to be made and kept of any such contacts including luncheons, informal gatherings or any occasion on which matters pending before the Commission are the subject of discussion,

c. That such regulations include strong prohibitions against the acceptance of honoraria, travel expenses, entertainment or the like in connection with attendance at conventions or gatherings of industrial groups.

Mr President, if you should decide to take the actions we have outlined, we believe you will have done much to insure the initial success of the United States Postal Service. We think our ideas are shared by many members of Congress, and we hope for your favorable consideration of them.

Sincerely,

MORRIS K. UDALL.
DAVID N. HENDERSON.

AUGUST 17, 1970.

MEMORANDUM FOR JOHN D. EHRLICHMAN

I agree completely with the letter to the President from Congressmen Udall and Henderson (copy attached) I think this is of overriding importance and represents a real danger that we must take into consideration.

WINTON M. BLOUNT.

APPENDIX B

LIST OF POLITICAL CONTRIBUTIONS BY PRINCIPALS
OF FIRMS IN 1968

(Source "Political Contributions of \$500 or More in 1968", Herbert E. Alexander and Caroline D. Jones, editors, Citizens' Research Foundation, Princeton, New Jersey)

Kidder, Peabody

Albert H. Gordon,¹ chairman of the board.

Governor's Club.....	---	---	\$500.
Nixon-Agnew Election Committee..	--	---	2,000
Nixon-Agnew Finance Committee..	---	---	3,000
Republican State Dinner Committee.....	---	---	2,000
Javits Senate Committee..	--	---	4,000
Nixon-Agnew Campaign Committee..	--	---	3,000
Victory 1968 (Mr and Mrs.).....	---	---	3,000
Nixon-Agnew Campaign Committee..	---	---	3,000
Nixon-Agnew Finance Committee..	---	---	3,000
Subtotal....	---	---	23,500

William N. Loverd, vice president and treasurer, Republican State Dinner Committee..	---	---	1,500
Amyas Ames, vice president:	---	---	
Victory 1968..	---	---	3,000
Republican State Dinner Committee.....	---	---	2,000
A.E. Borneman, vice president: Republican State Dinner Committee..	---	---	1,500
Nicholas J. Coolidge, vice president: Republican State Dinner Committee..	---	---	1,500

Francis J. Cunningham, vice president: Republican State Dinner Committee	1,000
Albert F. Gordon, vice president: Republican State Dinner Committee	2,000
R. Harte, vice president (?)	
Republican National Committee	1,500
Republican National Finance	1,000
Chandler Hovey, vice president: Victory 1968	500
Paul B. Kopperl, vice president: Nixon-Agnew	2,000
Frederick L. Moore, vice president: Republican State Dinner Committee	1,500
Raymond J. Raff, vice president: Republican State Dinner Committee	1,500
Julian H. Robertson, Jr., vice president: Nixon-Agnew Victory Rally	1,100
Lloyd B. Waring, vice president:	
Nixon-Agnew	1,000
Nixon-Agnew Finance	1,793
Subtotal	24,393
Total	47,893
Morgan Guaranty	Nobody
Dillon, Read	
August Belmont	
(R) Republican Campaign Committee	500
(R) Republican State Dinner Committee	500
(R) Javits, New York Senate	1,000
Robert E. Christie (R) Governor's Club, New York	500
Nicholas F. Brady (R) Nixon-Agnew TV Committee	1,500
Total	4,000
Merrill Lynch, Pierce, Fenner & Smith	
Stewart A. Dunn (M) Effective Government Association	500
Donald R. Regan (M) Effective Government Association	500
George L. Shinn (M) Effective Government Association	500
Bernard B. Ramsey (M) Effective Government Association	500
Winthrop C. Lenz (M) Effective Government Association	500
Richard B. King (M) Effective Government Association	500
John A. Orb (M) Effective Government Association	500
Thomas J. Cassidy (M) Effective Government Association	500
Dakin B. Ferris (M) Effective Government Association	500
Julius H. Sedlmayer (M) Effective Government Association	500
Harry B. Anderson (M) Effective Government Association	500
Ned Ball (M) Effective Government Association	500
Samuel Grodin (M) Effective Government Association	1,000
Samuel Mothner (M) Effective Government Association	500
Total	7,500
Salomon Bros.	
Salomon Bros. & Hutzler (D) Humphrey President Club	500
Charles J. Simon (D) President Club Johnson	1,000
Total	1,500
A.G. Becker & Co.	
John F. Donahue (R) Javits New York Senate	1,000
J. Levy (M) National Committee Effective Congress	500
L. Moss (R) Victory 1968 Committee	1,600
Total	3,100
First Boston Corporation	
Mrs. Andrew N. Overby (R) Republican Campaign Committee	500
Total	500

¹ The Citizens' Research Foundation work cites the amount \$23,500 for Albert H. Gordon of Kidder Peabody. A New York Times article, "Contributions of \$25,000 or More in 1968 Campaigns," June 20, 1971, cites \$38,750 as Mr. Gordon's total.

*First National Bank in Dallas: Nobody**Goldman, Sachs & Co.*

Gustave L. Levy	
(R) Javits New York Senate	4,500
(R) Victory 1968 Committee	1,000
(R) Republican State Dinner Committee New York	1,500
James C. Hemphill (R) Victory 1968 Committee	1,000
Edward A. Schrader: (R) Victory 1968 Committee	1,000
Stanley R. Miller: (R) Victory 1968 Committee	1,000
John L. Weinberg (D) Humphrey National Finance Committee	1,000
H.R. Young: (R) Victory 1968 Committee	1,000
Arthur G. Altschul (D) Humphrey National Finance Committee	1,000
George E. Doty (R) Victory 1968 Committee	1,000
Sidney G. Wineberg, Jr (D) Humphrey National Finance Committee	1,000
Walter F. Blaine	
(R) Victory 1968 Committee	1,000
(D) Humphrey National Finance Committee	5,000
John H. Roades; (R) Victory 1968 Committee	1,000
Total	22,000

Hornblower & Weeks

Howard E. Buhse: (R) Nixon-Agnew Campaign Committee	2,500
Charles L. Morse, Jr (R) Nixon-Agnew Campaign Committee	1,000
Jansen Noyes, Jr (R) Nixon-Agnew Campaign Committee	1,000
William J. Lawford, Jr : (R) Nixon-Agnew Campaign Committee	1,000
William G. Maloney (R) Nixon-Agnew Campaign Committee	500
Blanche Noyes (R) Nixon-Agnew Campaign Committee	1,000
Clifton P. Walker (R) Nixon-Agnew Campaign Committee	1,000
Ralph Hornblower (R) Governor's Club, New York	500
Joseph Gimma:	
(R) Nixon-Agnew Campaign Committee	5,000
(R) Friends of Nixon, New York	3,000
(R) Governor's Club, New York	500
(R) Republican State Dinner Committee	500
Total	17,500

*Kuhn, Loeb & Co., International:**John M. Schiff*

(R) New York County Republican Committee	1,000
(R) Nixon-Agnew Victory Rally Committee	2,000
(R) Republican State Dinner Committee, New York	3,000
(R) Nixon-Agnew Victory Rally Committee	1,000
(R) Governor's Club, New York	500
(R) Javits, New York, Senate	4,000
(R) Victory 1968 Committee	3,000
(R) Nixon-Agnew Election Committee	3,000
(R) Republican National Finance Advisory Committee	3,000
(R) Republican Congressional Booster Committee	1,000
Frederick M. Warburg (R) Victory 1968 Committee	1,000
Morris H. Wright: (R) Victory 1968 Committee	1,000
David T. Schiff: (R) Victory 1968 Committee	1,000
Gilbert W. Kahn (R) Victory 1968 Committee	1,000
Percy W. Stewart (R) Victory 1968 Committee	1,000
Robert F. Brown: (R) Victory 1968 Committee	1,000
Total	27,500

Lazard Freres & Co.:

Andre Meyer		
(D) Committee to Elect Best Men	--	5,000
(R) Javits for Senate		1,000
(D) New York Citizens for Humphrey		500
Howard S. Kniffen (R) Victory-1968 Committee		800
Peter A. Lewis (D) Humphrey for President Committee		500
George Murnane, Jr. (R) Victory-1968 Committee		1,600
Total		9,900

Lehman Bros.

Frederick L., Ehrman, Chairman (Listed by New York Times for \$41,136.)

(R) Republican National Finance Committee		3,000
(R) Nixon-Agnew Election Committee		3,000
(R) Nixon-Agnew Finance Committee		3,000
(R) Republican Victory Committee		1,722
(R) Republican National Finance Operating Committee		1,000
(R) Nixon-Agnew Committee		2,000
(R) Republican for Nixon Association		3,000
(R) Nixon-Agnew Committee C		3,000
(R) American Good Government		3,000
(R) TV Nixon-Agnew		3,000
(R) United Citizens Nixon-Agnew Committee		3,000
(R) WMN Finance Committee for Nixon-Agnew		914
(R) Nixon-Agnew TV Committee		3,000
(R) Agnew Vice Presidential Committee		3,000
(R) Governor's Club, New York		500
(R) Victory-1968		2,000
(R) Grassroots Committee for Nixon-Agnew		3,000

Paul L. Davies.

(R) Republican National Finance Operating Committee		1,000
(R) Nixon-Agnew Victory Rally Committee		1,000
(R) Nixon-Agnew Victory Committee		2,000
(R) Nixon-Agnew Committee C		3,000
(R) Congressional Booster Committee		1,000
(R) Victory-1968		1,000
(R) Republican Victory Committee		1,000
(R) Republican Congressional Booster Committee		1,000
(R) Republican Victory Committee		1,000
(R) Republican Victory Committee		1,000

Lucius D. Clay.

(R) Republican National Finance Operating Committee		1,000
(R) Governor's Club, New York		500
(R) Victory-1968		1,000

F Warren Hellman (R) Nixon-Agnew Committee

Joseph A. Thomas.

(R) Nixon-Agnew Finance		1,500
(R) Nixon-Agnew Victory Rally		500

Walter E. Morse (R) Republican State Dinner Committee

Total

60,636

Loeb, Rhoades, & Co.

John L. Loeb.

(R) Javits, N Y Senate		5,000
(D) N Y Volunteers for Humphrey		1,000
(D) N Y Citizens for Humphrey		5,000
(D) Muskie Vice President		1,000
(R) Nixon-Agnew Victory Rally Committee		500
Mrs. John Loeb (R) Javits, N Y Senate		1,250

John L. Loeb, Jr.

(R) Representative of Nixon Association		1,000
(R) Representative of State Dinner Committee		1,500
(D) Committee To Elect Best Men		1,000

Clifford W Michel.

Loeb, Rhoades & Co.—Continued

(D) Committee To Elect Best Men	5,000
(D) Humphrey National Finance Committee	5,000
(R) Representative State Committee, New York	500
Henry A. Loeb.	
(R) Javits, N Y Senate	1,000
(R) Representative of National Finance Operating Committee	1,000
(D) Committee to Elect Best Men---	5,000
(R) Governor's Club, New York	500
(D) Humphrey National Finance Committee-----	5,000
(D) N Y Citizens for Humphrey	5,000
Mark J. Millard	
(R) Javits, N Y Senate	2,500
(D) Humphrey National Finance Committee-----	5,000
(D) Committee To Elect Best Men-----	5,000
Carl M. Mueller (D) Committee To Elect Best Men---	3,000
Thomas L. Kempner (D) Committee To Elect Best Men---	2,500
Armand G. Erpf	
(R) Javits, N Y Senate	3,000
(R) Governor's Club, New York	500
(D) Humphrey National Finance Committee-----	5,000
(D) Committee To Elect Best Men---	5,000
Stephen A. Koshland	
(R) Victory, 1968	1,000
(D) Committee to Elect Best Men---	
Kenrick S. Gillespie (D) Committee To Elect Best Men---	500
Total	78,450

Smith, Barney & Co.

William E. Fay, Jr Many did not contribute. (R) Victory 1968	6,000
Total	6,000

White, Weld, & Co.

David Weld.	
(R) Republican National Finance Operating Committee	1,000
(R) Republican National Finance Advisory Committee	1,000
(R) Victory, 1968	1,000
(R) New Yorkers For Nixon-Agnew	1,000
Henry W. Meers. (R) Victory, 1968	1,000
Philip D. Baker (R) Victory, 1968	1,000
Lloyd B. Hatcher (R) Victory, 1968	1,000
Chandler Hovey (R) Victory, 1968	500
Eli S. Jacobs. (R) Victory, 1968	1,000
Harold W. Janeway (R) Victory, 1968	1,000
Total	9,500

*Bank of America. Nobody**John Nuveen & Co.: Nobody.**Dean Witter & Co., Inc.*

Mr. Jean C. Witter (M) Exchange Firms CP Committee	800
William M. Witter (M) Exchange Firms CP Committee	800
Marco F. Hellman (R) McCloskey Campaign Headquarters---	500
Thomas W. Witter (M) Exchange Firms CP Committee	800
Total	2,900

E. F. Hutton & Co.

R. Fomon (R) Nixon-Agnew Finance Committee	500
Gordon B. Carry, Jr (R) Victory, 1968	1,000
Thomas P. Lynch (R) Governors Club, New York	500
Total	2,000

Paine, Webber, Jackson & Curtis

Nelson J. Darling, Jr. (R) Nixon-Agnew TV Committee	500
James W. Davant (R) Victory, 1968	1,000
George P. Gardner (R) Victory, 1968	500
John F. Curley, Jr. (R) Nixon-Agnew Victory Rally Committee	1,000
Total	3,000

Shearson Hammill & Co.:

Robert C. Van Taylor (R) United Citizens Nixon-Agnew Committee	1,000
Alger (Duke) Chapman	
(R) Republican National Finance Committee	1,000
(R) Republican State Dinner Committee, New York	750
Arthur H. Ross	
(R) Governors Club, New York	500
(R) Javits, New York Senate	3,000
(D) Humphrey National Finance Committee	1,000
Total	7,250

W. E. Hutton & Co.:

William E. Hutton	
(R) Nixon-Agnew Victory Rally Committee	500
(M) Exchange Firms CP Committee	500
(R) Victory 1968	2,000
Total	3,000

Morgan Stanley & Co.:

Charles F. Morgan (R) Nixon-Agnew Finance Committee	750
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Blyth & Co.:

Paul Devlin (R) Victory 1968 Committee	2,000
Alfred J. Coyle (R) Nixon-Agnew Victory Rally Committee	500
Total	2,500