

# FRAUDS AND QUACKERY AFFECTING THE OLDER CITIZEN

---

---

HEARING  
BEFORE THE  
SPECIAL COMMITTEE ON AGING  
UNITED STATES SENATE  
EIGHTY-EIGHTH CONGRESS  
FIRST SESSION

---

Part 2.—Washington, D.C.

---

JANUARY 16, 1963

---

Printed for the use of the Special Committee on Aging



U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1963

94703

## SPECIAL COMMITTEE ON AGING

PAT McNAMARA, Michigan, *Chairman*

GEORGE A. SMATHERS, Florida	EVERETT MCKINLEY DIRKSEN, Illinois
CLAIR ENGLE, California	BARRY GOLDWATER, Arizona
HARRISON A. WILLIAMS, Jr., New Jersey	FRANK CARLSON, Kansas
MAURINE B. NEUBERGER, Oregon	WALLACE F. BENNETT, Utah
WAYNE MORSE, Oregon	JACOB K. JAVITS, New York
ALAN BIBLE, Nevada	WINSTON L. PROUTY, Vermont
JOSEPH S. CLARK, Jr., Pennsylvania	
FRANK CHURCH, Idaho	
JENNINGS RANDOLPH, West Virginia	
EDMUND S. MUSKIE, Maine	
EDWARD V. LONG, Missouri	

---

WILLIAM G. REIDY, *Staff Director*

JACK MOSKOWITZ, *Counsel*

JOHN GUY MILLER, *Minority Counsel*

Part 1.—Washington, D.C., January 15, 1963.

Part 2.—Washington, D.C., January 16, 1963.

Part 3.—Washington, D.C., January 17, 1963.

# CONTENTS

## CHRONOLOGICAL LIST OF WITNESSES

Willson, Kenneth B., president, National Better Business Bureau, Inc., New York, N.Y.-----	Page 147
Talley, J. Fred, Arizona State Real Estate Commissioner and past president of the National Association of License Law Officials; accompanied by Elmer A. Borgschatz, director, Minnesota Real Estate Department and past president of National Association of License Law Officials.---	184
Montague, H. B., chief postal inspector, Post Office Department, accompanied by Abraham Levine, General Counsel's Office, and William F. Callahan, Director of Fraud Investigations, Bureau of the Chief Inspector, Post Office Department.-----	235
Tamm, Quinn, executive director, International Association of Chiefs of Police-----	259

## STATEMENTS

Borgschatz, Elmer A., director, Minnesota Real Estate Department, prepared statement.-----	229
Howell, Charles R., commissioner, New Jersey Department of Banking and Insurance.-----	145
Montague, H. B., chief postal inspector, Post Office Department; accompanied by Abraham Levine, General Counsel's Office, and William F. Callahan, Director of Fraud Investigations, Bureau of the Chief Inspector, Post Office Department.-----	235
Prepared statement containing Exhibits A through U.-----	247
New Jersey Department of Health.-----	145
New Jersey Division on Aging.-----	141
New Jersey Division on Weights and Measures.-----	145
New Jersey Nutrition Council.-----	146
Talley, J. Fred, Arizona State real estate commissioner and past president of the National Association of License Law Officials; accompanied by Elmer A. Borgschatz, director, Minnesota Real Estate Department and past president of National Association of License Law Officials.---	184
Tamm, Quinn, executive director, International Association of Chiefs of Police.-----	259
Willson, Kenneth B., president, National Better Business Bureau Inc., New York, N.Y.-----	147
Prepared statement.-----	157

## ADDITIONAL INFORMATION

Articles entitled:	
"Beware the Ranchero Racketeer," by Paul Friggins, in the Reader's Digest, January 1963.-----	202
"I Dreamed I Retired on My 5-Acre Rancho," by Norma Lee Browning, in the Chicago Sunday Tribune, September 9, 1962.-----	207
"Land Hucksters: Mail-Order Sales Flourish: United States and States Curb Some Promoters," by Norman C. Miller, Jr., in the Wall Street Journal, January 3, 1963.-----	223
"Paradise in Desert Is Often Isolated, Unimproved Acreage," by Don Tschirhart, Detroit News, December 24, 1962.-----	225
"Real Estate—A Place in the Sun," from Forbes magazine, July 15, 1962.-----	205
"Sunset Years in the Cactus," by Stan Steiner, in the Nation, Oct. 27, 1962.-----	209

	Page
Articles from National Better Business Bureau, Inc., periodicals entitled:	
"General Information on Vitamins, Minerals, and Food Supplements" .....	180
"Recommended Standards for Land Advertising" .....	178
"Save-by-Mail Advertising of Some Maryland Savings and Loan Associations" .....	178
"Security Financial Insurance Corps., Receivership Ordered by Court—Company Appeals" .....	177
"Sea Water—The Newest Medical Panacea?" .....	170
Articles submitted by J. Fred Talley, Arizona real estate commissioner and past president, National Association of License Law officials:	
"Several Outstanding Examples of Sight-Unseen Mail-Order Sub-division Projects Sold Through Misrepresentation" .....	194
"Suggested Permanent Body To Assist Our Senior Citizens" .....	200
"The Truth About Western Land Sales" .....	197
Letters from:	
Peacock, Robert R., Department of Banking and Insurance, Newark, N.J., to Senator Williams, dated January 11, 1963 .....	142
Randell, David P., president, Lake Mead Rancheros, Inc., Miami Fla., to J. Fred Talley, dated September 26, 1962 .....	227
Verga, Frank A., deputy attorney general, Fraud Bureau, Department of Law and Public Safety, Newark, N.J., to Waldo R. McNutt, Assistant Director, Division on Aging, Department of State, dated December 11, 1962 .....	146

# FRAUDS AND QUACKERY AFFECTING THE OLDER CITIZENS

WEDNESDAY, JANUARY 16, 1963

U.S. SENATE,  
SPECIAL COMMITTEE OF AGING,  
*Washington, D.C.*

The committee met, pursuant to recess, at 10 a.m., in room 4230, New Senate Office Building, Hon. Harrison A. Williams, Jr., presiding.  
Present: Senators Williams, Neuberger, Randolph, Muskie, Goldwater, and Bennett.

Committee staff members present: William G. Reidy, staff director; Frank Frantz, professional staff member; Jack Moskowitz, counsel; John Guy Miller, minority counsel.

SENATOR WILLIAMS. We will begin our continued hearings on frauds and quackery affecting older citizens, the hearings being conducted by the Special Committee on Aging.

Senator McNamara of Michigan is the chairman, and he is busy in other parts of the Capitol today, and he has asked me to be acting chairman.

Before we hear from our first witness, I would like to say that I am particularly proud for New Jersey, that the director of our Division on Aging, Miss Eone Harger, has been with us through these hearings, and in my State her leadership is very vigorous in dealing with problems of the aging, and specifically on this question of frauds perpetrated upon old people.

I have asked the people in the State of New Jersey to describe what they are doing and to make certain suggestions that we might follow at the Federal level, and this material I am offering for the record at this point.

If there is no objection, I would like to have it included.

Without objection, we will include it.

(The material referred to above follows:)

## PREPARED STATEMENT OF NEW JERSEY DIVISION ON AGING ON FRAUDS

The New Jersey Division on Aging is putting a major emphasis on trying to communicate accurate information in areas where much fraudulent material is being disseminated. Areas of major concern are:

Direct-mail insurance solicitations from out-of-State companies, ones that are not approved by the State insurance department and that use names closely approximating old line firms.

Health programs on TV and radio which contain much information that sounds true, and probably is, but which is used as the background for promotion of over-priced products of doubtful value.

"Home earning opportunities" that lure older people needing to supplement meager incomes by promising rich returns from investing in equipment for ad-

dressing or knitting or breeding fur-bearing animals that cost dearly for the initial pair.

Columnists who offer books to answer social security questions (even though only 50 cents a copy) when all answers can be had *free* from the duly authorized offices.

Promotions on land by matches in cigarette machines or telephone calling crews that contact householders directly.

"Caveat emptor" may be an appropriate warning, but preying on those in our population who are least able to afford even small sums, who are desperate to keep from being public charges, and who have the smallest chance of recouping losses seems to demand public attention. Since advertising media that are beyond the confines of a single State are the means whereby the damage is done, the means of control must come from beyond a single State's borders. Surely those who carry advertising—in magazines, newspapers, or on the airwaves, etc.—should be held accountable in some wise for that which they disseminate.

STATE OF NEW JERSEY,  
DIVISION OF THE NEW JERSEY REAL ESTATE COMMISSION,  
DEPARTMENT OF BANKING AND INSURANCE,  
Newark, January 11, 1963.

Hon. HARRISON A. WILLIAMS, JR.,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR WILLIAMS: This is in reply to your telegram to Mrs. Eone Harger of the New Jersey Division on Aging in connection with the U.S. Senate subcommittee hearing on aging.

With regard to promotional sales of out-of-State developments, I would like to present the views of the New Jersey Real Estate Commission.

Many of the offerings are good merchandise, fairly presented. Numerically, more are not. Generally, the product is a tract of subdivided land located in a remote undeveloped area. When offered, it is usually completely raw or, at best, partly improved and is sold on the basis of improvements and developments to be brought into being at some future date. Most advertising and promotional material is presented by pictures, artists' drawings, and advertising copy which conveys to a typical, reasonable reader in New Jersey an impression substantially at variance with the facts observed at and in the vicinity of the offered premises. Sweeping generalities are routine and actual on-site photographs are usually avoided. What appear to be maps are usually prepared with shocking disregard to scale and proportion. Shopping, recreational areas, water bodies, areas where community services might be available, etc., are usually pictorially moved agreeably close to the subject property.

The appeal is neatly aimed geographically at the residents of the more densely populated States, and particularly those where winters are at least occasionally severe. The principal targets are those who yearn to retire in an area where the climate is warmer and where open space and recreational facilities are at hand. The "Home, Home on the Range" appeal is not underworked. The grass skirt, the tropical moon, and the ever-present always—"tremendous investment"—profit potential receive at least their fair share of attention as well. The small initial payment, the "easy" monthly payment, the "transfer privileges," and various guarantees of varying validity and varying practical effect are woven into the package.

The appeal is made through the mails, nationally circulated magazines, newspapers, organization publications, and by solicitation—personal or telephone.

This sort of operation has an effect on both the situs States and the investor States. The situs States sometimes find themselves saddled with all the problems of premature subdivisions in the form of required access roads; also the problem of scattered ownership and related problems which can ultimately block intelligent land use and planning when the area is truly ripe for use.

The investor States' people are hurt by being mulcted often without knowing it until the processing is completed and it's too late to do any practical thing about it. The frustrations, the dashed hopes, and the lost savings are serious and dangerous at any age. When they strike at retirement age, the process of mending and rehabilitating may be beyond the capacity of the investor.

There are three areas of government control :

- (a) The situs State;
- (b) The investor State; and
- (c) Federal or overall level.

(a) Situs State control exists in some States and does not exist in others. Where it does exist, it varies widely in nature, scope, and effectiveness.

(b) Investor State control again exists in some States and not in others. At best, it controls to a degree business transacted within that State and does not touch the mail order operation where, from all indications, by far the greatest numerical and dollar volume of business is done.

(c) Federal control: At best, we note it does not mention subdivision of land. The potential areas of contact to exist where—

(1) Security regulations touch upon the flotation of some of the propositions;

(2) Violation of the Postal Mail Frauds Act can be proved.

With respect to New Jersey, the New Jersey Real Estate Commission have been active participants in the activities of the National Association of License Law Officials' conferences and the National Conference on Interstate Land Sales, all dealing actively with this subject.

At these conferences, New Jersey's representatives have advocated and continue to advocate communication liaison in exchange of ideas with all States and organizations interested in this matter with particular emphasis on public awareness in the closing of obvious enforcement gaps.

Within New Jersey, the control of the New Jersey Real Estate Commission stems from Rev. Stat. 45:15-16.1 as follows:

45:15-61.1 Promotional sales of property located outside State; investigation

Any broker who proposes to engage in sales of a promotional nature, in this State, of property located outside of this State, must submit to the commission, before doing so, full particulars regarding such property and the proposed terms of sale, and said broker and his salesmen must comply with such rules, regulations, restrictions, and conditions pertaining thereto as the commission in its discretion may impose. The commission shall investigate all such matters and all expenses incurred by the commission in investigating such property and the proposed sale thereof in this State shall be borne by the broker. No broker or salesman shall, in any manner, refer to the New Jersey Real Estate Commission, or to any officer or employee thereof, in selling, offering for sale, or advertising, or otherwise promoting the sale, mortgage or lease of any such property, nor make any representation whatsoever that such property has been inspected or approved or otherwise passed upon by said commission or by any State official, department or employee.

and has been further covered by rule No. 25 of the New Jersey Real Estate Commission, effective July 1, 1961, as follows:

25. Promotional sales of out of State property—Requirements

The following regulations are applicable to promotional sales of out-of-State property in this State in accordance with the provisions of N.J.S.A. 45:15-16.1.

The Commission shall require an applicant to submit certain documents prior to inspection, which shall, together with review of the tract, form the basis for the Commission's judgment whether to permit the offering of these lands or grant a hearing upon request, to determine whether or not the offering of these lands should be denied in the best interests of the general public.

(A) The following documents are to be furnished to the Commission prior to review, namely:

1. Certified title policy covering subdivision.
2. If there is a trust deed or mortgage on the land with conditional release clauses, a copy thereof to be furnished.
3. A statement of the method of the handling of all deposit moneys from purchasers until closing of title.
4. Papers to be used in sale, such as deed, trust deed, contract, lease, option, receipts of deposit, etc.
5. Conditions and restrictions affecting the lots, including mineral rights or reservations of any nature whatsoever.

6. Copies of approved maps or plats showing property to be offered for sale and maps depicting topography and soil.

7. Documentation by any appropriate governmental authority with respect to the availability and potability of water, and with respect to sanitary disposal of human waste.

8. Report of flood hazards and drainage from flood control engineer or other qualified authorities.

9. Copies or proofs of advertising and promotional material which shall cover a detailed description of lands offered, any reservation in connection therewith, the plan under which it is to be sold, and such other factors as the review herein provided for may indicate.

10. Price list covering specific plots to be sold, and terms and conditions under which purchaser is to be induced to agree to buy.

11. A financial statement covering individual, copartnership or corporation holding title, together with bank references.

12. List and addresses of all officers or individual owners of the property being sold. This is construed to mean all parties in interest to said promotional sale, including all others having an indirect interest therein. A certified statement in respect to these individuals shall be furnished and shall set forth, in detail, any prior arrests or convictions in any jurisdiction, or any license revocation or suspension. If the answer is "None", this fact shall be indicated and similarly certified.

13. A certified copy of any report of review, inspection, approval, or release which may be required by the State in which the lands to be promoted are situated.

(B) The Commission designee shall render a report of his findings on a uniform form provided for such purpose.

(C) Where the Commission denies the request for authorization to engage in the sale of a promotional nature in this State of property located outside of this State, the broker may request a hearing before the Commission.

The New Jersey Real Estate Commission interprets its role under the statute and rule No. 25 to these basic questions:

- (1) Does the developer hold the land in such a way that he can convey?
- (2) Are the documents, practices, etc., reasonably sound?
- (3) Does the promotional material proposed to be used tend to create an impression at variance with the facts?

If a release is warranted, it is given only with respect to the use of that promotional material which has been received, investigated, and released. In New Jersey, the most frequent basis for denial is that the advertising and promotional material would tend to create, in the mind of a typical, reasonable reader, an impression substantially at variance with the facts observed at and in the vicinity of the premises.

The New Jersey Real Estate Commission is presently contemplating promulgating an additional rule requiring the results of their factual investigation to be duplicated in report form and turned over by the seller (real estate broker or salesman) to a prospective buyer, either by attaching it to the contract or by requiring the seller to obtain from the buyer a receipt acknowledging that the buyer has received and read the report.

Apart from the statute and rule changes, the New Jersey Real Estate Commission is now producing a pamphlet for prospective buyers dealing with pitfalls and what to consider, where to make inquiry, and how to weigh the promotional representations. This proposal, or guideline pamphlet, for out-of-State development purchasers involves the preparation and distribution as a joint effort between the New Jersey Real Estate Commission and the New Jersey Division on Aging.

One possible solution lies in the creation, at the Federal Government level, of a coordinating office (probably within an existing branch of the Federal Government), properly staffed, for the purpose of knitting together the loose threads, so to speak. Such an office, as visualized, would have as its functions:

The coordinating of activities of all known to be at work on the problem.

Seeking information from these and others.

Channeling that information to those agencies and officials able and empowered to use it.

Developing uniform criteria for judging that which is desirable and undesirable.



Disseminating information on what constitutes violation of existing laws and what facts are necessary to a case that will "stick."

Developing and disseminating suggested avenues of inquiry and guidelines to the public as an aid in judging promotions before purchase.

Other related actions designed to get the problem in focus.

The general intent is to see that existing controls are worked to the fullest. If, after such a workout, they prove inadequate, the data gathered by such a coordinating agency would be a solid base upon which to decide where to go from there.

Much has been done and is being done; however, the activities lack several basic elements:

- (1) the overall coordination, liaison, and communication referred to;
- (2) complete all-States all-parties participation;
- (3) funds and personnel to initiate and follow up the flow of information necessary to the preparation and distribution of the working papers essential to this flow; and
- (4) the very important matter of a more official and authoritative status than the voluntary, largely fundless, consortium now at work.

Very truly yours,

ROBERT R. PEACOCK.

---

STATEMENT OF DIVISION OF WEIGHTS AND MEASURES, NEW JERSEY

Samuel J. Christie, deputy State superintendent of the division of weights and measures, called for more Federal-State cooperation and coordination in order to protect consumers.

The recent establishment of a Federal-State relationship program in the Food and Drug Administration was a beginning step. The National Bureau of Standards and other Federal agencies need to coordinate their efforts with the appropriate State agency.

Mr. Christie pointed out that the division of weights and measures services all consumers, but frauds or misrepresentations involving the elderly have more serious consequences because of their generally reduced incomes.

---

STATEMENT OF COMMISSIONER CHARLES R. HOWELL, NEW JERSEY  
DEPARTMENT OF BANKING AND INSURANCE

Our department of banking and insurance has long been conscious of the need for consumer protection. The elderly have been of special concern because of their lower income and fears of catastrophic medical bills when they can least afford it. We have discouraged in every way available to us the purchase of health insurance through the mail.

New Jersey has 700 licensed insurance carriers providing all types of coverage. With good State supervision the consumer can be reasonably assured of obtaining value and service for his insurance dollar.

When application for rate charges or changes in policy forms are reviewed by the department we seek to determine the impact on the elderly and to protect in every legitimate way the interest of our older adults.

Our department has cooperated with the New Jersey Division on Aging in surveys of carriers as to the problems facing the elderly segment of the consuming public so that planning may proceed to better define the needs and produce the types of coverage needed to meet them.

---

STATEMENT OF NEW JERSEY DEPARTMENT OF HEALTH

The New Jersey Department of Health has pursued a vigorous course of action in order to accomplish two objectives: (1) To remove from the market adulterated or misbranded drugs and (2) to improve conditions in drug manufacturing operations so as to insure the purity and effectiveness of drugs produced in this State.

The department is aware that the elderly pose a special problem in that a higher percentage of their income is spent on medications. All too frequently

their money is spent on nonprescription, self-prescribed patent medicines and vitamin food supplements. The solution to this problem rests first with the education of the consumer, but also with some control over the now unrestricted advertising of these products. When the elderly see these items on television, hear about them on the radio, and read about them in reputable publications, they assume that the product must also be reputable and per se good for them.

The advertising and shipment of these items in interstate commerce is obviously a matter for Federal action, in cooperation with the appropriate State agency.

---

STATEMENT OF NEW JERSEY NUTRITION COUNCIL

The New Jersey Nutrition Council has been concerned over the past several years with promotion of false nutrition information through popularized books and mass communications media. The council has given special attention to nutritional needs of older people and has taken active steps to counteract misleading information. News releases in the name of the council have warned against the polyunsaturated fats. A detailed list of sound nutrition books as well as unreliable ones was sent jointly by the council and the New Jersey Division on Aging to every New Jersey library. The council has written to magazines, as well as radio and TV stations, in regard to misleading advertising and has given wide circulation to reviews of nutrition books of questionable quality, the reviews being done by recognized authorities in the field.

The New Jersey council is presently concerned that professional persons who do such reviewing are being sued by people whose opinions they challenge. Radio and television personalities who have become wealthy through their promotions are actively instituting suits against professional people who dare to criticize or challenge their dicta.

---

STATE OF NEW JERSEY,  
DEPARTMENT OF LAW AND PUBLIC SAFETY,  
DIVISION OF LAW,  
Newark, N.J., December 11, 1962.

WALDO R. McNUTT,  
Assistant Director,  
Division on Aging, Department of State,  
Trenton, N.J.

DEAR MR. McNUTT: You called at the office and requested that we give you certain information which may possibly be inserted in a pamphlet to assist the aging of our State.

As you will recall, we advised you we had a case where an elderly woman who owned a 10-room house had entered into a contract to have home improvements made to the extent of \$19,350, and this renovation did not include any items of plumbing or bathrooms, so you can see there was a tremendous amount of money being expended by an old lady without having obtained advice.

One of the items you could place in your pamphlet, if that is your plan, is the suggestion that any person, whether young or old, before executing agreements should obtain written estimates from more than one contractor and check on the reliability of a contractor by ascertaining whether or not they have done work in the neighborhood and in this way see whether or not their work is performed in a good and workmanlike manner.

We have received complaints where some of the senior citizens of our State have had some fly-by-night call upon them representing that their chimney was in a state of disrepair and the repairs should be made immediately, and a job which might otherwise cost \$70 to \$100 is raised to \$300 to \$350. The advice should be given that when a contractor makes a statement that their chimney is in a state of disrepair it might be well to have it investigated by another contractor and if possible have an inspector from the building department make an examination for them. However, you will notice that this again goes back to the first example—getting written estimates and investigating before permitting the work to be done.

Also advise senior citizens that work should not be done as a result of oral agreement because a fly-by-night usually leaves no address and persons generally do not have the name of the company who performed the services.

In such a situation it would be well for the people to obtain a license plate number of the vehicle being used and in this way the ownership of the vehicle could be checked in the event an investigation is to be made.

Another area where persons should be advised to use precaution is on the boardwalk at the various beaches in our State. Unless a customer is an expert, and knows quality, they should buy with a great deal of precaution. We also advise they should check their package before picking it up because we have had one case where the buyer was aware of the value of the item he supposedly purchased; he purchased it, but the item was taken into the back room for packaging and when he arrived home he ascertained he had received an inferior item—not the one purchased.

In another case, a woman of 78 had gardening work done in and around her unpretentious home and within a course of a year expended \$6,800, mostly for gardening work and landscaping and this sum included only one or two shrubs. Again, a warning to the senior citizen to have some relative check for them as to the need for this type of work is desirable. I realize this is sometimes almost impossible because as we grow older we refuse to listen to any relatives or our fellow man. However, an admonition should be given to them.

We also would suggest that they should not get involved with unknown mail-order houses because it has been our experience in two cases that some mail-order houses fail to reply to letters, goods are not delivered, and neither are refunds made, in spite of many months of letterwriting, telephoning, or personal calls at the place of business.

We trust this information will be of some aid to you and we are also enclosing a copy of our brochure entitled, "Watch Out," which contains some items which might be useful. If there is anything further you desire, please communicate with us.

Very truly yours,

FRANK A. VERGA,  
*Deputy Attorney General, Fraud Bureau.*

Senator WILLIAMS. Now Senator Randolph and I are happy to hear from Mr. Kenneth B. Willson, who is president of the National Better Business Bureau.

Mr. Willson, I understand that you have given us a very considerable amount of your experience and material and would prefer to summarize your full statement.

**STATEMENT OF KENNETH B. WILLSON, PRESIDENT, NATIONAL BETTER BUSINESS BUREAU, INC., NEW YORK**

Mr. WILLSON. I will, yes, Mr. Chairman.

The National Better Business Bureau is a nonprofit corporation founded by American business in 1912 to protect both itself and the public from advertising and selling practices which are misleading, deceptive, unfair, or fraudulent, where such practices exist on a national or regional scale.

We are affiliated with 122 local better business bureaus in the principal cities of the United States and Canada through membership in the Association of Better Business Bureaus. The local better business bureaus are sponsored primarily by local business, whereas the National Better Business Bureau is financed by national business. Although each better business bureau is a wholly autonomous unit, we work in close cooperation in promoting truth in advertising and integrity in business generally.

The National Better Business Bureau is also affiliated through membership with over 900 chambers of commerce throughout the 50 States in communities of less than 100,000 population. Through these affiliations in over 1,000 communities, we become well aware of the areas

in which advertising deviates from the truth and is used to exploit and defraud the public.

May I make clear at the outset, however, that we believe that the vast majority of American business is honest, and that it deals fairly with the public. Our experience is that responsible advertisers go to great lengths to assure the accuracy of their claims before they are presented to the public, and that they are prompt to correct any inaccuracy that may develop in order to avoid repetition.

There is, on the other hand, a small minority in business or which purports to be in business which uses advertising and selling dishonestly to mislead and to defraud the public. My testimony today is concerned with some of those in this minority element who exploit our elderly citizens. Better business bureaus and chambers of commerce have fought this dishonest group vigorously and have exposed their unconscionable schemes and practices to the public and called them to the attention of governmental agencies having jurisdiction over them.

Although the elderly may be taken in by most any swindling scheme, my testimony will be limited to a few areas in which we know from our experience the aged are swindled of millions of dollars annually.

In order that I may keep within the time allotted, I will present some of the highlights of my statement, and a summary. The full text, however, will be filed with the committee.

Untold millions of dollars have been and are being spent by our aging public to buy faraway lots, sight unseen. Land in British Honduras, Brazil, Costa Rica, Venezuela, the Bahamas, and Hawaii represents the farflung nature of current promotions, although emphasis is on the Southwestern United States and Florida. In Mojave County, Ariz., alone there are more than 300 subdivisions with hundreds more in New Mexico, California, Texas, Oregon, Florida, Idaho, and Utah.

There are, of course—and I would like to emphasize it—many legitimate promotions, where experienced and well-financed real estate developers offer lands suitable for habitation accurately and fairly and who proceed with improvements before selling the land to the public. Unhappily, our elderly are being exploited by a minority of promoters who are palming off, through deceptive advertising, submarginal, undeveloped land as retirement paradises. My testimony is concerned with the practices of this minority group.

Homesites purchasable on a \$10 down, \$10 monthly basis have a particular appeal to those on limited social security or retirement incomes. High-pressure sales campaigns conducted in cities far distant from the developments, supported by illustrative advertising matter grossly distorting the true nature of the land offered as it now exists has induced many old people in this income group to buy lots in remote, desolate areas, lacking in roads, utilities, neighbors, schools, stores, or any other evidence of civilization. Deception results not only from misrepresentation, but from the failure of the promoter to disclose the real character of the land and its location.

#### WATER PROBLEMS

Some of the lands offered by fringe promoters are in the vast arid rangelands of the Southwest where water must either be trucked to

the home like fuel oil at so much per gallon, or be pumped up through artesian wells sunk several hundred feet below the earth's surface at substantial expense, or where one must take his own tank to a water meter which may be miles away. As one promoter admitted about the area he was developing, "You have to be a pioneer to live there now."

Some of the lands offered present problems, not because of the unavailability of abundant water at minimal cost, but because of too much water. Swamp merchants in Florida have accumulated many hard-earned dollars from the elderly, touting land in or near the Everglades, Big Cypress Swamp in Collier County, et cetera, as "America's last frontier," "Today's best investment" and other glowing terms.

The ads do not disclose that the land may be under water part or all of the year, that drainage of the area would necessitate a public undertaking, and that there are no plans for such, now or in the foreseeable future. In fact, some of the area is in a water conservation zone where it is Government policy to maintain water, as a barrier. Our aged are thus unaware of the highly speculative nature of these promotions, relying on the deceptive language of the promoter's literature.

Apart from the undesirable if not uninhabitable nature of some of the retirement havens that are being offered to the public, there is the speculation as to the fulfillment of the promises made. In some instances it is apparent that the promoter depends upon continuing sales and revenue therefrom to do any developing or to extend it. In many instances, funds collected from purchasers are not put in escrow in any part to assure completion of promised improvements. If the present boom collapses, many firms operating in this manner may collapse with it and purchasers may lose what they have paid in.

#### "FREE LOT" GIMMICK

A gimmick used to snare the elderly at numerous fairs has been to set up a booth where passersby are invited to register for information on a distant development, and a chance to win a "free lot." Most, and often all, such registrants then receive a letter of congratulations "on having been awarded a free lot for closing costs only," varying from about \$30 to \$90. If they fall for this "bait" they are then high-pressured into buying one or more adjoining lots at highly inflated prices, to form an "estate." Although this "free" lot scheme is as old as the hills, thousands of people have purchased marginal land at excessive prices through this deceptive device.

The national conference on interstate land sales held at San Francisco last October was a clear indication of the magnitude of the fraud and deception which now exists in the sale of submarginal land to out-of-State buyers, sight unseen.

Attorney General Stanley Mosk, of California, who sponsored this conference of regulatory officials concerned with the problem, and the better business bureaus, estimated that promoters are mulcting the public of over \$500 million annually in the sale of these lands.

The problem of selling land sight unseen is receiving the attention of regulatory agencies having jurisdiction over such sales at both the National and State level.

The Post Office Department has stated that over 150 promoters are being investigated and the Federal Trade Commission has announced that it is investigating questionable real estate offerings in 6 States.

Only a few of the States have thus far adopted regulations for protecting the public from victimization in interstate land sales. To their great credit, Arizona and California have adopted regulations which require that a public report setting forth the true facts about any land offering be furnished to prospective purchasers before any contract is signed. It seems doubtful that many oldsters, or anyone else, would purchase much of the land offered if they would first read and understand the public reports required by these States.

Our organization has been aware of the problem for several years: We have issued many warnings to the public on buying land sight unseen and, in cooperation with all of the better business bureaus, we have promulgated recommended standards for the advertising and selling of land for the guidance of advertisers and media. This code, a copy of which is appended hereto, provides in essence that the true nature of any land offered be clearly and unequivocally set forth in advertising. At the aforementioned San Francisco conference, Assistant Attorney General Herbert Wenig stated that application of these standards—

would do much to eliminate the more distressing phases of the advertising problem.

Later this month, the Committee on Installment Contracts of the Association of Better Business Bureaus is sponsoring a national conference of real estate developers in New Orleans to urge adoption and application of our recommended standards to their advertising promotions and to seek agreement on other voluntary procedures designed to protect the public in its purchase of land.

Among other things, the program we will present will call for scrutiny by the National Better Business Bureau of all interstate real estate advertising, on-the-spot investigations of developments of national scope, and dissemination of factual reports based upon such investigations to media and the public. We are hopeful that these efforts will bring about improvement in an area seriously affecting the interests of our elderly people.

Many communities throughout America have one or more reputable studios which teach dancing and which undoubtedly provide a great deal of happiness to those who wish to be more adept in the terpsichorean art. But in recent years some con men have invaded the dance studio business and have developed a sales program designed especially to exploit lonely old ladies.

I refer to the so-called "lifetime" memberships whereby a studio contracts to provide several thousand hours of instruction to an elderly person on a paid-in-advance basis. Victims have reported to the better business bureaus that they were not only signed up to one "lifetime" membership but to multiple "lifetime" memberships—to the extent of their resources. I cite a few notorious cases which have been the subject of litigation.

A 69-year-old widow charged that a dance studio signed her up to eight "lifetime" memberships, entitling her to 3,100 hours of instruction at a cost of \$34,913 by means of "fraud," "undue influence," and "trickery."

A 71-year-old woman mortgaged her home to make the final payment to a dance studio on several "lifetime" memberships, totaling \$32,600. She bought one of the memberships while in the hospital with a knee injury which made it doubtful she would ever walk again, let alone dance.

A 74-year-old widow brought suit against a dance studio to recover \$25,000 she paid for 2,480 hours of dance instruction. She was promised attractive male dancing partners and was assured that the lessons would make her a gifted dancer so that she could perform on television.

Senator RANDOLPH. Mr. Willson, did that include the instruction in the twist? Was that spelled out?

Mr. WILLSON. I presume so. I don't frequent these studios, but I imagine they teach it.

In a period of 5 months, one dance studio sold a woman three "life" memberships at \$6,800 each, totaling \$20,640. The third and last one was in perpetuation of the memory of her late husband by giving free dance lessons to deserving persons. When the woman became disillusioned and broke, she filed suit against the studio, seeking to recover the total amount paid. The court ordered the studio to return \$14,000, which represented the alleged cost of the unused lessons.

A 68-year-old woman signed a series of promissory notes totaling \$15,938.45 for 4,000 hours of instruction. In seeking the return of this money in a court action, she alleged that she had been coerced, flattered, and otherwise induced to sign for the lessons.

A 79-year-old woman, the dean of the dancing widows, paid \$11,800—half of her total savings—for her lifetime lessons. When a grand jury heard her tale of woe, a grand larceny indictment was returned.

These examples are typical of a great many instances where old folks were high pressured and sweet-talked during the past few years into paying large sums of money to a handful of dance studio operators for lessons which they might, or might not live to enjoy, or have the health to enjoy. They are induced by two primary factors, i.e., the unconscionable tactics of a promoter, and the desire of elderly widows and spinsters for flattering, affectionate attention, and the emotional satisfaction it brings to an otherwise lonely existence. Swindling in this area is made possible largely through the device of the "lifetime" contract.

The sale and servicing of home furnaces have long been in the hands of local dealers, the vast majority of whom are reputable businessmen and a respected element in their communities. But for many years, a small minority in this field has shamefully fleeced the aged of millions through a vicious selling scheme which warrants national exposure.

Posing as inspectors, representatives of furnace firms have gained entry to the cellar and, in thousands of instances reported to affiliated better business bureaus and chambers of commerce, have misrepresented to homeowners that their furnaces were in bad shape; that lethal carbon monoxide gases were escaping; that the furnace was likely to blow up at any minute, or that continued use of the furnace in its present condition would surely result in asphyxiation and death.

As a result of such trickery and high-pressure selling, many thousands of useful furnaces have been needlessly discarded and replaced at vast economic loss to elderly homeowners, often to their impoverishment. On some occasions, the swindlers brazenly repeat the performance within a few years.

The Chicago Better Business Bureau, for example, reported the case of the firm that sold the same elderly man two new furnace installations within 2 years at a total cost of \$3,800.

The Fort Wayne Better Business Bureau reported the case of the firm that sold an elderly widow two new furnaces within a 3-year period at a cost of \$3,847.

A leading trade publication in the heating industry recently described the collective activities of these schemesters as "the rape of the American heating buyer."

A vast army of door-to-door salesmen and saleswomen call upon the Nation's housewives every business day of the week and collectively do an estimated annual business of over \$8 billion.

The overwhelming majority of these salespeople deal honestly with the public and have earned its confidence for their method of selling in the home.

A relatively small group who are in no way connected with the direct selling industry but who are, for the most part, outright confidence men exploit the elderly to the tune of millions annually through a variety of schemes which they work door to door. Some of these schemes are illustrated by the following examples from our files.

In Texas, three itinerant swindlers filched almost \$4,000 from an 89-year-old woman over a period of a few months. The first swindler called posing as a city inspector and told her that her storm sewers needed cleaning to pass city inspection. He worked 2 hours and charged her \$1,050. Four days later the second swindler called and claimed to be a roofing inspector. He insisted that the roof needed painting and repair. He and an assistant did the job in less than 1 day and charged \$1,685. About 2 months later, the third swindler called posing as a city wire inspector. He said the wiring in the attic needed repair. He got the job, performed it in 20 minutes and charged \$1,250. The victim confided all this to her banker who reported it to the police who brought swindling charges against the trio.

A retired physician in his eighties in Missouri gave a representative of an alleged termite control firm \$1,790 for treating his home and outbuildings after being shown a piece of termite-eaten wood supposedly removed from the basement of his home. Subsequent investigation failed to establish that there was any termite activity in the home or in any of the buildings except the garage and that none of the buildings involved had received any termite control treatment. The authorities were never able to locate the perpetrators of this fake service.

An 81-year-old widow in Missouri was solicited by an alleged tree surgeon operating out of a hotel room to work on her elm trees. He charged her \$1,854 and was subsequently arrested on a fraud complaint charge. Several competent tree surgery experts stated the work done was either unnecessary or detrimental to the trees treated



and that in any event a fair price would have been \$165. This schemester has a record of 21 arrests, several fines, and 2-month paroles on confidence game schemes.

A 58-year-old widow in South Carolina whose only income is her monthly social security check of \$150 was high-pressured into signing a contract for aluminum siding at a cost of \$70 per month for 84 months for a total of \$5,880. A local contractor said the job could be done for \$660. This victim's financial problem is compounded by the fact that her 17-year-old son will be 18 in 1963 and she will then be ineligible to receive social security payments again until she becomes 62.

In Idaho, a slick "health insurance" agent took \$100 in some cases, \$200 in others, promising health and accident coverage for elderly people. They not only did not receive a policy, but either the same man or an accomplice would call on these people, say he was investigating the salesman, and request that they give him their receipt for his investigation—leaving them with no proof of money paid.

A 71-year-old woman in Paterson, N.J., was told by a man claiming to be a public service employee that there had been a break in the main gasline and he wanted to check the pipes in her basement. After doing so, he called the woman to the basement and demonstrated by lighting matches that gas was leaking around the meter. He explained that the pipes were burned out and needed repair, the cost of which would be a nice even \$1,000. The woman went to her bank and withdrew 10 \$100 bills and gave them to the swindler. He promised to return in the afternoon to do the job but never showed up. A subsequent check with the public service company established that he had tampered with the meter so as to make it leak.

A band of gypsy painters called upon a 71-year-old homeowner in Alabama and told him they were hired by a well-known company to demonstrate their paint. They said they would paint his house charging only for their labor, the paint being gratis. An estimate of \$30 was given, but when the job was done they demanded \$143. The victim was threatened with a lawsuit if he didn't pay. Being thus taken was bad enough but after the first rain, the "paint" washed off.

The files of the better business bureaus and chambers of commerce contain thousands of similar examples where elderly people have been victimized by itinerant crooks posing as local contractors or repairmen. Local authorities ride herd on these imposters but they persist largely because they find aged people relatively easy to fool.

The foregoing are but some of the areas familiar to us wherein the aged are victimized. There are many others, but the few we have cited clearly establish that the victimization of the aged is a serious problem, and has been a serious problem in this enlightened country for a long time.

In summary, the records of the National Better Business Bureau reveal that our elderly citizens are mulcted of hundreds of millions of dollars annually by a relatively small group in business which uses advertising to deceive and defraud and by a similarly small group of confidence men which employs a variety of tricks and schemes to victimize the aged.

Older people are perhaps more vulnerable to the blandishments of drug and device quackery and food faddism because of greater anxiety concerning illness, reluctance to face doctors, and apparent willingness to accept so-called natural and simple remedies.

A small minority of advertisers in the health field takes advantage of these understandable fears and hopes in soliciting sales for vaunted cures for chronic illness, affecting all people but particularly the elderly, and in promoting special geriatric products.

The more prominent of such enterprises in the sale of drugs directly to the public are aimed at long-term, painful illness, such as arthritis and rheumatism, neuralgia and other muscular aches and pains; certain forms of heart disease and cancer; and the well-known ailments of old age such as generalized weakness, loss of vigor and energy, impairment of the senses, especially hearing and vision; and specific problems such as prostatic and neurologic disorders.

These conditions have given rise to a variety of extravagantly advertised pain-killing pills, drugs, and diets to reduce strain on the heart or to prevent arteriosclerosis, phony cancer cures and various sale-by-mail nostrums for conditions which should have competent individual diagnosis and medical care.

The nutritional quack promises older folk, through books, lectures, and local health stores, as well as by conventional advertising, a series of tonics, restoratives, and shotgun remedies. Here, the vitamin-mineral supplements and special diet dealers also hold sway, exacting an estimated \$500 million from the American public, including a large percentage of older people.

Mechanical, electronic, and magnetic-thermal devices to relieve pain, to tone the body through massage, exercise, and vibration also take their toll among many of the elderly. They are led to believe that temporary relief is tantamount to cure. Likewise, dentures, hearing aids, eyeglasses, and other aids are sold under the false pretenses of offering cheap answers to conditions that require personalized professional attention.

In addition, the elderly are attracted to so-called clinics and hospitals which claim cures for all types of diseases through chiropractic and other limited measures. They hold out hope of quick, easy, painless treatment, generally provided by practitioners who are not licensed physicians.

In general, the problem in the health area is not so much outright fraud (although some remedies like sea water and sex elixirs are plainly worthless) but actual or implied misrepresentation that the products and services can do more for the elderly of our Nation than is scientifically justified.

Many of our elderly people are being mulcted of millions of dollars annually by a minority of real estate developers in the purchase of submarginal, undeveloped land in faraway places, sight unseen, through false and deceptive advertising.

Some of this land is on the slopes of volcanoes in Hawaii; some is in the parched deserts of the Southwest, and some is in the Florida swamps; much of it is not inhabitable now nor will it be in the foreseeable future.

Many of the retirement "paradises" being offered are in desolate areas, many miles from any established community and with none of

the facilities to which purchasers are accustomed, such as electricity, water, telephones, schools, stores, churches, doctors, neighbors, and transportation. It would appear that many of the marginal promoters selling submarginal land lack the resources needed to develop these tracts.

In many instances, the promoters set up no escrow arrangement to assure purchasers that their monthly payments are safeguarded. When the bubble bursts, the elderly persons who have bought this submarginal land blindly for retirement havens will suffer.

Thousands of elderly persons were swindled recently by a save-by-mail scheme of certain State-chartered privately insured savings and loan associations which offered very high interest rates and expensive gifts to those entrusting their savings.

Following investigation by the authorities many of these institutions have been placed in receivership and some of the promoters have been charged with fraud. Instead of increasing their annual income through higher interest rates many thousands of victims are receiving no earnings and face the loss of as much as 70 percent of their savings.

The sale of prearranged, prefunded funeral plans with unsound trust provisions by high-pressure promoters has resulted in severe financial losses and grievous disappointment to elderly folks and their survivors. Similarly, the purchase of cemetery lots on a speculative basis with promises of huge profits has generally not been profitable to the aged.

Many lonely old widows have been induced to deplete and sometimes exhaust their savings by purchasing "lifetime" dancing lessons from greedy dance studio promoters. By means of high pressure, flattery, and affectionate attention, con men in the dance studio business have preyed upon the loneliness of old widows and spinsters and provided them with a program whereby they may literally "dance their way to the poorhouse."

Old folks are sometimes shamefully swindled of millions, in the sanctity of their own homes by schemesters. In the furnace field, for example, millions of dollars have been extracted from old people through the use of "scare" tactics in the sale of furnaces. By falsely representing that old furnaces are dangerous and will "blow up," furnace salesmen have frightened old ladies into replacing useful equipment with expensive new installations they neither needed nor wanted.

We have a few recommendations which I would like to give to the committee.

It is our belief that existing Federal laws regulating false and fraudulent representations and pretenses, if promptly and vigorously enforced, would do everything that laws can do to protect the elderly from victimization. It is our conviction that the regulatory agencies having jurisdiction are doing a highly commendable job within the limits of their resources and in the light of the magnitude of the problem.

If enforcement of the existing Federal laws and regulations is to be prompt and vigorous, the governmental agencies must be provided with budgets adequate to do the job—which is not now the case.

We recommend that such agencies as the Department of Health, Education, and Welfare, the Federal Trade Commission, the Post

Office Department, and the Department of Agriculture be given the funds they need to function effectively in the public interest.

Many of the evils which we have reported prevail primarily at the local level, and it is here where enforcement of existing laws is woefully inadequate and, in many cases, nonexistent. By the very nature of most of the schemes, local agencies are far more suitably situated to act promptly and effectively in curbing them. Unfortunately, it has been our experience that apathy on the part of many local officials in either permitting offenders to plead to irrelevant charges—such as soliciting without a license, or vagrancy—or permitting them to get off scot-free on a promise of leaving the community “pronto,” serves only to expose the elderly of adjacent communities to the same swindle. If the victimization of the aged is to be dealt with effectively in this respect, we recommend that localities must assume full responsibility for dealing with offenders adequately.

With respect to the use of false and deceptive advertising, we recommend—

(1) That advertisers accept responsibility to present competent proof of claims when questioned, and

(2) That advertising media accept responsibility for requiring competent proof of claims, prior to publication, when copy is considered questionable, or if it is subsequently questioned by any responsible source.

We recommend that greater and more effective use of self-regulatory codes be encouraged to bring together responsible representatives of commerce and the professions interested in preventing abuses. This would exemplify the moral responsibility of the business community and also permit the Government to concentrate on the transgressors.

We also recommend that all governmental and private agencies, local and national, that are concerned with the victimization of our aged, carry on continuous educational campaigns to inform the aged of some of the problems they face in their everyday purchases and investments and encourage the elderly to exercise caution in the dealings with unknown people and to seek the counsel of relatives and friends before making commitments on major purchases and investments.

Laws and education cannot, by themselves, protect people in the old-age area. If they are to be fully protected we recommend that responsible members of the community, such as relatives, friends, neighbors, clergymen, lawyers, doctors, and others who come in contact with old people be available for guidance. If we subscribe to the concept that we are our brothers' keepers, should we not assume social responsibility for the aged?

In conclusion, although the victimization of the aged, through fraud and deceit in advertising and selling, is a serious problem which concerns us all, it should be emphasized that the guilt rests with a relatively small group. The overwhelming majority of business men in this country deal fairly and honestly with their customers, including the elderly. Nevertheless, because of the serious harm inflicted upon the aged and the notoriety it engenders, the stigma of shame attaches to all business. It therefore becomes the responsibility of everyone in business to strengthen the forces of self-discipline and public education to meet this problem. The exercise of this responsibility,

coupled with vigorous governmental action and community endeavor, should give our aged the protection they deserve.

(The prepared statement of Mr. Willson containing attachments follows:)

PREPARED STATEMENT BY KENNETH B. WILLSON, PRESIDENT, NATIONAL BETTER BUSINESS BUREAU, INC., NEW YORK

Mr. Chairman, I represent the National Better Business Bureau, Inc. I have been employed by the organization, continuously, since 1925 and have been its President since 1952.

The National Better Business Bureau is a nonprofit corporation founded by American business in 1912 to protect both itself and the public from advertising and selling practices which are misleading, deceptive, unfair, or fraudulent where such practices exist on a national or regional scale. We are affiliated with 122 local better business bureaus in the principal cities of the United States and Canada through membership in the Association of Better Business Bureaus. The local better business bureaus are sponsored primarily by local business, where as the National Better Business Bureau is financed by national business. Although each better business bureau is a wholly autonomous unit, we work in close cooperation in promoting truth in advertising and integrity in business generally.

The National Better Business Bureau is also affiliated, through membership, with over 900 Chambers of Commerce throughout the 50 States in communities of less than 100,000 population. Through these affiliations in over 1,000 communities, we become well aware of the areas in which advertising deviates from the truth and is used to exploit and defraud the gullible.

May I make clear, at the outset, however, that we believe that the vast majority of American business is honest, and that it deals fairly with the public. Our experience is that responsible advertisers go to great lengths to assure the accuracy of their claims before they are presented to the public, and that they are prompt to correct any inaccuracy that may develop in order to avoid repetition.

There is, on the other hand, a small minority in business, or which purports to be in business, which uses advertising and selling dishonestly to mislead and to defraud the public. My testimony today is concerned with some of those in this minority element who exploit our elderly citizens. Better Business Bureaus and Chambers of Commerce have fought this dishonest group vigorously and have exposed their unconscionable schemes and practices to the public and called them to the attention of governmental agencies having jurisdiction over them.

Although the elderly may be taken in by most any swindling scheme, my testimony shall be limited to a few areas in which we know, from our experience, the aged are swindled of millions of dollars annually.

ADVERTISING IN THE HEALTH AREA AFFECTING THE AGED

Appeals to health and well-being directed to older people constitute one of the more widespread and insidious exploitations in our country today. In general, the problem lies, not so much in the advertising and sale of completely worthless products, because many have some limited or conditional value, but in the extravagant and colorful claims which suggest that the offerings can do much more than is scientifically justified. Unfortunately, in many areas, there is no established or single scientific or medical opinion so that it is possible to trade on the argument that there may be a new discovery or the beneficial effect of a traditional or folk medicine which has been neglected or improperly applied. The problem thus often becomes one of degree, the extension of a logical or apparently reasonable theory to conditions or situations for which rigorous clinical study cannot be absolutely applied in every case.

It is also well known that older people, particularly sick older people, are especially prone to try a large variety of questionable remedies. Perhaps, over the years, they have not been satisfied by recognized and conventional treatment and still look with both hope and fear to the future. Perhaps they are less sophisticated and, therefore, more suggestible and, perhaps, in the twilight period of life they are struck more forcefully by the all-too-human desire to stay young or to find some fountain of youth.

From the strictly commercial point of view, the growing numbers of the aged, estimated at over 10 percent of our population today, constitutes a rich and ever-growing market. There are some 17 to 20 million older men and women in this country who are potential customers for a large variety of products and services which can be truly or apparently tailored to meet their special needs. The incidence and prevalence of illness and disease is greatest in this segment of our society.

Although it is hardly feasible to cover the entire gamut of promotion and sale in the health area to older people, it may be sufficient to highlight and illustrate some of the more outstanding activities which have come to our attention through our critical review of advertising, through complaints by consumers, and through inquiries from media and others regarding the claims and assertions made in connection with actual or proposed advertising.

#### DRUGS

The ills most common among oldsters, in terms of numbers of people involved, include dental deficiency, various types of heart disease, malnutrition, obesity, hearing impairment, sight impairment, digestive problems, certain types of cancer conditions, arthritis, rheumatism and related conditions, and, of course, the conglomerate of minor aches, ailments, and pains which we generally associate with old age and general decline in functioning of mind and body.

Perhaps foremost among the drugs, remedies, and treatments addressed to older people, which are sold directly through advertising, are those which allegedly cure arthritis and allied diseases or seek to minimize the accompanying pain and discomfort. In our experience, the most common type includes the aspirin-plus compounds which rely principally on the salicylates, still considered by medical people as the best and cheapest drug for the relief of arthritic pain. The inventive manufacturer and compounder tries to combine a number of ingredients which will presumably add muscle relaxation, tranquilization, prolonged action, drowsiness or deadening, and so-called buffering. While the great majority of these products are advertised with restraint and do provide temporary relief for minor aches and pains due to arthritis, rheumatism, bursitis, neuralgia, and certain muscular soreness and tenderness, the advertising and illustration, for some of them, conveys directly, or by implication, the suggestion that they constitute a complete cure or reasonably permanent treatment of the complex disease.

There have also been more intellectual appeals, via books advocating special diets, bee venom therapy, use of oils, hormones, steroids, extracts, and across the lecture platforms of the naturopaths, faddist, and even mystics.

The fear of heart attacks and the problems associated with hardening of the arteries, arteriosclerosis, hypertension, and similar cardiac ailments have also formed the foundation for a host of proprietary drugs. Most of these base their claims on the reduction of cholesterol or other factors which, from time to time, have been named as inducing, or at least are positively related to, heart trouble. In this area, there are some completely worthless drugs and formulations offered as the answer to heart disease. These have included sea water concentrations and fat reducers which presumably lighten the load on the heart and combination nutrition-exercise programs, often prescribed by mail without individual diagnosis.

#### CANCER QUACKERY

In the field of cancer, the problem lies not so much in the advertisement of drugs sold directly to the public but in the exploitation of older people by quack doctors, some of them licensed medical doctors, others coming from the field of chiropractic, naturopathy, electromagnetism and still others who are self-ordained. They have invoked strange remedies such as regimes for retention of feces and sexual fluid, use of fungi, so-called lipid therapies, a number of dietary and nutritional treatments, use of gland extracts, concepts of anti-cancer systems and cancer antagonisms, complex vitamin preparations, diamond-carbon compounds and a whole series of special extracts and herbs. Most of these, you will note, tend to avoid the problems of surgery, radiation and conventional chemotherapy. The fear of operations and destruction of tissue is, of course, a highly important factor in motivating older people to seek other means and ways. These are precisely the terms and guarantees that quacks

offer, supplemented by testimonials of "satisfied patients" and scientific articles published in foreign and unknown journals.

#### SEX PILLS

Other drugs are sold to make up for loss of vigor and sexual weakness. The iron tonics and "tired blood" restoratives have hit this group with especial force since many older people are in fact anemic but, as is well known, individual conditions cannot be cured by gunshot remedies. Also, there are more direct solicitations in this field. We recently became aware of an organization which masquerades under a religio-scientific name urging readers to submit by mail sums of \$10 or \$20 for "Stagg Bullets" and "Genuine Passionola," the former for men and the latter for women. The advertisement refers to older men and women who are now able to do what they believed they could not otherwise accomplish because of their advanced years. According to the Post Office, which recently succeeded in preventing use of the U.S. mails for these products, the words and advertisements for "Stagg" and "Passion" do not describe the products as blood builders and tonics but as marvels that can make a man regardless of age romantic, young, potent and virile as the gods.

Although the word "sex" is not used "one does not need a magnifying glass to see it." The actual ingredients of "Stagg Bullets" fall into the food supplement category, containing several of the B vitamins, small amounts of simple carbohydrates, caffeine, aspirin, iron, vitamin E and a vitamin C-like product. "Genuine Passionola" contained sugar, juices of pineapple, papaya, peach, apricot, apple, grape, and passion fruit. None of these, it was established, without refutation, can in any sense overcome the physical or psychic influences which cause lack of sexual vigor impotency.

#### SEA WATER

In mid 1960, a series of advertisements proclaiming the benefits of bottled sea water (with 44 trace chemicals) began to appear. In general, these alleged that such concentrates would increase the life span, step up manly vigor, prevent or cure cancer, stop gray hair, relieve arthritis and be helpful for a host of other disorders, including diabetes and stomach troubles. According to a syndicated newspaper column written by an M.D., his elderly (97-year-old) father-in-law became rejuvenated after taking one teaspoon of concentrated sea water daily. The NBBB concluded after extensive investigation and consultation with medical authorities that medical research had not yet established that the conditions named in such sea-water advertising were due to a deficiency of the trace elements or chemicals present in the water. (See bulletin entitled "Sea Water—The Newest Medical Panacea?" appended hereto.) None of the firms submitted any evidence in substantiation of the purported benefits claimed. As in the past, the Bureau cooperated with Federal governmental agencies, and the FDA made multiple seizures of sea water on the basis that labeling contained false and misleading statements.

#### DIET AND NUTRITION

The most active campaigns aimed at older people are the falsely promoted vitamin supplement, health food, and nutritional regimens. The Food and Drug Administration has estimated that over \$500 million a year is wasted on these products, many of which are sold by an army of door-to-door salesmen, as well as through printed advertising, popular books, lectures, broadcast media, and through local so-called health and nature stores. The basic premise for most of these is that the American diet is somehow inferior or inadequate, and that pills and capsules with enriching vitamins, proteins, and natural elements are either essential to maintain bodily health and vigor or, at least, are useful supplements. The vitamin field is a particularly rich one today because the American public has been led to believe that everyone can use vitamins and that such use constitutes a kind of insurance against a variety of ills, true or imagined. Special foods follow the same pattern. Yogurt, for example, has been advertised with the claim that people eating this dairy product can live past 100.

One large organization in this field promoted a vitamin and dietary supplement through a network which, at one time, claimed to enlist some 75,000 distributors. The products were sold by a pyramid marketing and distribution plan through parties and door-to-door visits, chiefly made by neighbors who were persuaded that they were not only helping the community but, at the same

time, helping themselves. Diet supplements meant income supplements, and perhaps nothing more.

This legion of workers amasses considerable profit for the promoters. The prospectus of one of these companies indicated that gross income rose from almost \$2 million to over \$8 million during the year ending July 31, 1961. The firm was run and managed, or at least, fronted by a well-known television personality who not only enjoyed a hefty salary and part of the profits for himself but also for members of his family.

Dr. Jean Mayer, of Harvard University, an internationally known nutritionist, finds that the older person is the most frequent victim of nutritional quackery. He attributes this to the fact that they are poor, often less well educated and apparently more inclined to believe in the so-called natural and old-fashioned remedies. They do not, however, have unique health problems except for the fact that they are often without teeth or have poor teeth. Their basic nutritional requirements, however, are essentially the same. The claims, therefore, that they require a supplement at all times and in all seasons would appear to be without foundation.

The National Better Business Bureau has recently issued a bulletin, a copy of which is appended hereto, providing general information on vitamins, minerals and food supplements based on authoritative and carefully checked statements by experts from government, industry, and the academic world. It is to be hoped that the large mailing list of media and subscribers who obtain our publications will regard with appropriate care proposed advertising regarding the merits of food and food supplements which proclaim otherwise.

#### OBSESITY REMEDIES

The most persistent aspect of nutritional quackery revolves around obesity. Millions of Americans, including the elderly, are concerned about their weight problems. The medical profession has contributed to this concern by pointing out that excessive weight may lead to various types of heart disease and other disorders. In part, too, our emphasis on appearance and style suggests that slimness and svelteness must be maintained. Achieving this desire, either for sound medical reasons, or for the sake of appearance has opened the door for a wide variety of obesity remedies, many of which have been misrepresented and many of which have been worthless.

#### DEVICES

The older person is also the target of a number of manufacturers of health machines, devices, and gadgets which are advertised as helping relieve pains and generally pepping up the mind and body. For the older person who is crippled or disabled because of arthritic or muscular disease, a variety of heat-producing machines, massagers, exercisers, or devices combining two or three of these elements are sold at prices which often require years of monthly payments. Although it is recognized that for certain conditions such devices might be of some value, the advertising used to sell some of them falsely creates the impression in the minds of the gullible that they will cure arthritis, rheumatism, nervous tension and similar ailments.

Hearing aids are great boons to the elderly who are hard of hearing and the industry as a whole no doubt serves the public well. But purchase and use of hearing aids by older people has also given rise to problems which, although perhaps not definable as outright frauds, demonstrate how older persons who may have specific needs for health products and services may be exploited. For example, one company in this field has represented that its hearing devices were of size, quality, and weight which were not in accord with facts. It erroneously implied that no wires were used, that no button shows in the ear.

Apart from such deceptions, complainants report inability to secure satisfactory adjustments when an aid does not prove useful. Thus, we have a complaint that a mother of 80 years of age had purchased a hearing aid for cash but that it never functioned and after eight visits to the local distributor for adjustments, she incurred injury to the ear. Demands for the refund of money were refused because the old lady declined any more adjustment. The son stated vehemently "she lives on a social security pension of \$49 per month and can ill afford to be bilked out of \$150." Each complaint of the elderly in this area is serious if the hearing aid purchased is expensive and useless with the likelihood of any adjustment practically nonexistent.



Similar problems exist in connection with the sale of eyeglasses and spectacles by mail and the sale of dentures without proper prescription and fitting.

As has been pointed out, dental problems are among the most prominent and pressing in the older population. It is estimated that more than two out of three older people have serious dental difficulties, including the need for dentures and plates. Among the more common advertisements to which we understand a large majority of older people respond are those for so-called dental adherents, reliners, stabilizers and other mechanical aids which presumably base and adjust insecure plates. The American Dental Association and other experts have warned that long term and constant use of such devices tends to mask underlying pathology, substitutes the aid or crutch for a proper fitting and may provide a false sense of security which deprives the older persons of proper professional dental care.

#### CLINICS, SPAS, AND OTHER SERVICES

A number of clinics purporting to provide special treatment for sufferers of chronic diseases such as arthritis, rheumatism, cancer, and heart trouble abound in the United States. These are local operations but advertise by direct mail or through newspapers so that "messages of hope" appear throughout the country. A typical illustration is an "institute" in Florida which, even before establishment, advertised nationally as "Miami's most nationally known clinic." Principal advertising claims related to the cure of prostate trouble without surgery and help to arthritis sufferers. The come-on is to offer free booklets on these diseases and then to induce correspondents to accept treatment at the clinic. In addition, the organization publishes occasionally a tabloid size newspaper which describes in text and picture the so-called cures and testimonials of people who found help at the clinic.

Our investigation of the clinic disclosed that the principal had purchased a motel in order to convert it into a health spa. Although advertising speaks of a highly specialized service supplemented by scientific techniques which were discovered and developed by its own professional staff, alleged to include doctors with years of experience in its specialization, all graduates of recognized schools, the institute declined to furnish NBBB with any information on the subject or proof that the "doctors" were, in fact, medical doctors. The Dade County Medical Association of Florida advised that there is no M.D. on the staff.

Another "hospital" in Colorado has been known to the bureau for over 10 years. It advertises by mail and in newspapers and magazines as a chiropractic hospital capable of treating and curing conditions such as cancer, multiple sclerosis, polio, cerebral palsy, mental deficiency, heart disease, arthritis, and similar ailments. The Public Health Service, the American Medical Association and other scientific authorities have stated that there is no known or single cure for the conditions mentioned and described and the NBBB has so reported. The clinic was named or mentioned by Walter Winchell in broadcasts, resulting in a \$25 million damage suit against him. The clinic also filed a libel action against Colliers magazine in 1951 and similarly filed suit against the Denver Better Business Bureau. All of these were unsuccessful. A recent report of the Better Business Bureau of Western New York reveals another aspect of this operation. Specifically, we were told that many families in western New York received a circular from its "free clinic" with the caption "Chiropractic Ferrets Out the Underlying Cause of Ill Health."

However, a local woman who responded to this circular received a return letter in 1962 giving the rates of \$18.50 to \$26.50 per day for ambulatory patients and \$21.50 to \$29.50 for bedfast or helpless patients, plus charges for complete examinations including X-rays and laboratory tests. A further letter stated: "We have a free bed list, which is quite well filled now and we have people waiting, since we are not tax supported, not endowed and must shoulder our own burdens. We can only do our best and serve those now waiting." Since the clinic appeals to people who have chronic diseases customarily requiring long periods of treatment and convalescence, cost is a significant element. The impression that there are possibilities for free treatment or reduced rates as implied in the circular is certainly not borne out when one has the foresight to check.

These then are some of the areas in the health field where our older citizens are exploited. Although health quackery is perhaps the most serious problem calling for correction, there are many others which beset the oldster, some of which follow.

## DECEPTIVE LAND PROMOTIONS

Untold millions of dollars have been and are being spent by our aging public to buy faraway lots, sight unseen. Land in British Honduras, Brazil, Costa Rica, Venezuela, the Bahamas and Hawaii represents the farflung nature of current promotions, although emphasis is on the southwestern United States and Florida. In Mohave County, Ariz., alone there are more than 300 subdivisions with hundreds more in New Mexico, California, Texas, Oregon, Florida, Idaho, and Utah.

There are, of course—and I would like to emphasize it—many legitimate promotions, where experienced and well financed real estate developers offer land suitable for habitation accurately and fairly and who proceed with improvements before selling the land to the public. Unhappily, our elderly are being exploited by a minority of promoters who are palming off, through deceptive advertising, submarginal, undeveloped land as retirement paradises. My testimony is concerned with the practices of this minority group.

Homesites purchasable on a \$10 down, \$10 monthly basis have a particular appeal to those on limited social security or retirement incomes. High pressure sales campaigns conducted in cities far distant from the developments, supported by illustrative advertising matter grossly distorting the true nature of the land offered as it now exists has induced many old people in this income group to buy lots in remote, desolate areas, lacking in roads, utilities, neighbors, schools, stores, or any other evidence of civilization. Deception results not only from misrepresentation, but from the failure of the promoter to disclose the real character of the land and its location.

## WATER PROBLEMS

Some of the lands offered by fringe promoters are in the vast arid rangelands of the Southwest where water must either be trucked to the home like fuel oil at so much per gallon, or be pumped up through artesian wells sunk several hundred feet below the earth's surface at substantial expense, or where one must take his own tank to a water meter which may be miles away. As one promoter admitted about the area he was developing, "you'd have to be a pioneer to live there now."

Some of the lands offered present problems, not because of the unavailability of abundant water at minimal cost, but because of too much water. Swamp merchants in Florida have accumulated many hard-earned dollars from the elderly, touting land in or near the Everglades, Big Cypress Swamp in Collier County, and so forth, as "America's Last Frontier," "Today's Best Investment" and other glowing terms. The ads do not disclose that the land may be under water part or all of the year, that drainage of the area would necessitate a public undertaking, and that there are no plans for such, now or in the foreseeable future. In fact, some of the area is in a water conservation zone where it is Government policy to maintain water, as a barrier. Our aged are thus unaware of the highly speculative nature of these promotions, relying on the deceptive language of the promoter's literature.

Apart from the undesirable if not uninhabitable nature of some of the retirement havens that are being offered to the public, there is the speculation as to the fulfillment of the promises made. In some instances it is apparent that the promoter depends upon continuing sales and revenue therefrom to do any developing or to extend it. In many instances, funds collected from purchasers are not put in escrow in any part to assure completion of promised improvements. If the present boom collapses many firms operating in this manner may collapse with it and purchasers may lose what they have paid in.

## "FREE LOT" GIMMICK

A gimmick used to snare the elderly at numerous fairs has been to set up a booth where passersby are invited to register for information on a distant development, and a chance to win a "free lot." Most, and often all, such registrants then receive a letter of congratulations "on having been awarded a free lot for closing costs only," varying from about \$30 to \$90. If they fall for this "bait" they are then high-pressured into buying one or more adjoining lots at highly inflated prices, to form an "estate." Although this "free" lot scheme is as old as the hills, thousands of people have purchased marginal land at excessive prices through this deceptive device.

The National Conference on Inter-State Land Sales held at San Francisco last October was a clear indication of the magnitude of the fraud and deception, which now exists in the sale of submarginal land to out-of-state buyers, sight unseen. Attorney General Stanley Mosk, of California, who sponsored this conference of regulatory officials concerned with the problem and the Better Business Bureaus, estimated that promoters are mulcting the public of over \$500 million annually in the sale of these lands.

The problem of selling land sight unseen is receiving the attention of regulatory agencies having jurisdiction over such sales at both the National and State level. The Post Office Department has stated that over 150 promoters are being investigated and the Federal Trade Commission has announced that it is investigating questionable real estate offerings in six States. Only a few of the States have thus far adopted regulations for protecting the public from victimization in interstate land sales. To their great credit, Arizona and California have adopted regulations which require that a public report setting forth the true facts about any land offering be furnished to prospective purchasers before any contract is signed. It seems doubtful that many oldsters, or anyone else, would purchase much of the land offered if they would first read and understand the public reports required by these States.

Our organization has been aware of the problem for several years. We have issued many warnings to the public on buying land sight unseen and, in cooperation with all of the Better Business Bureaus we have promulgated recommended standards for the advertising and selling of land for the guidance of advertisers and media. This code, a copy of which is appended hereto provides in essence that the true nature of any land offered be clearly and unequivocally set forth in advertising. At the aforementioned San Francisco Conference, Assistant Attorney General Herbert Wenig stated that application of these standards "would do much to eliminate the more distressing phases of the advertising problem."

Later this month, the Committee on Installment Contracts of the Association of Better Business Bureaus is sponsoring a national conference of real estate developers in New Orleans to urge adoption and application of our recommended standards to their advertising promotions and to seek agreement on other voluntary procedures designed to protect the public in its purchase of land. Among other things, the program we will present will call for scrutiny by the National Better Business Bureau of all interstate real estate advertising, on-the-spot investigations of developments of national scope, and dissemination of factual reports based upon such investigations to media and the public. We are hopeful that these efforts will bring about improvement in an area seriously affecting the interests of our elderly people.

#### VICTIMIZING OF ELDERLY PEOPLE BY SAVINGS AND LOAN ASSOCIATIONS

Elderly persons were among the principal victims of a save-by-mail scheme operated by a number of State-chartered and privately insured savings and loan associations in Maryland during the years 1958-61. These associations advertised nationally soliciting savings accounts on which they purported to pay extremely high dividend rates and new savers were also offered expensive gifts. Advertising also featured the claim that the savings accounts were "insured" by the Security Financial Insurance Corp. The scheme is described in detail in the bulletin appended hereto entitled "Save-By-Mail Advertising of Some Maryland Savings and Loan Associations."

Prior to June 1961, these savings and loan associations operated without any supervisory control. Since effective State regulation and supervision was adopted, some 24 of these associations holding accounts estimated at roughly \$25 million have been placed under court jurisdiction. Ten of the associations have been placed in receivership and nine others have been placed in the hands of a conservator. Three associations are in bankruptcy. Five men have been convicted in Federal Court on mail fraud charges, and five others are under indictment on similar charges. Indictments have been brought against 17 persons allegedly connected with associations placed in receivership on a wide variety of charges, including embezzlement, larceny and conspiracy to defraud. The insurance of savers' accounts appears to have provided little or no protection because the insurance company is also in receivership as set forth in the attached bulletin entitled "Security Financial Insurance Corporation—Receivership Order By Court—Company Appeals."

As a consequence, elderly people and others who entrusted their savings to these associations now find it impossible to get any of their money back. How

much they may eventually receive is a matter for speculation. One guess is that about 48,500 savers face the prospect of a return of nothing to a maximum of 30 percent on their investments.

Some pitiful complaints have been received from individual investors. A 70-year-old Chicagoan wrote that he had been living on the \$85 monthly dividend he had been receiving from a \$17,000 saving account with First Capitol Savings & Loan Association but was now getting only \$55 social security a month. The association is among those which have been declared bankrupt and its promoter is now serving time in the penitentiary following his conviction on mail fraud charges.

Another elderly man complained in court that he had accumulated \$13,600 in the Mutual Security Savings & Loan Association before it went into receivership, but was now a "pauper."

A 66-year-old woman from New Hampshire said she had more than \$22,000 in First Continental Savings & Loan Association which has been placed in receivership. She said she now needed the money badly to pay bills.

A New York widow invested her entire inheritance of \$100,000 from her late husband in another association which has been seized by the courts. She said that now, for the first time in her life she faced the prospect of finding a job which she was ill-equipped to obtain.

Recently, a number of State-chartered savings and loan associations in Mississippi have begun to advertise for save-by-mail accounts. They, too, are offering high dividend rates and claim that their accounts are "insured" by a private company in Mississippi. At present, we do not have a great deal of information about these activities, although we do know that the promoters of one of the associations is in difficulties with the Securities and Exchange Commission in connection with another financial venture.

#### FUNERALS AND INTERMENTS

Older people have also been the special target of various promotions involving funerals and interments. Although the majority of funeral directors no doubt deal fairly with the public, but from time to time reports are received that a particular funeral establishment has charged exorbitant funeral fees. There are some renegade funeral directors who ferret out information about the amount of insurance carried by the deceased, or the other assets of a family and then inflate the funeral bill in order to get as much as possible.

In recent years, there have been a growing number of sales organizations and promotions outside the funeral profession who have sought to stimulate public interest in prearranged, prefinanced funeral plans. Old folks are, of course, prime prospects for such plans. Grievous disappointments and severe financial losses have resulted from some unsound promotional schemes, foisted on a credulous public by armies of high-pressure salesmen. There are dangers in any plan for prepaying funeral expenses unless it is surrounded by proper safeguards.

#### SAVINGS?

Many prefinanced funeral "plans" are promoted to the public by organizations who contract for the future delivery of prearranged funerals through "participating" funeral homes. Savings claims and promises of "bargain" rates are stressed in many of these promotional plans but these claims are very questionable in view of the sales commissions and costs that must be added to the cost of the funeral. For example, under the arrangement between one sales organization and "participating" funeral homes the latter are required to represent that a designated funeral, available to customers of the "plan" at the "reduced price" of \$595, is "regularly" priced at \$795. The actual price to the company selling the plan is only \$420. It may well be asked whether a funeral home can afford to sell services and merchandise honestly priced at \$795 at little more than half that amount and still make a profit. In addition, most of the contracts contain an "escalator clause" which provide that if at time of need, the cost of the services, facilities, and merchandise has increased, the survivors must pay such excess to the funeral home or the quality and type of service, facilities, and merchandise may be reduced by a corresponding amount.

## TRUST PROVISIONS

Most of the contracts are promoted for purchase under time-payment plans which add finance charges to the basic price. Deduction of sales commissions and administrative costs before any payments are placed in trust or otherwise allocated toward eventual delivery of funeral services and merchandise is a distinguishing feature of most time-payment plans. Some contracts provide that payments shall be placed in trust only "after first deducting reasonable sales and administrative costs," or after deduction of expenses "as determined by cost and company policy from time to time." Similar provisions often give the promoter wide latitude in determining how much of the money is to be placed in trust and under what circumstances. In many cases, the seller is not obligated to place any amount in trust until all installments are paid in full; meantime, the money remains under his control. Subsequently, many contracts permit the sales organization to divert all income from the trust to its own use or split it with the "participating" funeral homes.

Trust funds are also often a part of "package" plans for the preneed purchase of cemetery lots and/or vaults, markers, and certain burial services. Not long ago, in Illinois, it was discovered that more than 65 percent of the money collected from preneed installment sales of a package including a vault, a memorial or marker, and services in connection with the opening and closing of graves was being spent for sales commissions and operational expenses. Well-publicized provisions for setting aside a trust fund from the payments were characterized by the court which enjoined further sales as "vague" and "illusory."

## CEMETERY LOTS AS "INVESTMENTS"

Frequently, cemetery lots have been offered on a get-rich-quick basis. It has been the experience of Better Business Bureaus that when cemetery lots have been sold on a speculative basis with predictions or promises of resale at huge profits, purchases have not generally been profitable from the standpoint of "investors." Thousands of persons who have been promised financial security from such "investments" have found themselves owners of lots in cemeteries which have gone into receivership, unable to dispose of their lots for more than a fraction of the cost, if at all.

## "HEARSE CHASERS"

Better Business Bureaus have record of many schemes and "promotions" designed to prey on recently bereaved people which frequently includes the elderly. "Hearse chasers" seek to victimize survivors by collecting for merchandise which is falsely represented as having been ordered by the deceased. Sometimes they render bills when nothing is owed. Sometimes they claim part payment has been made by the deceased and endeavor to collect the alleged balance. Some promoters make a living by mailing unordered merchandise such as religious items and plastic-sealed copies of death notices. Survivors who accept an offer to include the deceased in a biographical book may subsequently discover that they have contracted to pay high prices for engravings, reprints or other extras.

## DANCING WIDOWS

Many communities throughout America have one or more reputable studios which teach dancing and which undoubtedly provide a great deal of happiness to those who wish to be more adept in the terpsichorean art. But in recent years some con men have invaded the dance studio business and have developed a sales program designed especially to exploit lonely old ladies. I refer to the so-called lifetime memberships whereby a studio contracts to provide several thousand hours of instruction to an elderly person on a paid-in-advance basis. Victims have reported to the Better Business Bureaus that they were not only signed up to one "lifetime" membership but to multiple "lifetime" memberships—to the extent of their resources. I cite a few notorious cases which have been the subject of litigation.

A 69-year-old widow charged that a dance studio signed her up to eight "lifetime" memberships, entitling her to 3,100 hours of instruction at a cost of \$34,913 by means of "fraud," "undue influence," and "trickery."

A 71-year-old woman mortgaged her home to make the final payment to a dance studio on several "lifetime" memberships, totaling \$32,600. She bought one of the memberships while in the hospital with a knee injury which made it doubtful she would ever walk again, let alone dance.

A 74-year-old widow brought suit against a dance studio to recover \$25,000 she paid for 2,480 hours of dance instruction. She was promised attractive male dancing partners and was assured that the lessons would make her a gifted dancer so that she could perform on television.

In a period of 5 months, one dance studio sold a woman three "life" memberships at \$6,800 each, totaling \$20,640. The third and last one was in perpetuation of the memory of her late husband by giving free dance lessons to deserving persons. When the woman became disillusioned and broke, she filed suit against the studio, seeking to recover the total amount paid. The court ordered the studio to return \$14,000, which represented the alleged cost of the unused lessons.

A 68-year-old woman signed a series of promissory notes totaling \$15,938.45 for 4,000 hours of instruction. In seeking the return of this money in a court action, she alleged that she had been coerced, flattered, and otherwise induced to sign for the lessons.

A 79-year-old woman, the dean of the dancing widows, paid \$11,800—half of her total savings—for her lifetime lessons. When a grand jury heard her tale of woe, a grand larceny indictment was returned.

These examples are typical of a great many instances where old folks were high pressured and sweet talked during the past few years into paying large sums of money to a handful of dance studio operators for lessons which they might, or might not live to enjoy, or have the health to enjoy. They are induced by two primary factors; i.e., the unconscionable tactics of a promoter, and the desire of elderly widows and spinsters for flattering, affectionate attention, and the emotional satisfaction it brings to an otherwise lonely existence. Swindling in this area is made possible largely through the device of the "lifetime" contract.

#### THE FURNACE SWINDLE

The sale and servicing of home furnaces have long been in the hands of local dealers, the vast majority of whom are reputable businessmen and a respected element in their communities. But for many years, a small minority in this field has shamefully fleeced the aged of millions through a vicious selling scheme which warrants national exposure.

Posing as inspectors, representatives of furnace firms have gained entry to the cellar and, in thousands of instances reported to affiliated Better Business Bureaus and Chambers of Commerce, have misrepresented to homeowners that their furnaces were in bad shape; that lethal carbon monoxide gases were escaping; that the furnace was likely to blow up at any minute, or that continued use of the furnace in its present condition would surely result in asphyxiation and death.

As a result of such trickery and high-pressure selling, many thousands of useful furnaces have been needlessly discarded and replaced at vast economic loss to elderly homeowners, often to their impoverishment. On some occasions, the swindlers brazenly repeat the performance within a few years. The Chicago Better Business Bureau, for example, reported the case of the firm that sold the same elderly man two new furnace installations within 2 years at a total cost of \$3,800. The Fort Wayne Better Business Bureau reported the case of the firm that sold an elderly widow two new furnaces within a 3-year period at a cost of \$3,847.

A leading trade publication in the heating industry recently described the collective activities of these schemesters as "the rape of the American heating buyer."

#### ITINERANT SWINDLERS

A vast army of door-to-door salesmen and saleswomen call upon the Nation's housewives every business day of the week and collectively do an estimated annual business of over \$8 billion.

The overwhelming majority of these sales people deal honestly with the public and have earned its confidence for their method of selling in the home.

A relatively small group who are in no way connected with the direct selling industry but who are, for the most part, outright confidence men exploit the elderly to the tune of millions annually through a variety of schemes which they work door-to-door. Some of these schemes are illustrated by the following examples from our files.

In Texas, three itinerant-swindlers filched almost \$4,000 from an 89-year-old woman over a period of a few months. The first swindler called posing as a city inspector and told her that her storm sewers needed cleaning to pass city inspection. He worked 2 hours and charged her \$1,050. Four days later the second swindler called and claimed to be a roofing inspector. He insisted that the roof needed painting and repair. He and an assistant did the job in less than 1 day and charged \$1,685. About 2 months later, the third swindler called posing as a city wire inspector. He said the wiring in the attic needed repair. He got the job, performed it in 20 minutes and charged \$1,250. The victim confided all this to her banker who reported it to the police who brought swindling charges against the trio.

A retired physician in his eighties in Missouri gave a representative of an alleged termite control firm \$1,790 for treating his home and out buildings after being shown a piece of termite-eaten wood supposedly removed from the basement of his home. Subsequent investigation failed to establish that there was any termite activity in the home, or in any of the buildings except the garage and that none of the buildings involved had received any termite control treatment. The authorities were never able to locate the perpetrators of this fake service.

An 81-year-old widow in Missouri was solicited by an alleged tree surgeon operating out of a hotel room to work on her elm trees. He charged her \$1,854 and was subsequently arrested on a fraud complaint charge. Several competent tree surgery experts stated the work done was either unnecessary or detrimental to the trees treated and that a fair price would have been \$165. This chemester has a record of 21 arrests, several fines and 2 months' paroles on confidence game schemes.

A 58-year-old widow in South Carolina whose only income is her monthly social security check of \$150 was high pressured into signing a contract for aluminum siding at a cost of \$70 per month for 84 months for a total of \$5,880. A local contractor said the job could be done for \$660. This victim's financial problem is compounded by the fact that her 17-year-old son will be 18 in 1963 and she will then be ineligible to receive social security payments again until she becomes 62.

In Idaho, a slicker "health insurance" agent took \$100 in some cases, \$200 in others, promising health and accident coverage for elderly people. They not only did not receive a policy, but either the same man or an accomplice would call on these people, say he was investigating the salesman, and request that they give him their receipt for his investigation—leaving them with no proof of money paid.

A 71-year-old woman in Paterson, N.J., was told by a man claiming to be a public service employee that there had been a break in the main gas line and he wanted to check the pipes in her basement. After doing so, he called the woman to the basement and demonstrated by lighting matches that gas was leaking around the meter. He explained that the pipes were burned out and needed repair, the cost of which would be a nice even \$1,000. The woman went to her bank and withdrew 10 \$100 bills and gave them to the swindler. He promised to return in the afternoon to do the job but never showed up. A subsequent check with the public service company established that he had tampered with the meter so as to make it leak.

A band of gypsy painters called upon a 71-year-old homeowner in Alabama and told him they were hired by a well-known company to demonstrate their paint. They said they would paint his house charging only for their labor, the paint being gratis. An estimate of \$30 was given, but when the job was done they demanded \$143. The victim was threatened with a law suit if he didn't pay. Being thus taken was bad enough but after the first rain, the "paint" washed off.

The files of the better business bureaus and chambers of commerce contain thousands of similar examples where elderly people have been victimized by itinerant crooks posing as local contractors or repairmen. Local authorities ride herd on these imposters but they persist largely because they find aged people relatively easy to fool. How long this may endure is illustrated by the Bureau's experience with the notorious "Williamson Gang."

#### THE TERRIBLE WILLIAMSONS

For over 50 years, a heavily inbred tribe of notorious itinerants, known as the "Williamson Gang," have plied a countrywide, door-to-door swindling operation in bogus goods and services, netting them an estimated annual haul of around a million dollars.

These bunco artists prey upon homeowners generally, but the elderly are their favorite victims.

The Williamson saga differs from the ordinary door-to-door swindle, in that, as a rule, the Williamsons exploit the cupidity of their victims by representing or implying that what they offer is a terrific bargain available at only a small fraction of its true worth. They create the illusion that the victim is going to get "something-for-nothing" by giving a variety of cock-and-bull stories.

For example, the man with a bolt of cloth may say that he is in the British merchant marine "just off the boat," implying that he bypassed customs with his fine import; a man offering furs poses as a Canadian fur trapper who has eluded the border patrol; a man offers to oil the shingles on the roof for a special low price because he "just happens to be in the neighborhood and has just enough material for one more job;" a girl offering lace says it was made in Scotland by her dear old grandmother but must be sacrificed at a great loss to help pay for the old lady's hospitalization, etc., etc. With their thick brogues and highly developed artistry the Williamsons have palmed off a wide variety of sleazy products and services at prices far in excess of their market value. Often jailed for soliciting without a license or for vagrancy, they continue, year after year, their nomadic swindling.

The foregoing are but some of the areas familiar to us wherein the aged are victimized. There are many others, but the few we have cited clearly establish that the victimization of the aged is a serious problem and has been a serious problem in this enlightened country for a long time.

#### SUMMARY

The records of the National Better Business Bureau reveal that our elderly citizens are mulcted of hundreds of millions of dollars annually by a relatively small group in business which uses advertising to deceive and defraud and by a similarly small group of confidence men which employs a variety of tricks and schemes to victimize the aged.

Older people are perhaps more vulnerable to the blandishments of drug and device quackery and food faddism because of greater anxiety concerning illness, reluctance to fact doctors and apparent willingness to accept so-called natural and simple remedies. A small minority of advertisers in the health field takes advantage of these understandable fears and hopes in soliciting sales for vaunted cures for chronic illness, affecting all people but particularly the elderly, and in promoting special geriatric products.

The more prominent of such enterprises in the sale of drugs directly to the public are aimed at long term, painful illness, such as arthritis and rheumatism, neuralgias and other muscular aches and pains; certain forms of heart disease and cancer; and the well-known ailments of old age such as generalized weakness, loss of vigor and energy, impairment of the senses, especially hearing and vision; and specific problems such as prostatitis and neurologic disorders. These conditions have given rise to a variety of extravagantly advertised pain-killing pills, drugs and diets to reduce strain on the heart or to prevent arteriosclerosis, phony cancer cures and various sale-by-mail nostrums for conditions which should have competent individual diagnosis and medical care.

The nutritional quack promises older folk, through books, lectures, and local health stores, as well as by conventional advertising, a series of tonics, restoratives, and shotgun remedies. Here, the vitamin-mineral supplements and special diet dealers also hold sway, exacting an estimated \$500 million from the American public, including a large percentage of older people.

Mechanical, electronic, and magnetic-thermal devices to relieve pain, to tone the body through massage, exercise, and vibration also take their toll among many of the elderly. They are led to believe that temporary relief is tantamount to cure. Likewise, dentures, hearing aids, eyeglasses, and other aids are sold under the false pretenses of offering cheap answers to conditions that require personalized professional attention.

In addition, the elderly are attracted to so-called clinics and hospitals which claim cures for all types of diseases through chiropractic and other limited measures. They hold out hope of quick, easy, painless treatment, generally provided by practitioners who are not licensed physicians.

In general, the problem in the health area is not so much outright fraud (although some remedies like sea water and sex elixirs are plainly worthless) but actual or implied misrepresentation that the products and services can do more for the elderly of our Nation than is scientifically justified.



Many of our elderly people are being mulcted of millions of dollars annually by a minority of real estate developers in the purchase of submarginal, undeveloped land in faraway places, sight unseen, through false and deceptive advertising. Some of this land is on the slopes of volcanoes in Hawaii; some is in the parched deserts of the Southwest and some is in the Florida swamps; much of it is not habitable now nor will it be in the foreseeable future. Many of the retirement "paradises" being offered are in desolate areas, many miles from any established community and with none of the facilities to which purchasers are accustomed, such as electricity, water, telephones, schools, stores, churches, doctors, neighbors, and transportation. It would appear that many of the marginal promoters selling submarginal land lack the resources needed to develop these tracts.

In many instances, the promoters set up no escrow arrangement to assure purchasers that their monthly payments are safeguarded. When the bubble bursts, the elderly persons who have bought this submarginal land blindly for retirement havens will suffer.

Thousands of elderly persons were swindled recently by a save-by-mail scheme of certain State chartered privately insured savings and loan associations which offered very high interest rates and expensive gifts to those entrusting their savings. Following investigation by the authorities many of these institutions have been placed in receivership and some of the promoters have been charged with fraud. Instead of increasing their annual income through higher interest rates many thousands of victims are receiving no earnings and face the loss of as much as 70 percent of their savings.

The sale of prearranged, prefinanced funeral plans with unsound trust provisions by high-pressure promoters has resulted in severe financial losses and grievous disappointment to elderly folks and their survivors. Similarly, the purchase of cemetery lots on a speculative basis with promises of huge profits has generally not been profitable to the aged.

Many lonely old widows have been induced to deplete and sometimes exhaust their savings by purchasing "lifetime" dancing lessons from greedy dance studio promoters. By means of high pressure, flattery, and affectionate attention, con men in the dance studio business have preyed upon the loneliness of old widows and spinsters and provided them with a program whereby they may literally "dance their way to the poorhouse."

Old folks are sometimes shamefully swindled of millions, in the sanctity of their own homes, by schemesters. In the furnace field, for example, millions of dollars have been extracted from old people through the use of "scare" tactics in the sale of furnaces. By falsely representing that old furnaces are dangerous and will "blow up," furnace salesmen have frightened old ladies into replacing useful equipment with expensive new installations they neither needed nor wanted.

In addition, a relatively small band of itinerant confidence men constantly prey upon the gullibility of our oldsters. These crooks usually gain entry to the home by some ruse, and then victimize old people by scaring them into authorizing repairs to their roofs, chimneys, septic tanks, home wiring, etc.

#### RECOMMENDATIONS

1. It is our belief that existing Federal laws regulating false and fraudulent representations and pretenses, if promptly and vigorously enforced, would do everything that laws can do to protect the elderly from victimization. It is our conviction that the regulatory agencies having jurisdiction are doing a highly commendable job within the limits of their resources and in the light of the magnitude of the problem.

If enforcement of the existing Federal laws and regulations is to be prompt and vigorous, the governmental agencies must be provided with budgets adequate to do the job, which is not now the case. We recommend that such agencies as the Department of Health, Education, and Welfare, the Federal Trade Commission, the Post Office Department, and the Department of Agriculture be given the funds they need to function effectively in the public interest.

2. Many of the evils which we have reported prevail primarily at the local level, and it is here where enforcement of existing laws is woefully inadequate and, in many cases, nonexistent. By the very nature of most the schemes, local agencies are far more suitably situated to act promptly and effectively in curbing them. Unfortunately, it has been our experience that apathy on the part of many local officials in either permitting offenders to plead to irrelevant

charges; such as soliciting without a license, or vagrancy, or permitting them to get off scotfree on a promise of leaving the community "pronto," serves only to expose the elderly of adjacent communities to the same swindle. If the victimization of the aged is to be dealt with effectively in this respect, we recommend that localities must assume full responsibility for dealing with offenders adequately.

3. With respect to the use of false and deceptive advertising, we recommend:

1. That advertisers accept responsibility to present competent proof of claims when questioned, and

2. That advertising media accept responsibility for requiring competent proof of claims prior to publication when copy is considered questionable or if it is subsequently questioned by any responsible source.

4. We recommend that greater and more effective use of self-regulatory codes be encouraged to bring together responsible representatives of commerce and the professions interested in preventing abuses. This would exemplify the moral responsibility of the business community and also permit the Government to concentrate on the transgressors.

5. We also recommend that all governmental and private agencies, local and national, that are concerned with the victimization of our aged carry on continuous educational campaigns to inform the aged of some of the problems they face in their everyday purchases and investments and encourage the elderly to exercise caution in the dealings with unknown people and to seek the counsel of relatives and friends before making commitments on major purchases and investments.

6. Laws and education cannot by themselves protect people in the old age area. If they are to be fully protected we recommend that responsible members of the community, such as relatives, friends, neighbors, clergymen, lawyers, doctors, and others who come in contact with old people be available for guidance. If we subscribe to the concept that we are our brothers' keepers, should we not assume social responsibility for the aged?

#### CONCLUSION

In conclusion, although the victimization of the aged through fraud and deceit in advertising and selling is a serious problem which concerns us all, it should be emphasized that the guilt rests with a relatively small group. The overwhelming majority of businessmen in this country deal fairly and honestly with their customers, including the elderly. Nevertheless, because of the serious harm inflicted upon the aged and the notoriety it engenders, the stigma of shame attaches to all business. It, therefore, becomes the responsibility of everyone in business to strengthen the forces of self-discipline and public education to meet this problem. The exercise of this responsibility, coupled with vigorous governmental action and community endeavor, should give our aged the protection they deserve.

[National Better Business Bureau, Inc., Periodical No. 1721]

#### SEA WATER—THE NEWEST "MEDICAL" PANACEA?

A number of firms are now advertising or attempting to place advertising extolling the purported benefits of concentrated sea water (10 to 1) for a wide variety of ailments. It is alleged in some advertising that sufferers of arthritis, palsy, cancer, diabetes, Parkinson's disease, leukemia, multiple sclerosis, myasthenia gravis, anemia, gray hair, baldness, or lack of virility may benefit from sea water.

Advertising usually refers to a syndicated newspaper column by George W. Crane, M.D., which dealt with the subject of sea water and its alleged beneficial effect on Dr. Crane's 97-year-old father-in-law. Dr. Crane described his father-in-law's "rejuvenation" after 4 months of taking one teaspoon of concentrated sea water daily. Prior to this, the father-in-law was described as arthritic, bedridden, and "foggy mentally." After the "treatment," he began to perk up, both mentally and physically, "he was able to lift his "arthritic right leg, cross the right ankle over his left knee, and remove his shoe and sock; then let the right foot drop back on the floor without letting out a peep."

According to Dr. Crane, " \* \* \* baldness and gray hair, diabetes and cancer, possibly multiple sclerosis and myasthenia gravis \* \* \* are just a few ailments

that may be due to lack of certain essential trace chemicals." He also alleged that the 44 chemicals present in sea water are "reduced serious or totally missing from our farm land, so that our meat and potatoes, vegetables and fruits are often sadly lacking in vital chemicals."

ADVERTISING AND LABELING CLAIMS

The following are examples of advertising claims for certain brands of concentrated sea water (priced from \$1.59 for 8 ounces to \$3 a pint), based upon Dr. Crane's newspaper column:

"VICTIM OF ARTHRITIS, ETC.???"

"ADD LIFE TO YEARS—ADD YEARS TO LIFE

"This remarkable contribution to health and happiness was *happened* upon by an *internationally* prominent physician who reported this amazing phenomena in a nationally syndicated column. [Our emphasis.]

"ARTHRITIS

"Loss of virility, baldness? Sufferers from deficiency diseases; anemia, cancer, diabetes. You can live a longer, healthier, life if your body gets all its essential minerals.

"ARTHRITIC SUFFERERS

"A syndicated column by a well-known doctor recently printed an article on the benefits of sea brine for human consumption.

"CONCENTRATED SEA BRINE 10 TIMES NORMAL—STERILIZED

"\* \* \* step up in manly vigor—relief of arthritis in a short time—clearing up of skin cancer—uremic poisoning—decrease in use of insulin; Dr. George W. Crane suggests it may vaccinate against cancer, even grey hair and other serious ailments. It may help you, it may not, no promise or guarantee is extended; we just feel sure you will, in all probability, be benefited."

Although advertising of one product refers to the alleged beneficial effects of "the 44 chemicals present in sea water," the bottle label lists only 6 chemicals as being contained in the product. The label does not list the amounts of the minerals purportedly present.

Labeling of another product states "Minerals in sea water normally contain 44 trace elements as listed hereon." However, there is no indication that the product actually contains the 44 chemicals specified in labeling, or what amounts of such chemicals would be provided daily if the product were taken in accordance with labeling directions. (According to oceanographers consulted by National Better Business Bureau, trace elements present in sea water, as well as the amounts of such elements, vary from season to season and from one area to another.)

The recommended daily dosage also varies from one product to another; one firm advises one or two tablespoons daily ("dose may be repeated noon and night if necessary") while another recommends one teaspoon daily.

One label indicates that the product should be taken for several months "to achieve maximum beneficial effect." It also warns that it should not be taken by anyone with a heart condition or who is on a sodium free diet.

The 44 trace elements listed in the labeling of the product cited above are stated to exist in sea water in amounts ranging from 18,980 parts per million for chlorine to 0.000006 parts per million for gold. If one assumes that this product does in fact contain these amounts of trace elements, two tablespoons would supply approximately the following proportions of those minerals for which a minimum daily adult requirement in human nutrition has been established:

Mineral	Amount from 2 table-spoonfuls (approximate)	MDAR †
	<i>Milligrams</i>	<i>Milligrams</i>
Calcium.....	0.0112	750.0
Phosphorus.....	.0000028	750.0
Iron.....	.00000056	10.0
Iodine.....	.0000014	.1

† Minimum daily adult requirement.

Thus, it appears that sea water is an insignificant source of minerals for which minimum daily requirements have been established and for persons whose diets may need supplementation with any mineral.

SOME FACTS CONTRASTED TO ADVERTISING CLAIMS

Contrary to Dr. Crane's allegation that our food supply is chemically deficient, information from various sources indicates that the great bulk of food crops is produced on soil which contains most of the minerals required by man. There is no significant difference in the nutritive value of foods for human use produced on different soils, except in the case of iodine. The only disease in man that is known to be associated with any deficiency of soil or water is simple goiter due to lack of iodine in certain areas, a deficiency which may be remedied by the use of iodized salt. The chief effect of increased soil fertility is an increase in crop yield, not a change in the nutritive quality of a crop.

The Food and Drug Administration has established minimum daily requirements (amounts considered essential for prevention of deficiency diseases) of four minerals; namely, calcium, phosphorous, iron, and iodine. Other minerals known to be essential in human nutrition, but for which no MDR has been established, are sodium, potassium, magnesium, copper, and perhaps fluorine. According to nutritional authorities, these elements are so widely distributed in both plant and animal foods that any reasonable diet which supplies vitamin and protein needs would normally cover the needs for these minerals also.

A number of other elements are regularly found in trace amounts in plant and animal tissues. Among these there is evidence that cobalt, zinc, manganese, molybdenum, and perhaps bromine are essential. However, the Food and Nutrition Board of the National Research Council ("Recommended Dietary Allowances," revised 1958, publication 589) has the following to say concerning "trace elements":

"The amounts needed are exceedingly small and would appear to be provided by mixed diets. There is a growing body of evidence that antagonisms between trace elements may occur with relatively small increments in intake. Thus caution should be used in supplementation of the diet with trace elements in the absence of specific evidence of deficiency."

According to our information, mineral constituents found in sea water are no different than mineral constituents present in ordinary foods.

CONCLUSION

Medical research to date has not shown that arthritis, cancer, diabetes, and other conditions named in sea water advertisements result from a deficiency of trace chemicals. NBBB knows of no evidence that the addition to the normal diet of trace amounts of chemicals, such as those contained in sea water, would be of any benefit whatever to persons afflicted with such conditions, nor has any firm selling sea water submitted any evidence in substantiation of the purported benefits claimed in advertising. Therefore, it is our belief that unless

or until scientific data becomes available which would establish that sea water has some therapeutic value for humans, further advertising of such products for human consumption is not in the public interest.

[From the National Better Business Bureau, Inc.]

#### SAVE-BY-MAIL ADVERTISING OF SOME MARYLAND SAVINGS AND LOAN ASSOCIATIONS

**MEDIA URGED TO INVESTIGATE BEFORE ACCEPTING COPY, CLAIMS OF STATE SUPERVISION MAY MISLEAD—ADVERTISING SFIC "INSURANCE" LIMITED AS TO COVERAGE AND OF UNCERTAIN DURATION HELD NOT IN PUBLIC INTEREST**

Some State-chartered savings and loan associations in Maryland are submitting save-by-mail advertising to national magazines and local media with the assurance that the advertiser is now supervised and/or regulated by the State of Maryland. In some cases, a claim to this effect appears in the copy of commercial proffered for acceptance. While these claims are literally true, from a practical standpoint they may have the capacity to mislead because the books of most of these associations have yet to be officially audited and the State has not had time to exercise effective supervision over them.

Many such associations have also advertised that their accounts are "insured" by the Security Financial Insurance Corp. However, the copy neglects to disclose material limitations of this private company's policy or the uncertainties associated with its continued operations.

The National Better Business Bureau therefore recommends to media that, in the interest of their readers, listeners, and viewers, advertising of Maryland save-by-mail associations be thoroughly investigated before acceptance of the copy. Facts developed by the Baltimore Better Business Bureau which, in recent months, has received hundreds of inquiries and some complaints stemming from this type of advertising, provide ample justification for this recommendation.

#### QUESTIONABLE OPERATIONS WIDESPREAD

Prior to June 1961 there was no supervisory control over savings and loan associations operating in Maryland except for those holding membership in the Federal Savings and Loan Insurance Corporation and the Federal Home Loan Bank System. No criticism has been attached to many long-established State-chartered associations which, while not holding such membership, have consistently enjoyed a reputation for responsibility. However, the lack of any State control left the field wide open to others who saw opportunities for exploitation. Some of the results, outlined in an article in the Baltimore Sun for July 24, 1961, were as follows:

"Abuses were not long in coming. Acceptance of doubtful mortgages disturbed some of the old-line associations. 'Giveaways' which sounded rich, but were not, angered others. Both the Securities and Exchange Commission, and officials of other States, concerned by transactions in the stock of certain Maryland associations issued injunctions against further trading in a half-dozen cases. Finally came a series of court cases including one bankruptcy."

#### OUT-OF-STATE CONTROL

As another consequence, out-of-State promoters, including some with criminal records or unsuccessful financial ventures in their backgrounds invaded Maryland in large numbers, set up new associations, or acquired old charters of others. They then proceeded to embark on widespread advertising campaigns.

For example, First Capitol Savings & Loan Association, Inc., Baltimore, Md., was chartered November 12, 1958, by James G. Sorce, Jr. and some former associates in the Backers Discount and Finance Co., Inc., Clifton, N.J. Earlier in the year, that company had been enjoined from further violations of the Securities Act of 1933 in the sale of so-called guaranteed savings certificates. The attorney general of New Jersey obtained an order forbidding the company from doing further business in that State, and it was placed in receivership. On May 3, 1960, First Capitol Savings & Loan Association, Inc., was also permanently enjoined from further violating the registration and antifraud provisions of the Securities Act of 1933. The Securities and Exchange Commission charged that the association was insolvent and a conservator was appointed to administer its operations the following month.

On July 17, 1961, Sorce was convicted of using the mails to defraud. His motion for a new trial was denied. The Government charged Sorce had induced an investor to deposit \$30,000 with First Capitol upon the false representation that it would be insured by Government bonds in a special escrow account. According to testimony at the trial, some of the bonds were placed with assets of the Amercian Seal Savings & Loan Association, Riverdale, Md., another Sorce promotion. This association was also the subject of SEC proceedings. A conservator was appointed in June 1960 and withdrawals from savings accounts have been placed on a restricted basis.

Also involved in legal and financial difficulties is Phoenix Savings & Loan Association with several offices in Baltimore. All officers and directors of this association resigned on June 23, 1961. On July 18, 1961, the attorney general of Maryland ordered Phoenix Savings & Loan Association to cease all stock sales throughout the United States, alleging that the association is "now employing and is about to employ a device, scheme or artifice, to defraud and obtain money or property by means of false or fraudulent pretenses, representations or promises, all of which has or may cause irreparable public injury. \* \* \*" At the same time, the court appointed a conservator for the company. Meantime a Federal grand jury was investigating the association's affairs and on July 6 Saul Marshall, former secretary of Phoenix, was fined \$10,000 on contempt charges for failing to bring in books and records. Three companies alleged to be affiliated with Phoenix drew a total of \$22,500 in fines. On August 9, Bernard J. Coven, former chairman of the board of Phoenix, and Stanley Schenck, insurance broker, were arrested in New York on similar criminal contempt charges.

Another save-by-mail association involved in mail fraud proceedings is First Colony Savings & Loan Association, Prince Frederick, Md. The name of J. Kenneth Edlin, an ex-convict with a long history of securities, real estate, and savings and loan ventures in various parts of the country, figured prominently in this promotion. On November 17, 1959, First Colony, Edlin, and three other individuals were indicted on charges of using the mails to defraud. The indictment is still pending.

#### HIGH DIVIDEND RATES

In addition to out-of-State control, other characteristics common to save-by-mail advertisers operating from Maryland have been noted. Most of these associations advertise in national magazines or in areas remote from the location of the advertiser where the average reader or listener cannot be presumed to be familiar with conditions in Maryland.

Many of the save-by-mail advertisers also offer extremely high dividend rates. First Capitol advertised to pay 6 percent on savings accounts and First Colony is still featuring 6¼ percent annual dividends (5 percent regular and 1¼ percent extra). In testimony before a Maryland legislative committee, Edwin M. Lockard, general manager of the Baltimore Better Business Bureau, stated:

"Another phase of savings and loan advertising which has brought considerable inquiry to the Bureau is the advertising of dividend rates, which in many cases are higher than associations following normal savings and loan practices of conservative investments in prime first mortgage loans could prudently pay. In conjunction with this, it was reported that a substantial portion of mortgages held by one State-chartered association consisted of second, third, or later mortgages on low-income property and many of them are in default. Depositors who invested more than \$2 million in the now bankrupt institution were lured by the promise of a 6 percent dividend compounded monthly."

#### "FREE" GIFTS

Much save-by-mail advertising by Maryland associations also offers expensive "free gifts," such as a television set, with the opening of a \$5,000 account. However, the advertising does not disclose that the recipient of such "free" gifts must leave his funds with the association for a year or more or else have the cost of the "gift" deducted from his saving account. The National Better Business Bureau condemns advertising by savings and loan associations of "free gifts" to which there are any strings attached, without clear and conspicuous disclosure of any and all conditions surrounding the "free" offer. Such advertising should comply with the rule of the Federal Trade Commission that, if an article of merchandise which is not an unconditional gift is advertised as "free,"

"all the conditions, obligations or other prerequisites to the receipt and retention of the "free" article must be clearly and conspicuously set forth at the outset."

Maryland officials are considering a proposed regulation which would limit the value of gifts by associations in Maryland to \$2.50. A hearing on the proposal has been scheduled for September 15.

"INSURED" ACCOUNTS—"SFIC" NOT "FSLIC"

As a further inducement to save-by-mail, many of the State-chartered Maryland associations advertise that their accounts are "insured" or "financially insured" or "insured up to \$20,000" by the Security Financial Insurance Corp. This is a private company, incorporated in Maryland in July 1959, and granted a surety license by the Maryland Insurance Department in September 1959. The SFIC is not to be confused with the Federal Savings & Loan Insurance Corp., an instrumentality of the U.S. Government, commonly known as the FSLIC, which insures the accounts of both Federal and State-chartered associations which meet its requirements up to \$10,000 each.

The identity of the source of \$450,000 in capital which was used to set up Security Financial Insurance Corp. has not been disclosed despite repeated efforts by the Baltimore Better Business Bureau to obtain that information. However, on February 27, 1961, Stewart B. Hopps, San Francisco insurance promoter, currently under mail fraud indictment in connection with the operations of International Guaranty & Insurance Co., told a U.S. Senate committee that International had transferred four of its accounts to Security Financial Insurance Corp. International Guaranty & Insurance Co., which also sold "insurance" of savings and loan accounts, had its home office in Tangier, Morocco, with an alleged million-dollar trust fund in San Francisco which was seized by California insurance authorities to protect the interests of U.S. policyholders. On April 3, 1958, a court order was issued appointing the California Insurance Commission as conservator of the assets of this company.

Among the associations originally insured by International and subsequently by Security Financial is Commercial Savings & Loan Association, Baltimore, Md. On December 10, 1958, a 14-count indictment, alleging use of the mails in a scheme to defraud, was returned against Commercial Savings & Loan Association and certain individuals, including C. Oren Mensik of Chicago. A 17-week trial of the case recently resulted in a "hung" jury.

C. Oren Mensik had previously been identified with savings and loan associations which had encountered financial difficulties in Illinois, notably City Savings Association of Chicago, accounts in which were also insured by International Guaranty & Insurance Co. In April 1957, Illinois authorities took custody of this association in order to protect the assets when a so-called "run" developed. The association has since been returned to the sole control of the management. Partial payouts are made from time to time to account holders who wish to withdraw their investments. These restrictions do not presently apply to individuals establishing new savings accounts. Meanwhile, City Savings Association has been conducting an active save-by-mail advertising campaign.

CONFUSION WITH GOVERNMENT AGENCY

Omitting the full name of the insurer, some associations have advertised that their accounts are insured by S.F.I.C. The National Better Business Bureau condemns this practice as having the capacity, by virtue of visual and phonetic similarity to F.S.L.I.C., to mislead the public as to the true identity of the commercial company. Representation in magazine copy by the Prudential Savings & Loan Association of Baltimore that its accounts were "insured" to \$20,000 "against loss automatically and constantly by S.F.I.C." led to the filing of a civil suit by the attorney general of the State of New York on March 3, 1961, charging that association with fraudulent advertising. The attorney general alleged that the use of the term "insured" and the letters "S.F.I.C." was a "fraudulent and misleading technique" aimed at deluding the unwary investor to believe that the insurance is carried by the F.S.L.I.C. The attorney general's office recently advised that Prudential Savings & Loan Association has been enjoined from placing advertisements in New York State "which do not make full and complete disclosure of the name and identity of the agency or the insurance company which insures its deposits."

## LIMITATIONS ON POLICY

The policy issued by Security Financial Insurance Corp. contains limitations which the advertising of the save-by-mail associations does not disclose. While it undertakes to protect savers against ultimate net loss, it does not insure the liquidity of accounts, i.e., it does not guarantee that savings will be made immediately available to account holders by the insurance company if the association itself cannot or will not honor demands for withdrawal.

Before the company can be called on to make good on its insurance, the insured association must be adjudicated in "default" by a court of competent jurisdiction. A receiver or other legal custodian must be appointed to liquidate the assets of the association which, in most instances, include long-term mortgages. Only after the assets have been liquidated and their relation to the association's liabilities determined by the receiver does the insurance company become liable to pay those holding insured savings accounts the difference between his proportionate share of the liquidated assets and the amount of his insured account.

Doubt as to how long savers can rely on even this limited insurance protection is raised by the Tydings Act recently passed by the Maryland State Legislature. This statute declares that no company such as Security Financial Insurance Corp. "shall expose itself to any loss on any one risk in an amount exceeding 10 percent of its surplus to policyholders." Companies licensed as of January 1, 1961, which have assumed such risks, must bring them into compliance with the law by June 1, 1963. The financial statement of Security Financial Insurance Corp., as of December 31, 1960, shows total assets slightly in excess of \$1 million but several of the associations presently insured have accounts totaling many times \$100,000, a tenth of this amount. How the company proposes to escape from this dilemma has not been disclosed. The former president of the corporation has advised the Baltimore Better Business Bureau that, at a special meeting of stockholders on July 8, 1961, "a complete new board of directors was elected" and "All former board members and officers now have no connection with the administration of Security Financial Insurance Corp." David Woods, reported to be the former head of a public relations firm and former publicity man at Pimlico racetrack, was named president of the company.

In the light of the limitations on the policy issued by this company and the uncertainties associated with its future operations, the National Better Business Bureau believes that advertising that savings accounts are "insured" by Security Financial Insurance Corp., without disclosure of the limitations and uncertain life of such insurance, is not in the public interest.

## SUPERVISION—POTENTIAL OR ACTUAL?

The 1961 session of the Maryland Legislature passed the Case bill to prescribe State regulation and supervision of State-chartered savings and loan associations. However, a petition to postpone its effective date, pending referendum to the voters in the 1962 election was circulated by those in opposition. The Governor thereupon called a special session of the legislature at which emergency savings and loan legislation was a major subject for consideration. Such a bill was passed on June 9, 1961. The new legislation imposed supervision and regulation of Maryland savings and loan associations by the State Department of Taxation and Assessments. The act also established a Board of Building, Savings and Loan Advisors with authority to advise and make recommendations to the director on all questions within the scope of his authority, including the promulgation of rules and regulations for the effective administration of the act.

The Board has urged that auditors be hired immediately to make appropriate investigation of the associations. However, time will be required to recruit a competent staff of auditors and much more time will be required before they can be expected to check the large number of associations now operating in the State of Maryland, more than 170 new associations having been formed during 1960 alone.

Furthermore, on August 4, 1961, certain opponents of State regulation filed suit in Baltimore challenging the validity of both the Case bill and subsequent emergency legislation.

Until an association has undergone examination, it cannot accurately be said to have been brought under effective regulatory control. The National Better



Business Bureau therefore recommends that no association advertise that is "supervised" or "regulated" by the State of Maryland unless and until it has been examined by the State regulatory agency and is under actual rather than potential supervision. Significantly, as this bulletin goes to press, Albert W. Ward, Director of the Department of Taxation and Assessments, has announced his intention to issue an order which would forbid Maryland associations to advertise that they are "supervised and regulated" by the State until their operations have been examined and approved.

[National Better Business Bureau, Inc., Periodical No. 1792]

SECURITY FINANCIAL INSURANCE CORP., RECEIVERSHIP ORDERED BY COURT—  
COMPANY APPEALS

The circuit court of Baltimore city has signed an order, after trial, directing the insurance commissioner of Maryland, or his deputy, to be receiver for the purpose of orderly liquidation of the Security Financial Insurance Corp., under the jurisdiction of the court. The company, which had its headquarters in Baltimore, was held to be insolvent. The insurance company, however, has appealed the decision.

Security Financial Insurance Corp., was incorporated in Maryland in 1959 and has since issued policies purporting to insure the safety of accounts in some 30 savings and loan associations, 27 of which are domiciled in Maryland, the other 3 being located in Utah and Idaho. The affairs of the corporation have been enshrouded in mystery. All of the outstanding stock in the company is owned by two Canadian corporations represented by David R. Vine, a Toronto lawyer, who did not appear at the trial of this case. Earlier this year, Mr. Vine appeared in connection with the Dollar Industrial Bank, Ltd., Nassau, Bahamas, which was conducting an extensive direct mail campaign inviting residents of the United States to open savings accounts "insured" by American Reserve Insurance Co., Ltd., of which Mr. Vine was also a principal. The activity was reported in an NBBB bulletin issued January 30, 1962.

The personnel associated with Security Financial Insurance Corp. has been the subject of frequent change, with three different presidents in the brief span of its existence. Directors of the corporation were also changed with considerable frequency. In its opinion in this case, the court described the directors as, for the most part, "mere figureheads who carried out the will of the persons who actually owned the stock of the corporation." The identity of these persons has never been disclosed.

"INSURED" ACCOUNTS WERE WIDELY ADVERTISED

In September 1961, NBBB issued a bulletin describing the activities of a number of State-chartered savings and loan associations who were advertising extensively in national magazines and in newspapers in communities far removed from Maryland, soliciting save-by-mail accounts from the public upon representations that the safety of these accounts was "insured" by Security Financial. In recent months, conservators or receivers have been appointed by various courts for 10 of the Maryland associations whose accounts were so insured. On June 26, 1962, the insurance company served notice on all its "insured" associations that their policies were canceled as of 60 days thereafter.

In his bill to have a receiver appointed, the Maryland insurance commissioner alleged that Security Financial Insurance Corp. is insolvent; that the company has failed to set up reserves to cover anticipated losses and has repeatedly refused to comply with the commission's order to do so; that it has acted and continues to act in violation of the insurance laws of Maryland; that its management is inept and inexperienced; and that its existence should cease for the protection of the public. The court found evidence to support these allegations.

[National Better Business Bureau, Inc., Periodical No. 1793]

## RECOMMENDED STANDARDS FOR LAND ADVERTISING

## INTRODUCTION

**Purpose:** The intent of these recommended standards is to encourage and preserve dependability in the advertising and selling of land. They apply equally to advertisements in newspapers, magazines, radio broadcasting, telecasting, direct mail, and to advertising in any form.

## APPLICATION

If the advertising solicits any kind of advance payment or deposit, then all of the standards hereinafter listed are applicable to each such advertisement.

If the advertising makes reference to particular improvements or features, all applicable requirements of these standards relating to these particular features shall be revealed in the copy, regardless of whether advance payment or deposit is required.

## GENERAL

The basic nature of the land offered shall be identified accurately, and any unusual feature shall be affirmatively disclosed in order that prospective purchasers may have a true understanding of what is being offered. Prospective purchasers shall have full information about the offering in writing, prior to purchase. Toward this end, the following specific guides are promulgated.

1. All claims made for land shall be accurate and provable.
2. Advertising shall not misrepresent the facts or create misleading impressions.
3. Advertising shall not obscure or conceal material facts.
4. Advertising subject to local or State jurisdiction shall comply with any regulations governing such advertising. Advertising which is disseminated in interstate commerce shall comply with all Federal regulations.
5. Advertising shall state the location of the property in relation to its distance in miles from a sizable community.
6. Advertising shall disclose any restrictions or reservations of record which subjects the property to any unusual conditions affecting its use or occupancy.
7. Advertising shall disclose percentage of oil, gas, or mineral rights not included and whether there is right of entry for exploitation purposes.
8. Predictions of price increases of lots, over which the advertiser does not have control, should not be made. Statements that lot prices will be increased by the advertiser shall be specific as to amount and date of the announced increase; the date shall be in the near future, and the increased price shall be maintained for a reasonable length of time.
9. Lots or land offered for speculative purposes shall be so represented. They shall not be represented as offering quick, immediate, or specific profits.
10. Advertising shall make no derogatory or unfair reference to competitive developments or properties.
11. Title to purchasers shall be insurable by a licensed title company.
12. If property exchange privileges are advertised, any qualifications shall be stated clearly.
13. Deeds, title insurance, and other items which are included in a transaction shall not be described as "free."
14. The asterisk, or any other reference symbol, shall not be used as a means of contradicting or substantially changing any statement.
15. If any consideration is required to secure a lot for any reason, it shall not be stated or implied that such lot is "free" or is given as an "award," or "prize."
16. Lots shall not be advertised for "closing costs only" or other deceptive devices, when this is the usual and customary method of selling, or when an additional lot or lots must be purchased at a higher price.
17. Advertisers shall not use names or trade styles which imply that they are bona fide research organizations, public bureaus, nonprofit groups, etc., when such is not the case.

"DEVELOPMENTS," "SUBDIVISION," "COMMUNITY" AND SIMILAR TERMS

Such terms are defined as referring to, and shall only refer to, land actually being developed for residential occupancy.

1. Advertising of lots for homesites shall refer only to recorded subdivisions, with streets or roads installed, or assured by bonding, or other means acceptable to authorities.
2. Advertising shall not refer to any improvements unless they actually exist, are under construction, or are assured by bonding or other means acceptable to authorities.
3. If streets, roads, sewers, or drainage referred to in advertising have not been accepted for maintenance by a public entity, such fact shall be disclosed.
4. If the purchaser must bear any assessments, advertising shall disclose this fact clearly.
5. Reference to "predevelopment prices" shall occur only after subdivision plat has been recorded and after positive assurance is available of completion of proposed improvements.
6. Advertising of lots and homesites shall make no reference to the availability of financing for home construction unless actually available.

UNDEVELOPED PROPERTIES AND ACREAGE

1. Unimproved land shall be clearly described as such and shall not be referred to as "developments," or "homesites." Unimproved land shall, in addition, be referred to only in terms such as "tracts," "parcels," "acreage," etc.
2. Advertising of land for any particular use shall be suitable for such use. If more than nominal expense shall be incurred in preparing the land for the advertised use, such fact shall be disclosed.
3. If individual lots or tracts are not identifiable, such shall be disclosed.

DRAINAGE

1. Advertising shall disclose prominently when the property or any portion of the property is normally under water for extended periods of time during the year.
2. Advertising shall disclose prominently when the property is not usable for the advertised purpose until drained.
3. Advertising shall disclose prominently when drainage of the property would necessitate a public undertaking, and whether there are present plans for such drainage.

ACCESS

1. "Streets" may be defined as such only when paved with hard surface according to county or city specifications.
2. "Roads" shall be affirmatively described as to their nature, i.e., macadam, gravel, dirt, etc.
3. To be described as "improved," roads shall be paved according to county or city specifications.
4. Roads described as "unimproved" shall be suitable for use by automobiles.
5. If a property contains no roads, that fact shall be disclosed.
6. Right-of-way easements shall not be described in such fashion as to indicate roads, or present access.
7. The use of terms such as "ranch roads," "suburban roads," "marl roads," etc., which are not generally understood by the public, shall not be used unless adequately defined.
8. If access to the property by ordinary auto is not possible, this fact shall be clearly disclosed in advertising, including the distance to usable road.

ILLUSTRATIONS

1. Illustrations of the property shall portray accurately the property in its present state.
2. The sole use of illustrations of points of interest some distance away shall be avoided. If used in conjunction with illustrations of the property, the distances in miles shall be stated.
3. Artists' conceptions of the property and/or facilities shall be clearly and conspicuously described as such, and shall not have the capacity to mislead or deceive readers.

4. If maps are used to show proximity to other communities, such maps shall be drawn to scale, and scale included.

DISTANCES

1. All distances to any facilities or features outside the property which are referred to in the advertising shall be stated accurately in actual road-miles.

2. The distance to the nearest city, town, or village shall be disclosed in actual road-miles measured from the sections being advertised.

3. If roads do not extend to the property, this fact, and the distance to roads shall be stated clearly.

WATER SUPPLY

1. Phrases such as "abundant water," "plenty of water," etc., shall not be used unless water is readily available in adequate supply at nominal cost.

2. In connection with "homesite" offerings, if it is necessary for purchasers to drill their own wells, that fact shall be disclosed clearly, together with the average cost thereof.

3. Advertising which refers to a "water system" or "water supply" shall disclose any unusual costs or rates which must be borne by the purchaser.

4. Advertising of farm or grove tracts shall disclose clearly if irrigation is required.

UTILITIES

1. If power or telephone lines are not available to the subdivision advertised, this fact shall be disclosed clearly.

2. Power or telephone service shall not be described as "available" unless lines are installed and ready for use at the subdivision advertised.

3. If purchasers will be required to pay costs or assessments in excess of the normal public utility charges, these facts shall be disclosed.

4. Advertising shall disclose the type of sewage disposal and whether approved by local health authorities.

5. Lots shall be offered in sizes which meet the minimum requirements of States or communities for both private water supply and private sewage disposal systems.

PRICES

1. All statements regarding the prices of properties shall be accurate and complete and shall state clearly the sales prices and financing terms, if any.

[National Better Business Bureau, Inc., Periodical No. 1801]

GENERAL INFORMATION ON VITAMINS, MINERALS, AND FOOD SUPPLEMENTS

Advertising and sale of an increasing variety of nutritional aids and adjuncts as special diets or as formulations to compensate for the deficiencies of American eating habits has increased. Many promotions have been based on the unjustified importance of implementing or "balancing" the diet. To evaluate advertising claims for need or value of certain diet elements, general background material on the role of vitamins, minerals and food supplements is provided.

It has been well established that certain vitamins and minerals are among the many factors necessary for good health and the prevention of certain diseases caused by specific vitamin and/or mineral deficiencies. According to medical and nutritional authorities consulted by NBBB, properly selected and prepared foods will provide not only the required proteins, carbohydrates, and fats, but also other nutritional elements including the known vitamins and minerals.

SOME FACTS VS. FALLACIES

Many dietary supplements are sold on the premise that factors such as soil depletion, chemical fertilizers, overprocessing and cooking of foods, cause a loss of vitamins and minerals and that persons cannot be sure that they are getting all the needed nutrients even if they follow a well-balanced diet. Therefore, some sellers advocate a daily dietary supplement as an "assurance" or safety measure.

According to information available to NBBB, there is no scientific basis that crops grown on poor soil or with the help of chemical fertilizers are nutritionally inferior in anyway. Some soils have been so depleted that they will no longer yield good crops, but research has shown that nutritional values of crops are not significantly affected by the soil or the fertilizer used. The only principal disease in man known to be associated with any deficiency of soil or water is simple goiter due to a lack of iodine in certain areas. This condition may be easily remedied by the use of iodized salt.

With respect to processing, modern commercial food processing methods and instructions for home preparation, have been devised to preserve nutritional values or to restore them to food. Good examples are the canning or freezing of fruits and vegetables at the peak of nutritional development, and enrichment of flour, bread, milk, and margarine with added vitamins and minerals.

AUTHORITATIVE SUPPORT

The Food and Drug Administration in various court cases has maintained that the readily available foods usually consumed will supply adequate vitamin and mineral nutrition; that malnutrition due to inadequate vitamin-mineral, protein, and trace element intake in the ordinary diet is extremely rare in this country.

The Council on Foods and Nutrition of the American Medical Association states:

"All the nutrients essential to the maintenance of health in the normal individual are supplied by an adequate diet, one which fulfills the "Recommended Dietary Allowances," revised 1958, developed by the Food and Nutrition Board, National Research Council (Publication 589)."

The Food and Nutrition Board of the National Research Council (NRC) comments as follows concerning its recommended dietary allowances (amounts of nutrients deemed adequate for maintenance of good nutrition in essentially all the population in the United States) :

"The various quantities of nutrients recommended as allowances may be readily obtained from usual portions of commonly available foods in the United States \* \* \*."

NECESSARY NUTRIENTS

Frequently advertisers of food supplements emphasize the great number of ingredients in their product, the "high potency" of ingredients and the "special" base or source of vitamins and minerals used in their product, e.g., seaweed, alfalfa, or "unique" or exclusive combinations or dosage forms.

There are only six vitamins and four minerals for which a minimum daily requirement (MDR) (amount deemed sufficient to prevent symptoms of deficiency diseases) has been established by the FDA. (In June 1962, FDA proposed new dietary food regulations to supersede the present set issued in 1941. The term "daily requirement" would replace "minimum daily requirement" since according to FDA, the latter "has been frequently misunderstood by consumers and has encouraged some manufacturers to add needlessly large amounts of vitamins and minerals.") The adult requirements are as follows:

- Vitamin A : 4000 USP units.
- Thiamine (vitamin B1) : 1 milligram.
- Ascorbic acid (vitamin C) : 30 milligrams.
- Vitamin D, 400 USP units.
- Riboflavin, 1.2 milligrams.
- Niacin, 10 milligrams.
- Calcium, 750 milligrams.
- Phosphorous, 750 milligrams.
- Iron, 10 milligrams.
- Iodine, 0.1 milligram.

Four of these six vitamins (thiamine, riboflavin, ascorbic acid, and niacin) cannot be appreciably stored in the body. Each of these four vitamins is water soluble and excessive intake is readily excreted. Vitamins A and D are not water soluble and can, to a degree, be stored; however, excessive reserves of these vitamins are not known to provide additional benefits and may be harmful.

Other ingredients for which a need in human nutrition is recognized, but for which no MDR has been established, are :

Vitamin B <sub>6</sub>	Copper	Manganese
Vitamin B <sub>12</sub>	Magnesium	Zinc
Vitamin E	Potassium	Sodium
Vitamin K	Pantothenic acid	
Folic acid	Linoleic acid	

According to nutritional authorities, these elements are so widely distributed in both plant and animal foods that any reasonable diet which supplies vitamin and protein needs would normally cover the needs for these ingredients also.

#### TRACE ELEMENTS

A number of other elements are regularly found in trace amounts in plant and animal tissue. Among these, there is some evidence that cobalt, molybdenum, selenium, chromium, and perhaps bromine are essential. However, the Food and Nutrition Board of the NRC ("Recommended Dietary Allowances," revised 1958, Publication 589) has the following to say concerning "trace elements":

"The amounts needed are exceedingly small and would appear to be provided by mixed diets. There is a growing body of evidence that antagonisms between trace elements may occur with relatively small increments in intake. Thus caution should be used in supplementation of the diet with trace elements in the absence of specific evidence of deficiency."

#### VITAMINS: NATURAL VERSUS SYNTHETIC.

Some advertising claims that vitamins from natural or organic sources are superior to synthetic products. However, laboratory and clinical research has proved that synthetic vitamins produce the same biological responses as vitamins from natural sources.

#### INTERPRETATION OF NONSPECIFIC SYMPTOMS

Many food supplements are also advertised on the premise that persons with nonspecific symptoms such as lack of pep and energy, lack of resistance, muscular weakness, insomnia, nervousness, irritability, inability to concentrate, pains and aches, may be suffering from a vitamin-mineral deficiency (which would presumably be corrected by taking a particular product).

According to medical authorities, these nonspecific symptoms do not prove a nutritional deficiency but may be caused by any great number of other conditions or may have functional causes. A vitamin and/or mineral supplement would only be of benefit if the symptoms were due to a vitamin or mineral deficiency and if the product provided sufficient amounts of the nutrients.

Normally healthy persons who are unwilling or unable to follow a properly regulated and balanced diet of ordinary foods including enriched or fortified foods may be aided by vitamin and mineral concentrates supplementing their diets if and when appropriate selection is made according to their needs. If a person's health is subnormal, vitamin therapy may be indicated. In such cases, the advice of a competent physician is needed to identify vitamin or mineral deficiencies and to prescribe for their proper treatment.

Senator WILLIAMS. We are very grateful, Mr. Willson. You have described very ably many of the frauds that are being perpetrated.

One of the things said, you thought it was very important to have national exposure of these fraudulent activities, and I think this is one of the purposes of this committee having this hearing, and we are certainly grateful to the press and radio and television for their complete cooperation.

Mr. WILLSON. Yes, sir.

Senator WILLIAMS. Now perhaps there are some questions?

Thank you.

Our next witnesses come to us from the National Association of License Law Officials, Mr. J. Fred Talley, from the Arizona Real Estate Commission, who is the commissioner; and perhaps Mr. El-

mer A. Borgschatz, director of the Minnesota Real Estate Department, will come forward at this time, too.

I would hope that Senator Goldwater would greet our friend from Arizona.

Senator GOLDWATER. Mr. Chairman, as a member of this committee, I want to compliment the chairman for having instigated the investigation. I think it is long overdue.

I am very happy that Fred Talley is here this morning, representing not only the national organization, but our own State of Arizona.

I have been concerned about these land swindles for, oh, possibly the last 8 years. I think it was about 8 years ago when the first fraudulent type of advertising began to appear in eastern newspapers and eastern magazines concerning worthless land in my State. I say "worthless" advisedly, because I do not think any land in Arizona is worthless, but worthless for the purpose for which it was advertised.

In my flying over my State, as I do constantly, I have seen some of these subdivisions from the air. They are merely bulldozed-out areas that look like they might be subdivisions. They have no water, unless the buyer wants to spend \$25,000 to \$50,000 developing a well, and I think in most cases he would find water 800 to 1,000 feet down.

In some cases there is no access to these so-called subdivisions—no roads, no power.

Now, I do not say that every subdivision in Arizona comes under this category. Most of them are good developments, they are worthwhile; but we have enough of the other kind so that we are quite ashamed of what has been going on out there.

The untruthful advertising that has accompanied this has been of concern to me, and I think it is a threat not just to the old, but I think it concerns the young as well, because young people are looking to the West; they like to think of themselves as retired in the desert, or the mountains, or the delightful climate of the West, and they invest in this land.

I have seen advertisements, for example, that show water where I know there is no water. They are dubbed photographs.

I have seen advertisements showing trees and grass where there are no trees or grass.

So I am very glad that we are into this. I believe it is a Federal problem as well as a State problem, because I think it involves interstate commerce.

As I said at the outset, we are very fortunate in having Fred Talley with us, who has devoted many years to attempting to stop this abuse that has been going on in our own State, and I welcome Fred here.

Senator WILLIAMS. Thank you, Senator Goldwater.

Mr. Talley?

**STATEMENT OF J. FRED TALLEY, ARIZONA STATE REAL ESTATE COMMISSIONER AND PAST PRESIDENT OF THE NATIONAL ASSOCIATION OF LICENSE LAW OFFICIALS, ACCOMPANIED BY ELMER A. BORGSCHATZ, DIRECTOR, MINNESOTA REAL ESTATE DEPARTMENT, AND PAST PRESIDENT OF NATIONAL ASSOCIATION OF LICENSE LAW OFFICIALS**

MR. TALLEY. Gentlemen, I consider it an honor to appear before this distinguished body as a representative of the National Association of License Law Officials, of which it was my pleasure recently to be president. This association, as you know, is made up of the real estate commissioners and other officials of our 50 States, including three Provinces of Canada.

Although I appear here representing officials from all States and not just my own State, this hearing has a special significance to my native State of Arizona.

We have a larger percentage of our population over 65 years of age than any State in the Union. While our entire Nation has approximately 16 million wonderful senior citizens who have seen 65 years or more, constituting about 11 percent of the Nation's population, the percentage of these fine people who have contributed so greatly to our Nation's welfare in our State amounts to about 20 percent.

During the latter part of the last century the average lifespan was only 33 years. At the year 1900 the average age had been increased to 42 years. Today medical science has more than fulfilled the Biblical promise of "three score and ten"—it is 68 for men and 72 for our weaker sex, the fair ladies.

Yes; we are grateful to technology and medical science for adding these "years to life" but I think it is of equal importance to do what this fine committee is striving to do—investigate into the customs, laws, and practices to be sure that we are keeping pace and giving not only "years to live" but "life to years."

Social security and certain other welfare measures are a great step in this direction, but I feel confident that we still have much to do in order to keep faith with this sacred obligation.

A great Englishman once said: "If you tell me how a nation cares for its aged, then I shall tell you how they respect their laws, their customs, and adhere to high ideals." In those countries where its citizens have surrendered to fascism, socialism, or communism, singularly enough, they have also abandoned any respect and concern for their aged.

And if you will pardon me for repetition, I want to say this is another reason I feel the work of this committee is of inestimable importance. As long as this country has honor and respect and definite concern for its aged, the fires of democracy will continue to burn within us all and we need never fear that we shall ever become the "puppets of a communistic state."

I hope you won't feel it presumptuous of me to allude to a personal feeling. Visiting the aged and homes for the retired is my wife's greatest pleasure and dedication. She has averaged more than two visits a week the year round for the last 5 years.



And so, care for the aging is more than an official matter with me, although our State is affected more greatly than any other. It's a personal thing and if you find gentlemen had had the opportunity firsthand, as I have had, to observe the need of attention this matter deserves, you would realize that the work you are doing is perhaps exceeded in importance only by those who are studying methods to increase our Nation's defense.

I realize this is just a committee to investigate, but I'm sure you will uncover facts that will cause you to see the need for a permanent body to find methods of adding to the comfort and protection of our greatest citizens during the sunset years of their lives.

While I have very definite convictions in this regard, I realize it is not for the purpose of giving these views that I am here.

I am going to give you several outstanding examples of sight-unseen mail-order subdivision projects sold through misrepresentation.

One of the most glaring examples of misrepresentation of lot sales in the entire West, I am ashamed to admit, is in my own State of Arizona.

It is the mail-order sale of lots in Mohave Desert in the northern part of Arizona in a subdivision known as Lake Mead Rancheros.

A bulldozer merely cut scars across the desert and gave the fancy names of boulevards, drives, and streets. One was named Riverside Drive, though it is more than 50 miles by good road to any river, just as the entire subdivision is over 100 miles from the lake which gives this desert subdivision its name.

Most of these so-called boulevards and drives were washed out by the first freshet. On my last trip to inspect this subdivision, I had to turn back at the edge because of a 10-foot ditch cut by rain in the main thoroughfare.

Lake Mead Rancheros is perhaps at this point the most widely advertised subdivision in the United States. Full page ads are being run all over the country advertising:

Complete utility service—with roads, electricity, water, and phones available. Invest now and hold for future profit—or build now and move in.

Its brochures contain "Not raw, undeveloped and inaccessible land" but "Laid out, waiting for people, livable now."

Nothing could be further from the truth. Actually, there are absolutely no utilities available. Six miles from the nearest lot and 10 to 12 miles from the principal part of the subdivision is a tank operated coin machine where one can deposit a quarter and water runs out of an old innertube.

At the same distance away is a telephone line and power line running down the highway.

People thousands of miles away dream of retiring from the smoke and smog of the city—retiring upon a beautiful little 1¼-acre ranch in a land of perpetual sunshine.

Thousands upon thousands who are planning for the sunset years of their lives read this disgraceful advertising—they go for the bait without seeing the hook.

The pitiful part about it all is that numerous senior citizens are moving out West to retire on this haven of retreat—this land of "milk and honey"—and find not even one house, but only open desert far from any utilities.

They are too proud or too poor to go back home. Many of these disenchanted people become sick and, according to officials of Mohave County, the site of this disgrace, are becoming welfare cases.

You doubtless ask why this situation is permitted to exist in a civilized country. At the conclusion of my testimony I shall explain this in detail and certainly recommend measures to correct it.

I admit the solution is not easy. When large concerns in Florida, Texas, and Chicago sell lots in Arizona and California to people in New York and Massachusetts, we have problems far beyond those which any legislator had in mind when our present State laws were passed.

Arizona is one of only six States that even have a "full disclosure" law—one requiring the subdivider to even reveal what he is selling.

Only 17 States of our Union have any subdivision law at all. What would you think of a man who went bear hunting with a buggy whip? States with their present laws are just about that well equipped legally to meet the problems encountered in the present interstate sale by mail order of lots under the guise of being homesites.

At a recent meeting in San Francisco of attorneys general, license law officials, and better business bureau representatives from all over the United States who met to study this problem, Attorney General Stanley Mosk of California, stated:

Present criminal laws are archaic and ill suited to dealing with fraudulent sales promotions.

At the same meeting, a study by the University of California was presented. Among other things, it stated:

Never in the history of real estate transactions has a land buyer stood so naked of legal protection as does the purchaser of remote promotional subdivision land.

One western land scheme that ranks among the top in hanging up a disgraceful score for the "hit and run" subdivider and one that has gained national publicity is the "Comstock Ranch Fraud" near Elko, Nev.

Approximately a year ago the "suede shoe" promoters moved into a swanky San Francisco hotel and brazenly began selling 160-acre parcels of "The famous Comstock Ranch—the last frontier, a sportsman's paradise, gently rolling, lush meadows, gateway to the Humboldt National Forest."

Cashing in on the magic name of "Comstock," which is associated everywhere in the West with the great silver strikes, the 160-acre parcels were grabbed up. "Just \$4,999—\$490 down and \$59 per month" the big ads offered.

The first 3 days, lots totaling over three-quarters of a million dollars were sold. California immediately issued a cease-and-desist order charging fraud.

The promoters ignored the order and sold another \$75,000 in lots before their arrest. The promoters pleaded guilty, were given a light fine and a 60-day suspended jail sentence.

The San Francisco papers editorialized the fact that we do not have laws with "teeth in them" to correct these abuses. California is not alone in this regrettable failure of legal tools.

Just as a matter of interest, Gerald J. McBride, executive secretary of the Nevada Real Estate Commission, informs me that there is no

such thing and never was as the Comstock Ranch. The tract of land in question is desertland listed on the tax rolls as third- or fourth-class grazing land.

But why shout the obvious? Similar cases are too obvious and too frequent to need elaboration.

Our present pie-in-the-sky land schemers make the promoters who sold land under water in Florida, pawned off stock to widows and promoted gold mines that didn't exist, look like amateurs relegated to the bush league.

The tragic part of these situations is that even though the acts of misrepresentation are open and flagrant, the damage is done before any corrective measures can become effective.

Lawyers can use the injunctive process or a sword instead of a shield and delay justice by disgraceful dilatory tactics.

One sales organization located in Beverly Hills, Calif., advertised land in Nevada along the "Old California Trail." The whole sales program was a fraud, but through dilatory tactics and delay, the operators were able to hold off the sword of justice until they had filched from the public over \$2 million in cash with another \$4 million due them under contracts.

Such large scandals of this type need immediate laws enacted to give corrective measures at once. As Nathaniel Kossack, Chief of the Fraud Section, Criminal Division, U.S. Department of Justice, stated at our San Francisco conference, "We cannot afford the luxury of placing our entire reliance on study while our people are being despoiled."

As a final example, and one that is close to my heart and of major interest to me and—I hope and pray—will also be of great concern to you, is the growing efforts on the part of a few of these land swindlers, and again I repeat they are in the minority, to sell through misrepresentation to our boys who are in the armed services of their country.

We all are aware of the millions "bilked" from our boys serving their country during the last war in the insurance rackets, which became the object of a congressional investigation.

Now we have the same problem except this time it is desert, unimproved, sight-unseen lots.

Recently, I was particularly concerned over advertising which this same Lake Mead Rancheros was doing in the Army Times Publishing Co. Lake Mead Rancheros, in a letter to me signed by its president and dated September 26, 1962, stated:

As Army Times Publishing Co. is a reputable publishing house, with whom we have had numerous previous dealings, and from its advertising pages sold many of our rancheros.

Lake Mead Rancheros attempted to persuade me to change our public report, which we require that they submit with each sale, in order that this company could attract more of our boys in service to buy their desert lots. Needless to say what attitude I assumed.

At the time of this incident, we were assured that we were about to get help from the postal authorities, who informed us that suit would be filed for criminal prosecution of Lake Mead Rancheros.

My department cooperated in the investigation and was even told

that there was no need for us to act because a criminal case was about to be filed.

Why this was not done is a mystery to me. The company is still defrauding the public and I am afraid still swindling our boys in the armed services.

I'm sure you gentlemen in this particular investigation are primarily concerned with the protection of our senior citizens, but in spite of this, I plead with you from the depth of my heart and with all the earnestness at my command, to look also into this matter of the protection of our boys serving their country from these predatory land promoters concerned only with filching all the money they can from an area and then moving on before their inevitable reputation catches up with them.

Now, of recent months, and for the past 2 years, there have been many publications by national publications, Reader's Digest, various other publications, which might lead one to think that we people of the West are nothing except a set of criminals.

I am greatly in defiance of that attitude expressed. I think they only give part of the story.

If your interest is limited to the tabloid, the exciting, or the unusual, then read no further. If your mind is already made up and you do not wish to be confused by the truth, then I apologize for the few nonrefundable fragments of eternity I have already stolen from you.

But, if you are fairminded and desire to know the truth about a subject which is being distorted gravely in the press throughout our country, I suggest that you invest just a few minutes with me.

This article is not intended as a malicious charge against inaccurate reporting. Often, however, well meaning but misguided writers can become so carried away with the unusual and the exceptions, which make interesting material, that the reading public begins to think the reported facts reflect the whole picture.

I'm sure these articles and press releases are mistakes of the mind and not of the heart—mistakes of omission and not of intent. But, if a man burns my house down, I care little whether he is a confirmed arsonist or just careless with matches—my damage is the same.

And since the State of Arizona has been the prime focal point of these writings, as real estate commissioner of this State, I feel a deep compulsion, both officially and personally, to set the record straight.

First of all, I want to make one point clear. Although our State has averaged approximately 2 new subdivisions per day for over a year, and although we have to date in 1 county, Mohave, 333 subdivisions constituting over a half million subdivided acres—more than exists in most entire States—the problems are not confined to our State alone, the situs of the land.

The more than 60,000 subdivision lots sold during the last 18 months in Mohave County alone were sold almost exclusively to out-of-State prospects in practically every State of our Union. So this is a matter of national, not just local, concern and is deserving of careful examination and clear understanding.

To approach the problems logically we also must understand the enormity of the situation—the extent of the western population explosion.

Actually, we are at present in the midst of one of the three greatest migrations in recorded history. First, the migration of the children of Israel through the Red Sea. Then the great migration during the latter part of the last century, when our immigration laws permitted the great shift of population from Europe to America.

These two are being dwarfed today by the staggering number of people who are finally taking Horace Greeley's advice of "Go west, young man, go west."

The State of Arizona has doubled in population every 10 years, with mathematical exactness, since 1900. We are in a mad race to build subdivisions, shopping centers, commercial and industrial developments, to assimilate the more than a hundred thousand new residents who are pouring into our State each year.

Each 10 years we must completely rebuild a new Arizona for this doubled population. If you as a reader will pause for a moment to consider the herculean problems generated by our population boom, you will better understand the critical situation in which our State finds itself in its 50th year anniversary of admission to the Union.

From time immemorial, every great land boom, gold or silver strike, every big discovery has attracted the "hit and run" promoter as well as the dedicated person with a deep compulsion to serve.

The West has certainly had its share of the first category recently. The sharp operators who sold land under water in Florida, fake stock to unsuspecting widows, mining claims which did not exist, followed the usual pattern and came to our State seeking to cash in on the emotional buying so characteristic of land booms that accompany population explosions.

These few predatory promoters are by far in the minority and are becoming fewer as we weed them out. But unfortunately, their tactics make news—good reading. One writer reports an advertisement:

Pay \$10 down and charge \$10 a month to your diner's card—you can retire on a Western ranch.

Another writer gives an account of a person who bought a lot by mail order, sight unseen, in a rocky gorge. When asked by a friend upon his return back East after visiting his lot, "Did you actually go out and stand on your western ranch?" The reply was, "No, but I leaned against it."

The above reporting is entertaining and perhaps humor to some, but in no way does justice to the honest efforts and commendable results by hundreds of subdividers and developers who are building a great West to assimilate the swelling surge of population which is descending upon us like a tidal wave.

In very few of these articles do we read of the approximately 20 senior citizen developments of Arizona, some of which are now world famous. The Sun City development by Del Webb has given a new dimension and a new philosophy to retirement.

While medical science has given "years to life," this and other Arizona retirement programs are earnestly seeking to give "life to years."

Arizona City, a new development between Phoenix and Tucson, built one of the most beautiful golf courses in the State and a \$200,000 swimming pool almost before its first house was constructed, but this did not constitute news.

Mohave County, the object of most of the unfavorable subdivision publicity in Arizona, has a Colorado River subdivision developed by Jack Foster which is deserving of a feature article by any publication in existence.

This, however, has never been mentioned, nor have other prime subdivisions in that county in any of the dozen or more national articles written on land sales in that county.

I agree that the title "Slums in the Desert" would catch a reader's fancy more quickly than a more constructive title, but it is unfortunate that eye appeal and accurate reporting haven't been given equal importance by the press over the last few months.

In order further to set the record straight, let's delve into the background and the cause of this third and greatest migration of all recorded history.

It was only a few years ago that our State was considered just a dusty spot in a lonesome desert, fit only for coyotes, gila monsters, and rattlesnakes. People marveled that pioneers ever had the strength and stamina to conquer this desert wilderness.

As one writer described the survivors:

They were strong and sturdy men because the cowards stayed at home and the weak died on the way.

But within the memory of most of us, we have seen what has been labeled "The Miracle of the Desert." What was once thought of as wasteland is now considered a tropical haven in a land of perpetual sunshine, abounding in natural resources of climate and fertility.

What caused this great transformation? What caused this caterpillar overnight to turn into a beautiful butterfly?

Major credit should go to this same press and these same feature writers that are now causing a near panic in cancellation of subdivision lot sales.

Press releases and articles began appearing all over the United States telling of the fabulous "rags to riches" experiences in western land speculation. It was then newsworthy to glamorize the "Miracle of the Desert" because it constituted a discovery.

Readers began to believe that this land so richly endowed by nature was "Just one pony stop this side of Heaven." One glowing article in a major national publication told of land near Scottsdale, Ariz., which was purchased for 25 cents an acre and sold in less than 5 years for \$5,000 an acre.

I am certain that instances such as this sale were true but this was the unusual, an exception. Of course, it is the exceptions that make news. But if an exception is publicized sufficiently, it becomes the general case, the majority situation, in the minds of readers. The public is so quick to see the bait but so slow to see the hook.

These extremes made such good reading and were publicized so greatly that it was inevitable Arizona and her sister States were headed for an unprecedented real estate boom.

The constant publication of these minority situations created such an interest that the way was paved for the present multimillion dollar "mail-order—sight-unseen" sales of subdivisions in small parcels of remote, undeveloped land, often submarginal, to small income citizens for residential and retirement purposes.

The "runaway" real estate situation became a matter of great concern to Western State officials. Arizona, California, and three other States of the Union passed what is termed as "full disclosure" statutes.

The real estate commissioner has the right to require subdividers to deliver a report to every purchaser of a lot, which gives the information regarding utilities, distance from schools and towns, contour of the land and other pertinent facts which affect the desirability of homesites.

This public subdivision report is prepared by the commissioner and receipts proving deliverance must be kept by subdividers.

During my term as president of the National Association of License Law Officials, I urged all States to adopt this statute. It is designed to protect purchasers from unreliable and dishonest subdividers.

Even if a State does not have one subdivision, its citizens need protection from sale of lots located in other States.

The purpose of these disclosure statutes is not to prohibit the sale of desert lots or mountain lots without utilities or roads. It is rather to make it possible for a purchaser to know in every instance the condition of the land being offered him.

These disclosure statutes have their inception in the belief that no door to any sale should be locked, but that the threshold should be so well lighted that the purchaser is certain of where he is going.

In answer to all inquiries regarding Arizona property, my department strongly advises that prospects "See the property before they buy." One of my sister States always sends a mimeographed letter containing "If you can't afford a trip out here to see for yourself, you shouldn't be buying."

J. D. Lippincott, Phoenix resident manager of Coldwell Banker & Co., one of the largest real estate firms in the western part of the United States, as well as many other leading firms of Arizona, are cooperating with our State by refusing to sell real estate of any nature to any customers until they have made an onsite inspection of the property involved.

In spite of these precautions we urge and the protections we offer, many overzealous purchasers do not heed advice and do not use discretion.

As one State official recently stated at a conference on interstate land sales, "The mail-order buyer is a fool, and the common law has little to offer for his folly."

The policy of my department to advise all inquirers to "see before buying" is already paying dividends. Prospects who come to our State to view a prospective purchase, even if they don't buy this particular lot, usually fall so completely in love with this area that they end up buying something else with the idea of making this State their home.

There is no better way to sell a State to the public than to urge a sampling before purchase. The prospect pays well for the sample—his trip brings good revenue to the State. If he does purchase, it's because he's satisfied and will make a happy and contented resident.

If the press continues its reporting of the extremes, it can very easily cause the same panic which it caused in the past, except the panic will be a panic of "investment fear" rather than a buying panic as before.

An article of criticism, and I hope the press does not think I am unfair in my criticism, does nothing more than clutter up the landscape of understanding unless it offers some constructive substitute.

First, I urge all reporters and feature writers to point the finger at both the good and the bad. We have so much good to offer. Go back to your old issues and read a few of the wonderful things you had to say about us in yesteryears. These things are even truer today than they were years ago.

Second, help us in urging people to come to our great State and our sister States to "see before buying." Regardless of how beautiful the picture has been painted, the real impact can be realized only by sampling. If they can't afford a sample, they can't afford the whole package.

Finally, don't accept ads on these subdivisions 2,000 miles away, regardless of how much your publication needs the money, unless you are willing to adhere to the recommendations of the National Better Business Bureau.

Among other things, the Better Business Bureau provides:

(1) That advertising shall state the location of the property in relation to its distance in miles from a sizable community.

(2) That land offered for speculative purposes shall be so represented, and shall not be represented as offering quick, immediate, or specific profits.

(3) That advertising shall not refer to any improvements unless they actually exist, are under construction, or are assured by bonding or other means acceptable to the authorities.

I would like to request the members of this committee and the press to read the exhibit, "The Truth About Western Land Sales," in which I try to show that it is only a minority, a few, that are doing these terrible things of which we are trying to get reforms, and they are causing the trouble. One might read enough of these articles that they would think that Arizona, California, and a lot of the Southwest, are merely headquarters for hoodlums, which is not the case.

Also, another exhibit. I think that we have about 20 retirement subdivisions in the State of Arizona, of which I am justly proud. I will say this: that I believe we have one of the finest in the world, in what is known as Sun City, and other fine operations in California, Florida, and Arizona, for the retiring citizen.

I have a press release which I have given in connection with that, and an investigation, which I think you would be interested in, knowing what could be a good, ideal situation for the retirement citizen. I will not read that.

I will close my remarks by not taking too much time—

Senator GOLDWATER. Mr. Talley, would you want that made a part of the record?

Mr. TALLEY. Yes, I insist that all of this become a part of the record.

Senator WILLIAMS. Yes, we would certainly like to make it part of the record.

I am glancing at this Sun City. This is part of our exhibit material, isn't it?

Mr. TALLEY. Yes. In it you will find a press release that is indicated there as a part of it.



Senator WILLIAMS. Well, from the New York Yankees to subdivisions, Mr. Webb generally does it right.

Mr. TALLEY. Well, we are very proud, and I only regret that these people who write these national publications do not say something occasionally about the better side, which is by far the majority.

To offer any comments, however general, regarding a problem, without at the same time offering some solution, is merely congesting the problem and congealing the confusion.

While most people have very little sympathy with a person who buys property sight unseen and feel that the laws owe him very little protection, we can't help but feel different about our senior citizens. The pitiful part about it is that when these retiring people move to their land of "milk and honey" to retire and find that their lot is not a homesite with utilities but only a barren lot miles away, they are too proud or too poor to go back home. Many become sick and, according to officials in those particular areas, are becoming welfare cases.

This permanent body or committee should, among numerous things, act as a general information bureau to give advice on locations for retirement and methods of ascertaining true facts regarding the facilities, et cetera.

The body should even give material and information to assist younger citizens prepare for retirement. One of life's great tragedies is to see a person who has lived an active and productive life try to retire when he is unprepared by disposition and training to do so.

This body should make a study and publish materials to teach people to retire. The type of material to teach, for instance, falls into three categories:

(1) Our senior citizen must be taught that he can only retire to something and not from something. Unless the retiree has prepared himself with a hobby or some all-consuming interest apart from his job, he cannot mentally and emotionally retire. He will "crack up" and vegetate soon after giving up his job.

(2) Second, he must be prepared to be unimportant. I have known many retiring executives of large corporations who became completely disenchanted to find that actually they had never been important—only their positions had been important. They are disillusioned to realize that their important seat at the luncheon club is not reserved for them, the usual flowers for their wives don't arrive on important occasions, and their favorite jokes don't get the resounding laughter as before.

(3) And, finally, this body must teach the philosophy that a retired person can live just as happily on a small income (even social security) if he can translate the dollar into the human equation. At the age of the retiree there is no reason to amass a fortune. The time has arrived to realize that dollars have no inherent value—they now should be measured in terms of comfort, convenience, and protection.

This body could study the problems, new problems that arise each year, which affect our senior citizens. It should pursue a continuous study, because methods which were right yesterday, questionable today, might be dead wrong tomorrow. Above all groups, our aging not only need this help but they deserve it.

The wonderful advancements that have been made in some retire-

ment centers should be communicated to other centers and adopted by them. Even plans for limited employment—syndicated small manufacturing companies are springing up in these centers.

This body can do four things in particular to assist in the interstate sight-unseen mail-order sale of lots.

(1) They can encourage strong State subdivision laws requiring registration and full disclosure of details such as location, climate, unusual physical features, development plans, and methods of financing. This will go a long way toward protecting the senior citizen by letting him know in advance what he is buying.

(2) Assist States in providing for more rigid laws carrying speedier methods of prosecution, where interstate sale of land under misrepresentation is concerned. The immediate injunctive relief is by far the best.

(3) As formerly stated, adopt voluntary advertising codes to keep fraudulent real estate promotions out of newspapers and magazines. The National Better Business Bureau has suggested the following code:

(a) That advertising shall state the location of the property in relation to its distance in miles from a sizable community.

(b) That land offered for speculative purposes shall be so represented and shall not be represented as offering quick, immediate, or specific profits.

(c) That advertising shall not refer to any improvements unless they actually exist, are under construction, or are assured by bonding or other means acceptable to the authorities.

(4) Amend the Securities Exchange Act to require the same investigation and prospectus for interstate real estate promotions as for securities and stocks.

Unless a permanent body is created to study these problems, exchange ideas and programs for meeting these problems, and coordinate activities in general, we shall be ignoring a great opportunity to assist our Nation's most deserving group.

In closing, let me again thank you for the privilege of appearing before you. But, by our delay in this matter, are we admitting that the few land racketeers who, after all, are in the minority of our land subdividers, are stronger than our State and Federal Governments? I appeal to you for speedier justice both from the State and National levels. For, in the words of that often repeated and timeworn statement, "Justice delayed is justice denied."

Thank you. Are there any questions?

(The documents referred to follow:)

#### SEVERAL OUTSTANDING EXAMPLES OF SIGHT-UNSEEN MAIL-ORDER SUBDIVISION PROJECTS SOLD THROUGH MISREPRESENTATION

(By J. Fred Talley, Arizona State real estate commissioner and past president of the National Association of License Law Officials)

One of the most glaring examples of misrepresentation of lot sales in the entire West, I am ashamed to admit, is in my own state of Arizona.

It is the mail-order sale of lots in Mohave Desert in the northern part of Arizona in a subdivision known as Lake Mead Rancheros.

A bulldozer merely cut scars across the desert and gave the fancy names of boulevards, drives, and streets. One was named Riverside Drive, though it is more than 50 miles by good road to any river, just as the entire subdivision

is over a hundred miles from the lake which gives this desert subdivision its name.

Most of these so-called boulevards and drives were washed out by the first freshet. On my last trip to inspect this subdivision, I had to turn back at the edge because of a 10-foot ditch cut by rain in the main thoroughfare.

Lake Mead Rancheros is perhaps at this point the most widely advertised subdivision in the United States. Full-page ads are being run all over the country advertising "complete utility service \* \* \* with roads, electricity, water, and phones available. Invest now and hold for future profit—or build now and move in."

Its brochures contain "not raw, undeveloped and inaccessible land" but "laid out, waiting for people, livable now."

Nothing could be further from the truth. Actually, there are absolutely no utilities available. Six miles from the nearest lot and 10 to 12 miles from the principal part of the subdivision is a tank-operated coin machine where one can deposit a quarter and water runs out of an old inner tube. At the same distance away is a telephone line and powerline running down the highway.

People thousands of miles away dream of retiring from the smoke and smog of the city—retiring upon a beautiful little one-and-a-fourth-acre ranch in a land of perpetual sunshine. Thousands upon thousands who are planning for the sunset years of their lives read this disgraceful advertising—they go for the bait without seeing the hook.

The pitiful part about it all is that numerous senior citizens are moving out West to retire on this haven of retreat—this land of "milk and honey"—and find not even one house, but only open desert far from any utilities. They are too proud or too poor to go back home. Many of these disenchanting people become sick and, according to officials of Mohave County, the site of this disgrace, are becoming welfare cases.

You doubtless ask why this situation is permitted to exist in a civilized country. At the conclusion of my testimony I shall explain this in detail and certainly recommend measures to correct it. I admit the solution is not easy. When large concerns in Florida, Texas, and Chicago sell lots in Arizona and California to people in New York and Massachusetts, we have problems far beyond those which any legislator had in mind when our present State laws were passed.

Arizona is one of only six States that even have a "full disclosure" law—one requiring the subdivider to even reveal what he is selling. Only 17 States of our Union have any subdivision law at all. What would you think of a man who went bear hunting with a buggy whip? States with their present laws are just about that well equipped legally to meet the problems encountered in the present interstate sale by mail order of lots under the guise of being home-sites.

At a recent meeting in San Francisco of attorneys general, license law officials, and better business bureau representatives from all over the United States, who met to study this problem, Attorney General Stanley Mosk, of California, stated, "present criminal laws are archaic and ill suited to dealing with fraudulent sales promotions."

At the same meeting, a study by the University of California was presented. Among other things, it stated, "Never in the history of real estate transactions has a land buyer stood so naked of legal protection as does the purchaser of remote promotional subdivision land."

One western land scheme that ranks among the top in hanging up a disgraceful score for the "hit and run" subdivider and one that has gained national publicity is the "Comstock Ranch Fraud" near Elko, Nev.

Approximately a year ago the "suede shoe" promoters moved into a swanky San Francisco hotel and brazenly began selling 160-acre parcels of "the famous Comstock Ranch \* \* \* the last frontier, a sportsman's paradise, gently rolling, lush meadows, gateway to the Humboldt National Forest." Cashing in on the magic name of "Comstock," which is associated everywhere in the West with the great silver strikes, the 160-acre parcels were grabbed up. "Just \$4,999—\$490 down and \$59 per month" the big ads offered.

The first 3 days, lots totaling over three-quarters of a million dollars were sold. California immediately issued a cease-and-desist order charging fraud. The promoters ignored the order and sold another \$75,000 in lots before their arrest. The promoters pleaded "guilty," were given a light fine and a 60-day

suspended jail sentence. The San Francisco papers editorialized the fact that we do not have laws with "teeth in them" to correct these abuses. California is not alone in this regrettable failure of legal tools.

Just as a matter of interest, Gerald J. McBride, executive secretary of the Nevada Real Estate Commission, informs me that there is no such thing and never was as the Comstock Ranch. The tract of land in question is desert land, listed on the tax rolls as third- or fourth-class grazing land.

But why shout the obvious? Similar cases are too obvious and too frequent to need elaboration.

Our present pie-in-the-sky land schemers make the promoters who sold land under water in Florida, pawned off stock to widows, and promoted gold mines that didn't exist, look like amateurs relegated to the "bush league."

The tragic part of these situations is that even though the acts of misrepresentation are open and flagrant, the damage is done before any corrective measures can become effective. Lawyers can use the injunctive process, or a sword instead of a shield, and delay justice by disgraceful dilatory tactics.

One sales organization located in Beverly Hills, Calif., advertised land in Nevada along the "Old California Trail." The whole sales program was a fraud, but through dilatory tactics and delay, the operators were able to hold off the "sword of justice" until they had filched from the public over \$2 million in cash, with another \$4 million due them under contracts.

Such large scandals of this type need immediate laws enacted to give corrective measures at once. As Nathaniel Kossack, Chief of the Fraud Section, Criminal Division, U.S. Department of Justice, stated at our San Francisco conference, "We cannot afford the luxury of placing our entire reliance on study while our people are being despoiled."

As a final example, and one that is close to my heart and of major interest to me and—I hope and pray—will also be of great concern to you, is the growing efforts on the part of a few of these land swindlers, and, again I repeat, they are in the minority, to sell through misrepresentation to our boys who are in the armed services of their country.

We all are aware of the millions "bilked" from our boys serving their country during the last war in the insurance rackets, which became the object of a congressional investigation.

Now we have the same problem except this time it is desert—unimproved, sight-unseen lots.

Recently, I was particularly concerned over advertising which this same Lake Mead Rancheros was doing in the Army Times Publishing Co. Lake Mead Rancheros, in a letter to me signed by its president and dated September 26, 1962, stated, "as Army Times Publishing Co. is a reputable publishing house, with whom we have had numerous previous dealings, and from its advertising pages sold many of our rancheros \* \* \*"

Lake Mead Rancheros attempted to persuade me to change our public report, which we require that they submit with each sale, in order that this company could attract more of our boys in service to buy their desert lots. Needless to say what attitude I assumed.

At the time of this incident, we were assured that we were about to get help from the postal authorities, who informed us that suit would be filed for criminal prosecution of Lake Mead Rancheros. My department cooperated in the investigation and was even told that there was no need for us to act because a criminal case was about to be filed. Why this was not done is a mystery to me. The company is still defrauding the public and I am afraid still swindling our boys in the armed services.

I'm sure you gentlemen in this particular investigation are primarily concerned with the protection of our senior citizens, but, in spite of this, I plead with you from the depth of my heart and with all the earnestness at my command, to look also into this matter of the protection of our boys serving their country, from these predatory land promoters, concerned only with filching all the money they can from an area and then moving on before their inevitable reputation catches up with them.

## THE TRUTH ABOUT WESTERN LAND SALES

(By J. Fred Talley, Arizona real estate commissioner)

If your interest is limited to the tabloid, the exciting, or the unusual, then read no further. If your mind is already made up and you do not wish to be confused by the truth, then I apologize for the few nonrefundable fragments of eternity I have already stolen from you. But, if you are fairminded and desire to know the truth about a subject which is being distorted gravely in the press throughout our country, I suggest that you invest just a few minutes with me.

This article is not intended as a malicious charge against inaccurate reporting. Often, however, well meaning but misguided writers can become so carried away with the unusual and the exceptions, which make interesting material, that the reading public begins to think the reported facts reflect the whole picture. I'm sure these articles and press releases are mistakes of the mind and not of the heart—mistakes of omission and not of intent. But, if a man burns my house down, I care little whether he is a confirmed arsonist or just careless with matches—my damage is the same.

And since the State of Arizona has been the prime focal point of these writings, as real estate commissioner of this State, I feel a deep compulsion, both officially and personally, to set the record straight.

First of all, I want to make one point clear. Although our State has averaged approximately 2 new subdivisions per day for over a year, and although we have to date in 1 county, Mohave, 333 subdivisions constituting over a half million subdivided acres (more than exists in most entire States) the problems are not confined to our State alone, the situs of the land. The more than 60,000 subdivision lots sold during the last 18 months in Mohave County alone were sold almost exclusively to out-of-State prospects in practically every State of our Union. So this is a matter of national, not just local, concern and is deserving of careful consideration and clear understanding.

To approach the problems logically we also must understand the enormity of the situation—the extent of the western population explosion.

Actually, we are at present in the midst of one of the three greatest migrations in recorded history. First, the migration of the children of Israel through the Red Sea. Then the great migration during the latter part of the last century when our immigration laws permitted the great shift of population from Europe to America. These two are being dwarfed today by the staggering number of people who are finally taking Horace Greeley's advice of "Go west, young man, go west."

The State of Arizona has doubled in population every 10 years, with mathematical exactness since 1900. We are in a mad race to build subdivisions, shopping centers, commercial and industrial developments, to assimilate the more than 100,000 new residents who are pouring into our State each year. Each 10 years we must completely rebuild a new Arizona for this doubled population. If you as a reader will pause for a moment to consider the herculean problems generated by our population boom, you will better understand the critical situation in which our State finds itself in its 50th year anniversary of admission to the Union.

From time immemorial, every great land boom, gold or silver strike, every big discovery has attracted the "hit and run" promoter as well as the dedicated person with a deep compulsion to serve. The West has certainly had its share of the first category recently. The sharp operators who sold land under water in Florida, fake stock to unsuspecting widows, mining claims which did not exist, followed the usual pattern and came to our State seeking to cash in on the emotional buying so characteristic of land booms that accompany population explosions.

These few predatory promoters are by far in the minority and are becoming fewer as we weed them out. But unfortunately their tactics make news—good reading. One writer reports an advertisement "Pay \$10 down and charge \$10 a month to your Diner's card—you can retire on a western ranch." Another writer gives an account of a person who bought a lot by mail order, sight unseen, in a rocky gorge. When asked by a friend upon his return back east after visiting his lot, "Did you actually go out and stand on your western ranch?" the reply was, "No, but I leaned against it."

The above reporting is entertaining and perhaps humor to some, but in no way does justice to the honest efforts and commendable results by hundreds of subdividers and developers who are building a great West to assimilate the swelling surge of population which is descending upon us like a tidal wave.

In very few of these articles do we read of the approximately 20 senior citizen developments of Arizona, some of which are now world famous. The Sun City development by Del Webb has given a new dimension and a new philosophy to retirement. While medical science has given "years to life," this and other Arizona retirement programs are earnestly seeking to give "life to years."

Arizona City, a new development between Phoenix and Tucson, built one of the most beautiful golf courses in the State and a \$200,000 swimming pool almost before its first house was constructed, but this did not constitute news.

Mohave County, the object of most of the unfavorable subdivision publicity in Arizona, has a Colorado River subdivision developed by Jack Foster which is deserving of a feature article by any publication in existence. This, however, has never been mentioned, nor has other prime subdivisions in that county in any of the dozen or more national articles written on land sales in that county. I agree that the title "slums in the desert" would catch a reader's fancy more quickly than a more constructive title, but it is unfortunate that eye appeal and accurate reporting haven't been given equal importance by the press over the last few months.

In order further to set the record straight, let's delve into the background and the cause of this third and greatest migration of all recorded history.

It was only a few years ago that our State was considered just a dusty spot in a lonesome desert, fit only for coyotes, gila monsters, and rattlesnakes. People marveled that pioneers ever had the strength and stamina to conquer this desert wilderness. As one writer described the survivors, "They were strong and sturdy men because the cowards stayed at home and the weak died on the way."

But within the memory of most of us we have seen what has been labeled "the miracle of the desert." What was once thought of as wasteland is now considered a tropical haven in a land of perpetual sunshine, abounding in natural resources of climate and fertility.

What caused this great transformation? What caused this caterpillar overnight to turn into a beautiful butterfly?

Major credit should go to this same press and these same feature writers that are now causing a near panic in cancellation of subdivision lot sales.

Press releases and articles began appearing all over the United States telling of the fabulous "rags to riches" experiences in western land speculation. It was then newsworthy to glamorize the "miracle of the desert" because it constituted a discovery. Readers began to believe that this land so richly endowed by nature was "just one pony stop this side of heaven." One glowing article in a major national publication told of land near Scottsdale, Ariz., which was purchased for 25 cents an acre and sold in less than 5 years for \$5,000 an acre.

I am certain that instances such as this sale were true but this was the unusual, an exception. Of course, it is the exceptions that make news. But if an exception is publicized sufficiently it becomes the general case, the majority situation, in the minds of readers. The public is so quick to see the bait but so slow to see the hook.

These extremes made such good reading and were publicized so greatly that it was inevitable Arizona and her sister States were headed for an unprecedented real estate boom.

The constant publication of these minority situations created such an interest that the way was paved for the present multimillion dollar "mail order—sight unseen" sales of subdivisions in small parcels of remote, undeveloped land, often submarginal, to small income citizens for residential and retirement purposes.

The "runaway" real estate situation became a matter of great concern to Western State officials. Arizona, California, and three other States of the Union passed what is termed as "full disclosure" statutes. The real estate commissioner has the right to require subdividers to deliver a report to every purchaser of a lot, which gives the information regarding utilities, distance from schools and towns, contour of the land and other pertinent facts which affect the desirability of homesites. This public subdivision report is prepared by the commissioner and receipts proving deliverance must be kept by subdividers.

During my term as president of the National Association of License Law Officials, I urged all States to adopt this statute. It is designed to protect pur-

chasers from unreliable and dishonest subdividers. Even if a State does not have one subdivision, its citizens need protection from sale of lots located in other States.

The purpose of these disclosure statutes is not to prohibit the sale of desert lots or mountain lots without utilities or roads. It is rather to make it possible for a purchaser to know in every instance the condition of the land being offered him.

These disclosure statutes have their inception in the belief that no door to any sale should be locked, but that the threshold should be so well lighted that the purchaser is certain of where he is going.

In answer to all inquiries regarding Arizona property, my department strongly advises that prospects "see the property before they buy." One of my sister States always sends a mimeographed letter containing "if you can't afford a trip out here to see for yourself, you shouldn't be buying."

J. D. Lippincott, Phoenix resident manager of Coldwell Banker & Co., one of the largest real estate firms in the western part of the United States, as well as many other leading firms of Arizona, are cooperating with our State by refusing to sell real estate of any nature to any customers until they have made an onsite inspection of the property involved.

In spite of these precautions we urge and the protections we offer, many overzealous purchasers do not heed advice and do not use discretion. As one State official recently stated at a conference on interstate land sales, "the mail-order buyer is a fool, and the common law has little to offer for his folly."

The policy of my department to advise all inquirers to "see before buying" is already paying dividends. Prospects who come to our State to view a prospective purchase, even if they don't buy this particular lot, usually fall so completely in love with this area that they end up buying something else with the idea of making this State their home.

There is no better way to sell a State to the public than to urge a sampling before purchase. The prospect pays well for the sample—his trip brings good revenue to the State. If he does purchase, it's because he's satisfied and will make a happy and contented resident.

If the press continues its reporting of the extremes, it can very easily cause the same panic which it caused in the past, except the panic will be a panic of "investment fear" rather than a buying panic as before.

An article of criticism, and I hope the press does not think I am unfair in my criticism, does nothing more than clutter up the landscape of understanding unless it offers some constructive substitute.

First, I urge all reporters and feature writers to point the finger at both the good and the bad. We have so much good to offer. Go back to your old issues and read a few of the wonderful things you had to say about us in yesteryears. These things are even truer today than they were years ago.

Second, help us in urging people to come to our great State and our sister States to "see before buying." Regardless of how beautiful the picture has been painted, the real impact can be realized only by sampling. If they can't afford a sample, they can't afford the whole package.

Finally, don't accept ads on these subdivisions 2,000 miles away, regardless of how much your publication needs the money, unless you are willing to adhere to the recommendations of the National Better Business Bureau. Among other things, the Better Business Bureau provides:

1. That advertising shall state the location of the property in relation to its distance in miles from a sizable community.
2. That land offered for speculative purposes shall be so represented, and shall not be represented as offering quick, immediate, or specific profits.
3. That advertising shall not refer to any improvements unless they actually exist, are under construction, or are assured by bonding or other means acceptable to the authorities.

## SUGGESTED PERMANENT BODY TO ASSIST OUR SENIOR CITIZENS

(By J. Fred Talley, Arizona real estate commissioner)

To offer any comments, however general, regarding a problem without, at the same time, offering some solution is merely congesting the problem and congealing the confusion.

While most people have very little sympathy with a person who buys property sight unseen and feel that the laws owe him very little protection, we can't help but feel different about our senior citizens. The pitiful part about it is that when these retiring people move to their land of "milk and honey" to retire and find that their lot is not a homesite with utilities but only a barren lot miles away, they are too proud or too poor to go back home. Many become sick and, according to officials in those particular areas, are becoming welfare cases.

This permanent body or committee should, among numerous things, act as a general information bureau to give advice on locations for retirement and methods of ascertaining true facts regarding the facilities, etc.

The body should even give material and information to assist younger citizens prepare for retirement. One of life's great tragedies is to see a person who has lived and active and productive life try to retire when he is unprepared by disposition and training to do so.

This body should make a study and publish material to teach people to retire. The type of material to teach, for instance, falls into three categories.

I. Our senior citizen must be taught that he can only retire to something and not from something. Unless the retiree has prepared himself with a hobby or some all-consuming interest apart from his job, he cannot mentally and emotionally retire. He will "crack up" and vegetate soon after giving up his job.

II. Second, he must be prepared to be unimportant. I have known many retiring executives of large corporations who became completely disenchanted to find that actually they had never been important; only their positions had been important. They are disillusioned to realize that their important seat at the luncheon club is no reserved for them, the usual flowers for their wives don't arrive on important occasions and their favorite jokes don't get the resounding laughter as before.

III. And finally, this body must teach the philosophy that a retired person can live just as happily on a small income (even social security) if he can translate the dollar into the human equation. At the age of the retiree there is no reason to amass a fortune. The time has arrived to realize that dollars have no inherent value—they now should be measured in terms of comfort, conveniences, and protection.

This body could study the problems, new problems that arise each year, which affect our senior citizens. It should pursue a continuous study because methods which were right yesterday, questionable today, might be dead wrong tomorrow. Above all groups, our aging not only needs this help but they deserve it.

The wonderful advancements that have been made in some retirement centers should be communicated to other centers and adapted by them. Even plans for limited employment, syndicated small manufacturing companies are springing up in these centers.

This body can do four things in particular to assist in the interstate sight-unseen mail-order sale of lots.

1. They can encourage strong State subdivision laws requiring registration and full disclosure of details such as location, climate, unusual physical features, development plans, and methods of financing. This will go a long way toward protecting the senior citizen by letting him know in advance what he is buying.

2. Assist States in providing for more rigid laws carrying speedier methods of prosecution, where interstate sale of land under misrepresentation is concerned. The immediate injunctive relief is by far the best.

3. As formerly stated, adopt voluntary advertising codes to keep fraudulent real estate promotions out of newspapers and magazines, the National Better Business Bureau has suggested the following code:

(a) That advertising shall state the location of the property in relation to its distance in miles from a sizable community.

(b) That land offered for speculative purposes shall be so represented, and shall not be represented as offering quick, immediate, or specific profits.

(c) That advertising shall not refer to any improvements unless they actually exist, are under construction, or are assured by bonding or other means acceptable to the authorities.



4. Amend the Securities Exchange Act to require the same investigation and prospectus for interstate real estate promotions as for securities and stocks.

Unless a permanent body is created to study these problems, exchange ideas, and programs for meeting these problems and coordinate activities in general, we shall be ignoring a great opportunity to assist our Nation's most deserving group.

In closing, let me again thank you for the privilege of appearing before you. But by our delay in this matter, are we admitting that the few land racketeers who after all are in the minority of our land subdividers are stronger than our State and Federal Governments? I appeal to you for speedier justice both from the State and National levels. For in the words of that often repeated and timeworn statement, "Justice delayed is justice denied."

Senator WILLIAMS. No; I was just going to commend you for the dedication with which you speak, for your sympathy which you bring to people who are suffering from these frauds.

A magnificent statement, Mr. Talley.

Mr. TALLEY. Thank you.

I would like to introduce my friend at the right, the Honorable Elmer Borgschatz, the immediate past president of the National Association of License Law Officials. He is also the real estate commissioner for the State of Minnesota.

Senator GOLDWATER. Mr. Talley, could I ask you one question before the gentleman starts?

Mr. TALLEY. Yes, sir.

Senator GOLDWATER. You mentioned some approach to the responsibility of the advertising media.

Do you not think this could be stressed more?

I see these fraudulent ads appearing in the press of the East, magazines, and I think possibly it would be wise to make them have some responsibility in this if they accept ads without investigating them.

Do you feel that could be done?

Mr. TALLEY. That very subject, Senator, if you will pardon me, is stressed in, "The Truth About Western Lands." If they would not accept advertising until they know what they are advertising.

Senator GOLDWATER. Thank you.

Senator WILLIAMS. Do you suggest this as a matter of legislation or a matter of professional self-discipline?

Mr. TALLEY. Well, I think we have got to have some legislation from the Federal standpoint, for this reason: the Supreme Court and the Federal courts talk about interstate commerce. It is rather difficult for me, although I believe in the theory of being my brother's keeper, to control what a Florida landowner—even though he owns Arizona land and sells it in Massachusetts and Maine and New York, and Illinois—as to what he does in those States, because of interstate commerce, although the State of Arizona eventually gets the blame for it, because the land is located there.

Senator WILLIAMS. We might use the SEC approach to protect against fraud in investment as an analogy, in developing means of protecting the public against fraud in interstate real estate.

Mr. TALLEY. I have never believed in imposing on the Federal Government for anything the State could do.

If we can control it at the State level, that is wonderful, but I do not know what they are going to do about the interstate commerce. We may have sufficient laws. Some of the Federal people say that we do have. Perhaps we do. I hope so.

Senator RANDOLPH. Mr. Talley, this is not a pleasantry; I think you could well be called the Sage of Arizona. I think your philosophy is very sound, as well as the recommendations which you have brought to the attention of the committee.

I would go back, however, to this matter that Senator Goldwater very properly raised about the degree of contact that the better business bureaus have with the newspapers of the country, in reference to the advertisements of the fraudulent land schemes which you have dramatically presented to the committee.

With Mr. Willson present, I would like to nail this down.

We seem to talk about it. Now what is actually being done? What is the National Better Business Bureau doing in connection with properly apprising newspapers of its knowledge—that is, the Bureau's—of these situations?

Mr. WILLSON. Senator, the States of California and Arizona are cooperating with the National Better Business Bureau by sending us a copy of each public report issued.

The National Better Business Bureau, in turn, reproduces those reports and sends them to all of the better business bureaus throughout the United States, which in turn make them available to local media, specifically the newspapers.

A great many of the newspapers of the United States, as a matter of long custom, exercise care in the censorship of advertising which is submitted to them. Some of them reject literally millions of dollars of copy each year, and they have large organizations which scrutinize every piece of copy that is submitted to them for publication, including land advertising.

A great deal of the land advertising that has been discussed here this morning is rejected by the Nation's reputable media. Some of it, obviously, slips through, and where it does, in our opinion, it is because media do not exercise the responsibility they have for protecting their readers by making sure that the copy they publish can be supported with competent evidence.

Senator RANDOLPH. Thank you.

Senator WILLIAMS. Do you have any questions?

(Additional material submitted by Mr. Talley.)

[From the Reader's Digest of January 1963]

#### BEWARE THE RANCHERO RACKETEER

IF GLOWING ADVERTISEMENTS TEMPT YOU TO DREAM OF A "LITTLE PARADISE" IN THE WEST, READ THIS WARNING

(By Paul Friggens)

"Your Arizona ranchero is waiting for you. Bask in the sun in this beautiful mountain valley." Thus read the glowing full-page advertisement in an eastern newspaper. Then came the clincher: "But now your investment dollar gets much more. We have acquired complete utility services. This means that you can own a king-sized western estate (\$10 a month, \$595 buys 1¼ acres) with roads, electricity, water and phones available. Invest now and hold for future profit—or build now and move in."

Recently, with Assistant Arizona Real Estate Commissioner Cavett Robert, I went to see these "king-sized estates" in their "beautiful mountain valley." The surrounding barren, volcanic mountains (the Music Mountains) get their melodious name, explained a brochure, "from the soft rustling harmonics created by the steady, refreshing breezes sweeping through the pockets of the hills," Robert

snorted. "You should get caught here sometime in a blinding duster," he said.

As we turned off the highway into a vast expanse of cactus, sagebrush and scrub mesquite, a sign featuring the name of a resort lake welcomed us to the advertised rancheros. Robert shook his head. "That lake is more than 100 miles away."

The desert here had been carved up into thousands of "homesites," but they were so far from anywhere that, as they say in Arizona, "a jackrabbit would need a canteen to get there." White "street" markers glistened in the boiling sun—"Saguaro Boulevard" and even a "Riverside Drive"—but the boldly advertised "200 miles of roads" were just bulldozed scars through the wasteland and already filling with tumbleweed and sand. The only water we could locate was a well with a coin-operated meter 6 miles from the nearest homesite. Here, presumably, for 50 cents per 1,000 gallons, the new "western estate" owners could wheel their barrels and help themselves. There was no electricity or telephone immediately available.

I read my brochure again. Sure enough, it promised that the rancheros are "not raw, undeveloped and inaccessible land" but "laid out, waiting for people, livable now." Yet the only thing that the promoters had done was to buy—or option—land assessed on the tax rolls for \$3 an acre, stake out lots and blaze a few trails through the desert. Astonishingly, they claim to have sold some 3,000 homesites.

Cavett Robert said to me, "I doubt that anyone would buy this land if he had seen it. The trouble is, it's being peddled to people 2,000 miles away. These promoters are cashing in on the popularity of that distant lake and, tragically, many retired people are sinking their life savings here."

County officials in parts of Arizona complain of a mounting welfare load. Said Mohave County Assessor Don McCraley, "Many of these senior-citizen newcomers, when they find that their 'paradise' is located in the middle of nowhere and that they have to haul water 10 or 15 miles, are too proud—or too poor—to go back home. First thing we know, they're sick and on the county."

This is a sample of the high-pressure land-promotion schemes that are sweeping the West today. While countless legitimate real estate developments are booming in the area, in many other cases the gullible would-be buyer comes up against the kind of white-collar operator who sold swamps in Florida during the 1920's and fake securities during the 1940's. These opportunists are moving into a made-to-order situation. People in big cities, sick of smog, traffic, and crowded living, yearn for the wide open spaces. Moreover, millions now draw social security and pensions, and their retirement money offers a ripe opportunity for rackets.

Some unscrupulous promoters have advertised their cactus "paradise" with photos of lush valleys and purple mountains located in another area, even in another State. Some, along with their misleading claims, have been guilty of sins of omission—failing to mention the high cost of obtaining water and power, for instance. A third device commonly used by dishonest subdividers is to avoid recording your purchase of the land. Thus, they can borrow against the land, leaving you with liens on your property—and small chance you'll have of ever securing a clear title. They may even "forget" to record your payments.

At the recent national conference on interstate land sales held in San Francisco, Better Business Bureau investigators, real estate commissioners, and regulatory officials of 31 States and the Federal Government discussed the growing seriousness of the situation. California Attorney General Stanley Mosk declared that an estimated \$500 million was involved in dubious mail-order land sales in 1961 alone, and forecast that hundreds of millions more would be lost unless the rackets are somehow halted.

The big problem, as Attorney General Mosk told the conference, is that "present criminal laws are archaic and ill suited to dealing with fraudulent sales promotions." And a University of California study presented at the meeting reported: "Never in the history of real estate transactions has a land buyer stood so naked of legal protection as does the purchaser of remote promotional subdivision land."

Let's examine other western land schemes to see the mushrooming problem.

Last year a promoter moved into a plush San Francisco hotel and boldly peddled 160-acre parcels of "the famous Comstock Ranch" near Elko, Nev. "The last frontier, a sportsman's paradise, gently rolling, lush meadows, gateway to the Humboldt National Forest," fast-talking salesmen spied. Since Comstock is a magic name in Nevada, reminiscent of the great silver strikes, the

160-acre offerings went fast. The price per parcel: \$4,999—\$490 down and \$59 per month.

Within 3 days the promoter claimed to have sold \$750,000 worth of Nevada real estate, whereupon California stepped into the picture. Charging fraud and misrepresentation, the State issued a cease-and-desist order to protect its citizens. The promoter defied the order, however, and—despite unfavorable newspaper publicity—sold another \$75,000 in Comstock acreage before his arrest.

Said Gerald J. McBride, secretary of the Nevada Real Estate Commission: "There is no such Comstock Ranch, and this tract is desert land listed on the tax rolls as third- or fourth-class grazing land."

The promoter pleaded guilty to violating the cease-and-desist order, was lightly fined and given a 60-day suspended jail sentence. He also lost his real estate license. "Toothless laws," editorialized a San Francisco newspaper. Regrettably, violations of real estate regulatory laws are punishable in most cases as misdemeanors only.

New Mexico features perhaps the most overwhelming promotions of all—a combination of superbly organized multimillion-dollar ventures in the booming Albuquerque region, along with a host of fly-by-night operations scattered throughout the State. The State Better Business Bureau reports that the big ones are apparently legitimate developments, but takes the position that even their advertising is extravagant.

For \$10 down, \$10 a month, some of the ventures promise you a "sizable stake in the Southwest's golden future," and imply staggering profits. "Property worth 50 to 200 times as much as to begin with," says one advertisement. "It generally never occurs to people that the land they buy may contain valuable oil and other mineral deposits. For example, gold and silver have just been discovered in commercial quantities about 30 miles from our estates."

Says the Better Business Bureau in Albuquerque: "Some of these subdividers feature water skiing, but the lake is 50 or 100 miles away. They show fly fishing, but you have to drive at least 40 miles to get to the stream. They say you are 5 minutes from the city—you are, if you have a helicopter."

Thus, in practically every Western State, the promoters are titillating "city folks'" dreams, and raking in millions. Nathaniel Kossack, Chief of the Fraud Section, Criminal Division, U.S. Department of Justice, warned at the San Francisco conference, "Many of these operations are real con men. It's no game for amateurs."

The sharpsters combine business know-how with ruthless lack of principle. Aiming their easy-installment appeals at average incomes, they deal in astounding volume. In typical cases cited at San Francisco, real estate salesmen and brokers had garnered 20- to 30-percent commissions over a 3- or 4-year period, and subdividers had sold lots for 28 times the raw land price.

One sales operation, with headquarters in Beverly Hills, Calif., exploited land in Nevada along the Old California Trail which it called Gamble Ranch (though locally the land was known, more realistically, as the Montello Desert). Until the operators were required to cease their high-pressure selling last July, they had signed up more than \$6 million, with \$2 million actually in hand, the rest due under contract.

Unquestionably, these land deals are a growing scandal that demands immediate large-scale attack. As Fraud Chief Kossack declares: "We cannot afford the luxury of placing our entire reliance on study while our people are being despoiled." The San Francisco conference pointed out four remedies that are needed now:

1. Protect the investor with strong State subdivision laws (California has a near-model) requiring registration and full disclosure of details such as location, climate, unusual physical features, development plans, and methods of financing. (California is now pushing for a system of permit laws whereby property cannot be offered for sale until the real estate commissioner has decided the sale is fair, just, and equitable.)

2. Provide for speedier prosecution. Right now in Arizona, for example, the State can take no action against real estate violations without a 10-day notice, after which litigants are free to delay by repeated appeals. The right of injunction would help.

3. Adopt voluntary advertising codes to keep fraudulent real estate promotions out of newspapers and magazines. The National Better Business Bureau is already circulating standards for land advertising.

4. Amend the Securities Exchange Act to require the same investigation and public prospectus for interstate real estate promotions as for securities and stocks.

Meanwhile, here is advice for you, if you should happen to be interested in finding a ranch "paradise" in the West:

See the property before you buy. In Arizona, the State now answers all inquiries about land developments with this admonition. A Colorado official says bluntly, "If you can't afford a trip out here to see for yourself, you shouldn't be buying."

Look hard after you get there. Find out if the land is offered for speculation or if development is planned. If it's speculative, discount your profits. Ask whether roads will be paved, maintained. Determine whether utilities are actually functioning or "planned." "We estimated in one subdivision that it would cost buyers \$2,000 a mile to bring in power," says a Nevada official. A related problem is that banks will not make long-term home loans in such remote developments.

Be aware of the hazards to clear title. Remember that, under a land-sale contract, the seller holds title to the property until your payments are complete. Therefore, find out if the subdivider has taken out any mortgages on the property. Last year hundreds of California families were abruptly notified that their homes were to be sold through foreclosure. Though the families had kept up their monthly payments, the subdivider had not remitted his payments to the savings and loan association which held a mortgage on the property. The \$10-down, \$10-a-month purchaser living in New York, buying land in the West, and remitting to a post office box in Chicago, is infinitely more vulnerable.

In sum, the wisest advice is: Until you can go to see for yourself, you might well forget your dream of a little "paradise" in the West. As the San Francisco meeting warned, "The mail order buyer is a fool and the common law has little to offer for his folly."

[From Forbes magazine, July 15, 1962]

#### REAL ESTATE—A PLACE IN THE SUN

Selling real estate by mail order and on the installment plan is fast becoming big and fertile business. Last year alone, more than \$500 million was involved. But for the buyers—often a continent away—the practice is becoming increasingly risky, despite frequent warnings from Better Business Bureaus and others. For a token downpayment today and so much a month, the investor can reserve such questionable Shangri-La's as:

A 25-by-75-foot lot near Atlantic City on the Jersey shore for \$199. Being plugged on the radio in the New York metropolitan area, the lots are a full one-23rd of an acre—big enough for a good-sized dollhouse.

A 1¼-acre "ranchero" in northwest Arizona for \$595. The nearest water hole: 6 miles away.

In Collier County, Fla., 2½ acres for \$395. The land is under water only part of the year.

A 500-acre "farm" in Brazil, just 400 miles north-east of Brasilia, the new capital of the country, for \$500—\$1 an acre; \$50 down, \$20 a month. "Plenty of grass," says the advertisement, grass being one of the more attractive features of jungle terrain.

Those garden spots: The typical \$10-down buyer is a city dweller. He either has been mesmerized by florid sales literature or dreams his investment of a few hundred or a few thousand dollars may multiply magically and leave him some day or some year with a bonanza in the sun. Many prospective buyers figure that at the low advertised prices they can't go far wrong. But "low prices" do not necessarily mean bargains. In any case, the investor must generally take the land promoter's word for what he is getting. A trip to the site can easily cost more than the land itself.

The typical promoter has plunged into the field by buying up raw, undeveloped, and often inaccessible tracts at dirt-cheap prices and peddling them to the public as the garden spot of their dreams. Aside from surveying, legal costs, and the installation of a few crude roads, little money is plowed into the land itself; most outlays after the purchase go toward advertising and sales efforts. As a result, the promoter can reap tremendous profits, even though the selling price

of the land is not notably high. One 2,000-acre spread in Mohave County, Ariz., for example, was bought up the spring of 1961 for \$35 an acre; a year later it was selling at retail for 15 times that price. Yet the land was still undeveloped.

Rarely do promoters of even the most speculative real estate use selling practices that are, strictly speaking, illegal. But all too often they omit pertinent details from their sales literature. "For every substantial development corporation," says a top official with the National Better Business Bureau, whose files are bulging with data on hundreds of promotion schemes, "there are 100 shady dealers." A favorite sales ploy of the latter: a letter advising the recipient he has won a "free" homesite, but to get it he must forward a check for \$50 to cover "title transfer and recording."

The hard, hard sell: There are, of course, a number of substantial companies in the mail-order realty business, most of them catering to older people nearing retirement and thinking of a sunny site on which to live out their days. Probably the biggest of these is General Development Corp., which sold \$68 million worth of homes and homesites last year in Florida.

General Development undertakes complete development of a community, including the building of houses and the installation of utilities. But it shares one of the industry's serious shortcomings: the hard, hard sell. A recent "Dear Friend" promotional letter dispatched by General Development's New York sales office, for instance, offered "dividends, benefits, and gifts, the likes of which have never been offered before \* \* \* contact us as soon as possible. \* \* \* Don't 'miss the boat' on this one." It is questionable, to say the least, whether such lures are a sound basis for buying real estate.

Eagle-eyed Arizona: The installment business is flourishing throughout the country, but nowhere more spectacularly than in Florida and throughout the Southwest. Last year, Florida recorded about \$250 million worth of improved and unimproved land sales through installment credit purchases. Of the buyers, an estimated 250,000 were from outside the State. At last count, some 350 subdivisions in the Sunshine State were being promoted by advertising beyond the State's borders.

Runner-up is Arizona, where 85,000 parcels in 455 subdivisions—about 50 of them promoted out of State—were offered on a time-purchase basis during the past year. Most States make scant effort to regulate the way speculative realty is presented to the Nation at large. But Arizona requires that every single subdivision be inspected by the State real estate commission. This body then issues a report warning potential investors of pertinent data the promoter often omits from his sales literature (e.g., whether there is water, mileage to the nearest school, availability of utilities); Arizona State law requires that every would-be-buyer be sent a copy of the official report before a sale is made. The trouble is, however, that few out-of-Staters know of the statute, and its enforcement is extremely difficult.

The \$50 look: The promoter's hard sell and the buyer's blind purchase have led to a growing number of complaints that have given the real-estate industry in general a black eye. The National Association of Real Estate Boards was prompted earlier this year to issue an unprecedented warning to the public at large. "We are concerned," it said, "about the number of offers to sell relatively undeveloped lands by mail, newspapers, radio or television \* \* \*." Wherever possible, the board suggested potential buyers should look at the property in person.

Some of the bigger companies urge would-be customers to do just that. The prospect who comes to General Development's Detroit sales office, for example, is offered a round trip to Florida by bus and chartered plane to inspect the site—for \$50. Such offers, though, are rare. And for purely speculative land (i.e., undeveloped), which is often not identified as such, they are almost nonexistent.

Caveat emptor: For the interested buyer, the first step should be an on-site inspection. But for those still willing to buy sight unseen, it would prove worthwhile to:

Check with their local better business bureau. If a subdivision has failed to supply the BBB with requested data, steer clear of it.

Contact the department that oversees realty in whatever State the land is in to find out if there are any reports on the development in question.

Ask the promoter specifically what improvements have been made on the land (e.g., streets, electricity, telephone service, and above all water). If the promoter advises that a public utility plans to extend its services to the subdivision, doublecheck with the utility to determine just when.

Write a local bank to see whether it is making home loans for construction in the area.

[From the Chicago Sunday Tribune, Sept. 9, 1962]

## I DREAMED I RETIRED ON MY 5-ACRE RANCHO

(By Norma Lee Browning)

Some people go for mink, some for blackjack, some for clipping coupons and raking in stock dividends. I'm a coupon clipper myself. For longer than I care to remember I have been clipping coupons—from a monthly payment book—and sending them along with my hard earned cash to sunny Arizona for a piece of the new frontier, the last frontier, or a plain old mesa top somewhere in the wide open spaces.

From what I hear there are quite a few of us in the same prairie schooner. It's the pioneer spirit. After all, who hasn't dreamed of retiring someday to an adobe hacienda on a 5-acre rancho, far, far from the madding crowd?

Well, sir, I have just had a look at my 5-acre rancho and I am fairly certain of one thing: It will be some time before we are swamped with overnight guests.

My adventures in ranching are still in the embryonic stage. I started out on a small scale with a 2½-acre rancho, price \$595, with \$10 down and 6 percent interest. Some of my inquisitive friends keep asking how long I'm hooked for. Higher calculus is out of my orbit. Almost anybody can scrape up \$10 a month. It is much less painful to pay for a \$10-a-month rancho than, say, a mink trimmed cashmere sweater.

As soon as I sent my \$10 downpayment, a friendly mimeographed letter arrived saying, "Hi, there. Greetings from Sacramento Ranchos \* \* \*."

Enclosed was my sales agreement, plat map, monthly payment book, a batch of self-addressed payment envelopes, and congratulations on my foresight in acquiring land in Sacramento Ranchos. "America is moving westward at great speed," the letter said. It advised me not to resell my land for short-term profit.

In due course, another mimeographed letter came with news that the ranchos had gone up to \$695. But as part of the "official family" I could buy another for the original price. To save \$100 I bought another rancho.

About all I knew of my landholdings was that they were located somewhere in the vicinity of Kingman, Ariz.

But I was carrying on a fascinating three-way correspondence with a man named Joseph J. Dunlop, director of sales, and my friend Rose Wilder Lane in Connecticut, who had decided to buy a 5-acre rancho next to mine.

In March 1961, I wrote Mr. Dunlop:

"DEAR SIR: Someday when you get time, we would appreciate very much knowing just what we have bought out there sight unseen. I understand there's nothing out there but cactus, rattlesnakes, gila monsters, and surveyors' sticks. People tell us we're saps for buying something like this sight unseen. Why don't you enlighten us? Please omit the mimeographed form letters."

He replied:

"DEAR MADAM: It is always a pleasure to hear from one of our Sacramento Rancho owners, including the very rare cases when the letter contains a drop of vitriol. I am somewhat surprised that the numerous items of literature describing your Sacramento Rancho have not been received by you, or if received, you have not had time to read them \* \* \*."

He sent more explicit details and maps of our property which I forwarded to Mrs. Lane, who promptly telephoned to say that the ranchos he had assigned us were located in an area filled with washes which would probably flood during the rainy season.

She can read property maps better than I. At her suggestion I wrote again:

"DEAR SIR: Can you give us some ranchos in an area that doesn't have so many of these washes, or rivers, or whatever they are \* \* \*. We don't want our house to float away, in case we build a house."

In the next mail came a stack of disclaimers and quitclaim deeds for us to sign. But no sooner were we relocated than Mrs. Lane phoned again from Connecticut to say that now he had put us 10 miles from town instead of 5. With what we were spending on long-distance calls we could have bought another rancho.

As a matter of fact we did—a 1-acre Rio Grande estate in New Mexico for only \$199. We figured that by 1976 it would be worth, at a conservative estimate, \$249.98.

Meantime we also clipped ads and wistfully ordered brochures on other tantalizing \$10-down offers in Florida, Utah, Texas, Padre Island, and Hawaii.

Mrs. Lane's crystal ball told her the Hawaiian \$10-down lots were on lava beds, so we checked that off our list. And we are still undecided about that tempting offer of a 500-acre farm in Brazil for only \$1 an acre.

All of this may strike real estate experts as a novel way to buy property, but there is something about owning an acre that gets under your skin. Like dope. I knew a broken-down newspaper man once whose only dream was to own an acre. "Only an acre," he used to say. "Just 1 acre and I'd be God." He finally committed suicide.

At only \$10 down, this is no longer necessary. Anybody can own an acre and, judging by the \$10-a-month land boom in the great open spaces of the Western States, apparently everybody's doing it—clipping coupons from a monthly payment book.

It isn't the sort of investment that would be looked on with favor by the better business bureau. But for those afflicted with rancho fever it matters little whether the rancho is covered with cactus or standing on edge under a mesa's rimrock. At \$10 a month you don't expect the Riviera.

Nothing stokes up the soul through a long, frigid, city winter like an adobe dreamhouse on a 5-acre rancho. At such times, I would put an adobe wall around my whole rancho. Inside the wall I would build by adobe hacienda, after carefully exterminating any interior rattlesnakes. I pictured myself someday sitting in the sun under dangling strings of dried peppers, gazing out at the mountains. Over there in the southeastern (or northwestern?) corner is my archway with wooden gate and bouganvillea growing over it; beyond the walls the drowsy clackety clack of cicadas; over there my own little patch of giant saguaros, a few fig and date trees, and possibly a tiny uranium mine. Time for siesta.

After a couple of winters of dreaming, I finally saw my dream rancho. We drove down from Las Vegas to Kingman, a 2-hour drive. When we passed Grasshopper Junction the desert landscape burst into bloom with \$10-down signs: Holiday Homesites, Golden Horseshoe Ranchos, Mohave Ranchettes, Gateway Acres, Paradise Acres.

Most of the signs warned: "Don't wait." "Selling fast."

There was nothing else to mar the landscape—no people, no houses, no buildings. Only acres and acres of space and red raggedy buttes. Philosophically I wondered which of the buttes would be mine and began mentally redesigning my hacienda with escalators.

Kingman turned out to be a very pretty little western town, population 7,000, and in the middle of it we found Joe Dunlop and his very pretty wife Ruth, living in a trailer.

"I've come to see my rancho," I announced.

"Well," they said, "don't expect it to be like downtown in the Loop." They were from Chicago and as intrigued to meet their most pestiferous property owner as I was to visit my rancho.

We started driving toward the wide open spaces. After about 12 miles we came to a big ditch. "This is it," said Joe. (Out on the plains we dispense quickly with formalities.) "We'll have to walk from here."

As far as the eye could see there was nothing but sagebrush in a flat valley rimmed by the Hualpai Mountains.

And on my 5-acre rancho there was one barrel cactus, some gopher holes, and the ditch, which Joe called the Sacramento Wash. "We've had a series of dry years," he explained. "We'll probably be coming into the wet cycle again."

Any chance of uranium? No. Oil? No. Gold? He thought not.

Water? It was over yonder in a reservoir, a few miles away.

A well? About \$1,500 to drill one. We would probably strike water at about \$5 to 125 feet.

An adobe house? No adobe around this part of Arizona, Joe said. I would have to use calenite blocks.

He pointed out that the value of my property had almost doubled—from \$595 to \$995 for each 2½-acre rancho.

"Would you like to buy it back?" I asked.

"You should keep it," he advised. "It's better than A.T. & T."

As I had not expected the Grand Canyon, my only major disappointment was in not having a giant saguaro on our rancho, or at least a yucca. I knew Mrs. Lane would be disappointed, too.

There were no saguaros on any of his ranchos, Joe said, but he cheerfully offered to swap our rancho for one with yucca.



This would mean signing more disclaimers and quitclaim deeds but it seemed worth it. We backtracked over a vast expanse of chaparral and finally found 10 acres with 1 yucca clump. The problem of split ownership would still need to be worked out with Mrs. Lane, but at least it was an improvement over one barrel cactus.

"Also," Joe enthused, "this will bring you much closer to the heart of the city."  
"What city?" I asked, startled.

"Sacramento City," he replied proudly, pointing to a few sticks planted in the sandy loam. Here was the main street, here was the shopping center, here were the four best corner commercial lots. Here was Sacramento City, a bustling desert metropolis of 50,000 or so optimistic coupon clippers homesteading the last frontier.

"It's got to be," Joe said. "There's no place else to go. Already we have rancho owners from 48 States and several foreign countries—India, Trinidad, New Zealand, Ethiopia."

I hastily hoisted my rancho wall a foot higher, though as yet none of my rancho neighbors had moved in.

Well, why not? After all, Kansas City was once just a gleam in some pioneer's eye.

"How much are the corner commercial lots?" I asked Joe.

The upshot was that we now also own—or someday will own—a couple of corner lots on the Concho Trail, which will someday be the name of the main street in the town that will someday become a bustling metropolis, when all the people get there.

This may take another 150 years or so. But there always has to be a beginning.

We are right in the heart of Sacramento City's shopping center. Mrs. Lane is toying with the idea of using her commercial lot for either a charm school or a hardware store, stocked with plows, toothpicks, and a barrel of dill pickles.

I lean more toward starting a jewelry shop with the surplus native rocks on my rancho. There are infinite possibilities. We can sell fresh figs, date ice cream, or frozen martinis to newspaper men who missed the boat on buying an acre. In a crisis we could convert our ranchos to launching pads or fallout shelters. Or we could just drop the whole idea and retire to our \$199 Rio Grande estate in New Mexico. Meantime it will cost us far less than you could throw down the drain in one baccarat game in Las Vegas.

But right now, at least I have yucca—and a stake in a city that exists only in Joe Dunlop's imagination.

And in mine.

---

[From the Nation, Oct. 27, 1962]

#### SUNSET YEARS IN THE CACTUS

(By Stan Steiner)<sup>1</sup>

All I can hear is the din of land, land, land. It shakes the reason out of men.—Letter of a pioneer in the 1850's.

In the inscrutable deserts of the Chiricahua Apache is the Horizon Land Corp.'s Shangri-La.

West of the Canyon of the Skeleton, where Geronimo surrendered, a region of rocky desolation and inhospitable ravines, and east of the Cochise stronghold in the gaunt Dragoon Mountains, deformed by erosion, the hideout of refugees from Tombstone's lawmakers, lie the arid stretches of Sulphur Spring Valley. It is the site of one of the Southwest's mail order real estate booms—the lush land of Arizona Sun Sites, a subsidiary of Horizon Land.

The lush land, so familiar to readers of the copywriters' dream advertised in full-page advertisements, is a beautiful desert. Beautiful: but is it habitable?

"Here," says the brochure of Horizon Land, "we are offering a healthful year-round climate, blessed with constant sunny days; with pure, unpolluted air: with land that is fertile; with an abundance of water, and most important with a way of life that offers tranquility \* \* \*." Then it adds modestly, "Where else can you find land, good land, on which to build a home, grow practically anything

---

<sup>1</sup> Stan Steiner is a poet and novelist with a special interest in the Southwest. He is the author of "The Last Horse" (Macmillan), a children's book on the Navajo.

the rest of the country grows?" Is it, perhaps, a bit warm for Shangri-La? Nonsense, the brochure says with assurance: "Sunshine is the essence of life \* \* \* without sunshine there would be no light."

By an abundance of water, hopefully the reference is not to the eroded, dry bed of Willcox Dry Lake some 15 miles up the lonely paved road. Hopefully, it does not refer, either, to the San Pedro River, beyond the Dragoon Mountains—an almost dry gulch much of the year, accessible only via a dirt road and a 30-mile jeep ride.

By tranquillity, it is doubtful that there is reference to the fact that in this desert area, 80 miles long and 60 miles wide, the nearest town to the Horizon Land subdivision is Pearce, a ghost town; or that the valley is so sparsely populated that its three cities, spread over 70 miles, have fewer than 250 inhabitants, or that the bustling city of Willcox, the brochure's self-styled cattle capital of the Nation, has a population of 2,441.

By the blessing of constant sunny days, no reference, hopefully, is meant to the temperatures of 140° on the open desert—heat so intense it melts the rubber on car windshields, sunshine so scorching the AAA cautions tourists in the region not to stroll afoot or leave their cars lest they be sunstruck.

What is meant by good land is anyone's guess. Local ranchers, when shown the brochure, do not reply in quotable form.

Visiting these Sunsites of the booming Southwest—which few prospective buyers have done—one gazes at a bowling alley valley of desert, hung up in a haze of heat and untainted by such blemishes as trees. Yucca, that spiny sentinel of the desert, abounds; there are saguaro cacti; but even the hardy mesquite seems to shun the terrain. For wildlife, one has to seek out the stubborn desert rat and antisocial rattlesnake; the more amiable creatures have gone off in search of gentler climes. But there are signs of life. On the desert, there is a criss-cross pattern of roads, 300 miles of them, built by the M. M. Sundt Construction Co. by the simple method of driving bulldozers over the valley. The roads have the appearance of a huge checkerboard—without checkers for the players. There is not a house to be seen.

"This is your life," the brochure says, "in Arizona."

Under the circumstances, one can understand with what pride Horizon Land announced that in 4 months some 10,000 Sunsites had found buyers.

Land, it seems, still shakes the reason out of men. Given the romantic dreams obtainable for \$10 down and \$10 a month, the generous ethics of newspaper advertising departments and the facilities afforded by the U.S. Post Office, the sales of desert wasteland, by mail order, have burst into a bloom that would have made old Doc Holliday, of Tombstone, envious.

"It is a shame to sell this land to people who can never use it," an official of the Arizona State Land Department told Phoenix's Arizona Republic. Still, in Arizona alone, real estate men estimate that 100,000 homesites have been sold.

Up in the uninhabited edges of Mohave County, in the northern corner of the State bordering on California's Mohave Desert, some 60,000 lots have been unloaded. Lake Mohave Ranchos, about 20 miles distant from the lake of its namesake, has sold 14,000 lots. Golden Valley, a subdivided paradise for geologists and fossil collectors, has sold out its entire subdivision of 16,000 lots. Paradise Acres, Golden Horseshoe Ranchos and Sacramento Ranchos are selling like hot—desert—cakes; while Mead-O-Rama and Mead View Estates, whose promoters carol the cool praises of nearby Lake Mead—it is actually visible from a nearby hill—are reported to be doing a brisk trade.

Horizon City in Texas, another Horizon Land promotion, located in the alkali deserts 20 miles from El Paso, is similarly successful. Dennis Wagner, the president of the local real estate board, has expressed his cautious "doubt [of] the possibility of any large-scale building in the near future" on this forlorn land, and the better business bureau is reported skeptical; but neither doubt nor skepticism has dissuaded lot purchasers. New Mexico's Belen Community, 30 miles from Albuquerque, and Colorado's rangeland cities—visionary as the Seven Cities of Cibola—are registering sales equally unhindered by realities. Nor do California's Mohave Desert subdivisions lack visionaries with open pocketbooks.

The buyers, who seek an unobtainable dream as much as obtainable land, often do not journey out to see what they have bought. "Forty percent of our purchasers buy homesites by mail, sight unseen," says one land promoter.

One Negro couple from New York did make the trek. Leaving behind their belongings, sold to pay off the balance of \$200 on their lot, they traveled west

with nothing but what they could carry, and set about to find their Shangri-La in Mohave County, Ariz.

The tale is told by Robert L. Peart, chairman of the Mohave County board of supervisors, to whom the couple came to help them find their property. Searching the maps, the county official finally located the lot in question and sadly informed the pilgrims: "I doubt if you could get to that lot with a caterpillar tractor, that area is so rough." Having exhausted their savings, the unhappy couple decided to settle down, an inch away by map, from their unreachable dream.

Like most who do make the pilgrimage to their prospective half-acre ranches, the Negro couple were elderly and retired urbanites. Neither their age nor their experience prepared them for life outside the glossy confines of the land promoters' brochure. Housing is scarce and jobs are few in the real estate boom areas. Land bought and sold by subdividers is the cheapest possible, usually wasteland or unwanted desert range, too poor to support cattle. Such land is usually far from industries or cities. In the Mohave subdivision there are but two towns, Chloride and White Hills—both ghost towns.

"A lot of these folks come here with social security retirement," says Supervisor Peart, "and they expect to get free medical and hospital care and help from the county." His complaint is heard in county offices throughout the boom areas. Social welfare rolls have been grudgingly increased in a political atmosphere not noted for its partiality to the welfare state philosophy. Even if the purchasers do not go west to claim their properties, there is still burdensome paper work to be done. Says Peart: "The workload has tripled for the assessor, the treasurer and county recorder."

Since taxes on this wasteland are a pittance hardly affected by the \$10 deposit usually demanded, the county is hard put to meet the situation. In Mohave County the situation has become so grievous that it has been designated a depressed area by the Federal Government.

These social security pioneers to the virgin land of the Southwest, who subsist on \$180 a month, are at times worse off if they find their lots than if they do not.

Often miles from any paved road, on roads that are the barest bulldozed scars that turn into impassable gullies with the first cloudburst, far from neighbors, the locations turn the simplest and most rudimentary acts of ordinary living into formidable achievements.

Water, for example.

In the lowlands of the desert, the drilling of an artesian well of 200 to 300 feet will, with luck, bring in a good flow of water. Cost: a reasonable \$1,000. But on the northern plateau, where Mohave County sits, a reliable well can cost anywhere from \$1,500 to \$17,000. Even then, an electric pump is likely to prove a problem when there is no electricity. Such was the difficulty faced by Mr. and Mrs. Grandstaff, who left their home near Cleveland, Ohio, for a homesite in the Lake Mohave Ranchos. Grandstaff, 68, pensioned, learned that the "plenty of water" promised was there all right—at Lake Mead, 30 miles away. The nearest drilled well was some 4½ miles from his lot. Living in a trailer, the elderly pensioner has to haul water in 50-gallon barrels these 4½ miles.

The water that the land-promotion brochures invariably allude to so generously is a dry joke to southwesters. Yearly, the Western Resources Conference is plagued by reports of water shortages. The water-shy Southwest, as the Denver Post calls the region, fights a continuous battle for water—county versus county, town versus town. Williams, one of the oldest towns in northern Arizona, is in so short supply that water has to be brought in by railroad car.

County officials thus view with dubious eye the come-ons of the land promotions. Nevertheless, they are reluctant to reveal unpleasant truths that might burst the boom. Remaining unspoken is the fear that the boom will burst anyway with the uncomfortable results and messy scandals that recently shook up real estate circles in Colorado.

Last winter the Better Business Bureau of Denver sharply criticized four land promoters whose operations in the remote San Luis Valley of Colorado they deemed questionable. Excessive profiteering was charged.

San Luis Valley, a quiet, mountain-encircled region along the New Mexico border, has fertile farm acreage as well as wasteland reaches so barren that they are useless even as rangeland. It was this wasteland, said the Denver investigators, that the mail-order land companies were selling to unsuspecting buyers. "\* \* \*. Developers attempted to sell plots to unwary out-of-State citizens, collecting small payments," reported the Valley Courier of Alamosa. It went on to report that the Better Business Bureau "warned that often the

developer did not own the land being offered, but merely took an option on some valley wasteland."

Investigations turned up transactions in which profits exceeded 5,000 percent per lot. One of the promoters, the Rio Grande Estates, was charged with buying wasteland in the Costilla region, an arid and windswept mountain, terrain that was assessed at 80 cents per acre, and reselling the land at \$390 per lot. Spokesmen for the Denver Better Business Bureau estimated that promoters had been realizing a profit as high as \$2,500 an acre on some of these wasteland sales. Companies taken to task by the Better Business Bureau investigators included the Rio Grande Estates, Aspen Acres, Cool Valley Estates and Alpine Village.

Profits in this type of land promotion do not usually reach these astronomical figures, but profits of 500 to 1,000 percent are not uncommon.

In its current annual report, one of the most enterprising companies in the field, the American Realty & Petroleum Co. (whose full-page advertisements for their Rio Rancho Estates near Albuquerque, N. Mex., have become well known to readers of the Sunday papers), lists the purchase price of its sunshine paradise at approximately \$175 per acre. These acres are resold for \$1,475. The company states that its lot sales, to date, have had a face value of \$11,374,788; "cost of lots sold," the report adds, was \$2,253,774.

"Never again will you see prices as low," says American Realty in its brochure. Horizon Land's brochure says: "We all know someone who knows someone who just sold some land and made a huge profit on the deal." Presumably no irony was intended in either case.

The Colorado Real Estate Board, investigating complaints against the Bonded Land Development Co. of Denver lodged by the California Division of Real Estate, uncovered an old and honored dodge. Bonded Land was a promotion scheme that operated through the selling of chances on Colorado real estate—at a small carrying charge—to gullible Californians. It actually owned none of the land it was bestowing. The unlucky lot owners of nonexistent lots were, however, out of State and so were out of luck as well, the Colorado Real Estate Board decided.

Shoestring promotions, based on small investments and large profit-taking, tend toward operations that crowd the borderline of legality. Consider the aforementioned Rio Rancho Estates ("purple canyons and scenic desert. \* \* \* And on every hand \* \* \* lakes, rivers and rushing streams") where "more than 35,000 acres"—sometimes referred to as 55,000 acres—are offered for sale by American Realty. In reality, the acreage turns out to be a bit less. Of the 35,000—or 55,000—acres, "the company received title to 6,291 acres," according to the company's annual report. An additional 4,000 acres are "due October 1, 1962." The remainder, and vast majority, of the property is held under option and not by actual title. What happened here was that American Realty made a downpayment of only \$753,000 on the \$9,800,000 price for the total tract; it is taking title to land only as rapidly as it is making payments. Here the trick, presumably, is to keep lot sales scrupulously within the limits of land to which title is held.

Not all boom promotions in the Southwest have been built on shaky financial foundations. But there have been enough to make a deep impression on the Federal Department of Justice. Recently, in a message to the National Conference on Interstate Land Sales, held in San Francisco, Nicholas Katzenbach, U.S. Deputy Attorney General, noted:

"We, in the Federal Government, view with deep concern the inroads made by swindlers in the real estate development industry.

"We believe that it not only threatens the consumer's pocketbook and morale but also does great harm to the large body of legitimate subdividers who must contend with this unfair competition and operate in an atmosphere of suspicion and distrust."

Katzenbach added that while the mail-fraud statute furnishes some protection, the real estate industry must be encouraged to discipline itself and, most important, "measures are needed to create public awareness (of the problem) through disclosure requirements and educational programs."

Concern is spreading to the ordinary citizens of the Southwest, too. A Phoenix resident wrote recently to the Arizona Republic:

"Now, here, on the one hand, we are supposed to tell the people back East how we enjoy feeling like a hamburger in a broiler every summer and promote Phoenix every day of the year. \* \* \* I believe we are approaching the problem from the wrong viewpoint. Forget about the soft sell, forget about coolers and air-conditioned offices. Play up the appeal to the rugged individualist. \* \* \* We could have ads in all the eastern papers: 'Come out in a man's world and learn what it feels like to be a lighted cigarette.'"

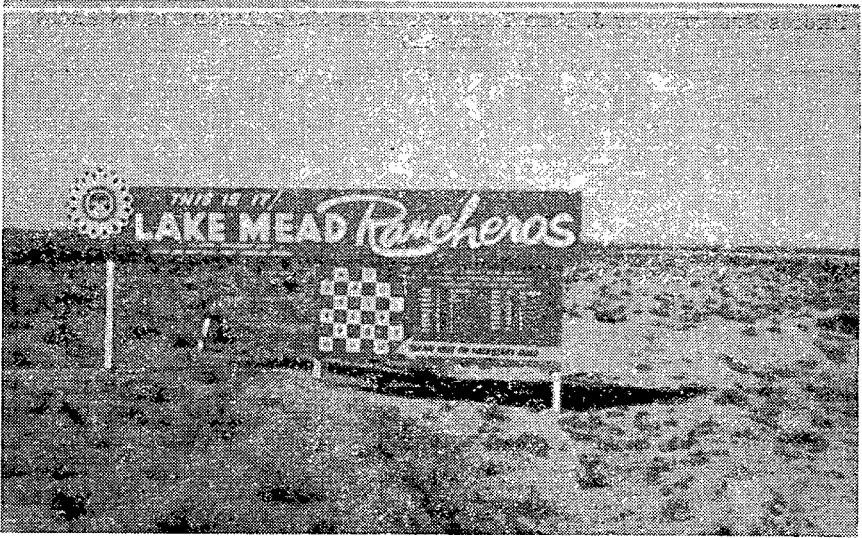
PHOTOS SUBMITTED BY J. FRED TALLEY OF LAKE MEAD RANCHEROS ON PAGES  
213-220



View taken just south of Coconino Drive looking north on Papagayo Drive.



View looking east on Smith Road just west of Rainbow Road.



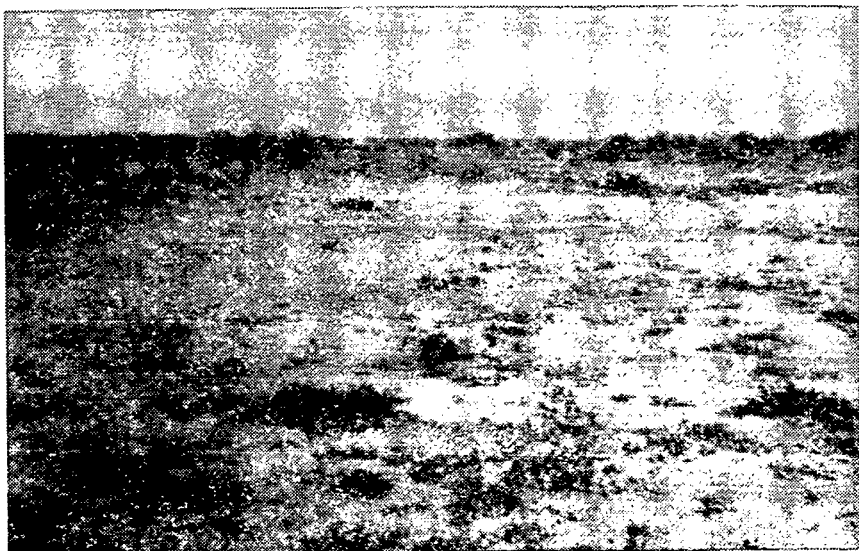
Sign on Hackberry Road at Cattle Guard, 6.7 miles north from Highway No. 66.



View taken just south of Indian Wells Drive, looking north on Taos Road, Impassable.



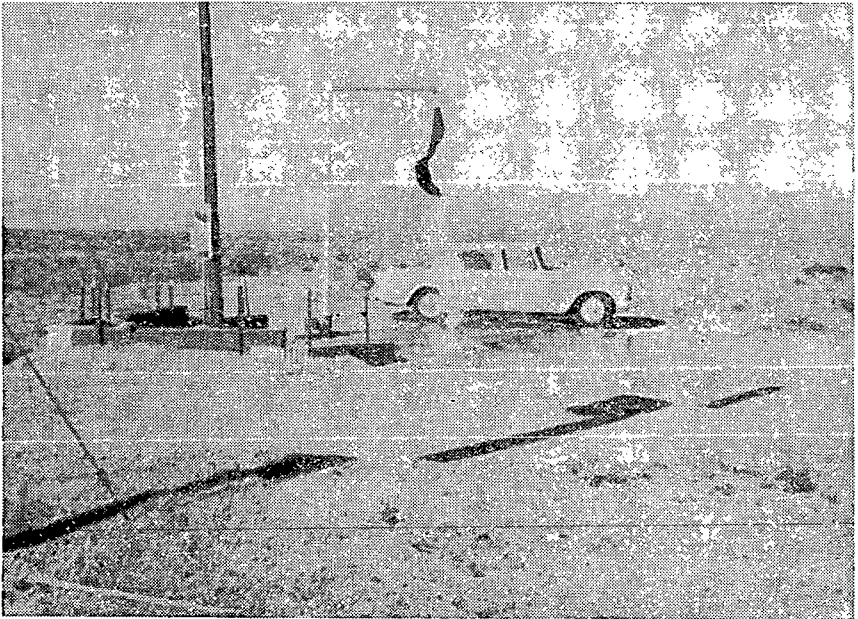
View taken from intersection of Yaqui Road and Yupalki Road looking west along Yupalki, Road.



Photograph taken from a point 60 miles west from Hackberry Road, looking west along Jadito Drive.

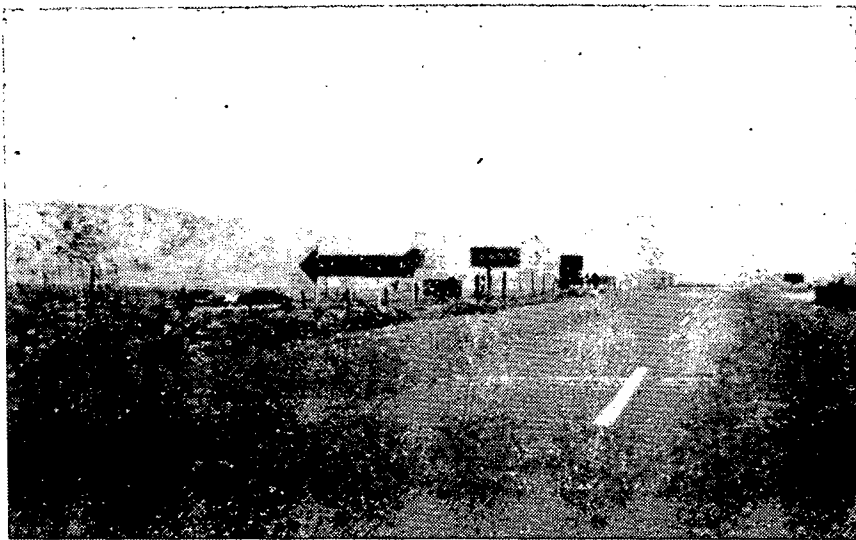


Water supply for Lake Mead Rancheros operated by 25¢ coin. Tried October 27, 1962. Flow operative but water black at start. 6.3 miles south from closest boundary of Lake Mead Rancheros.



Water supply.

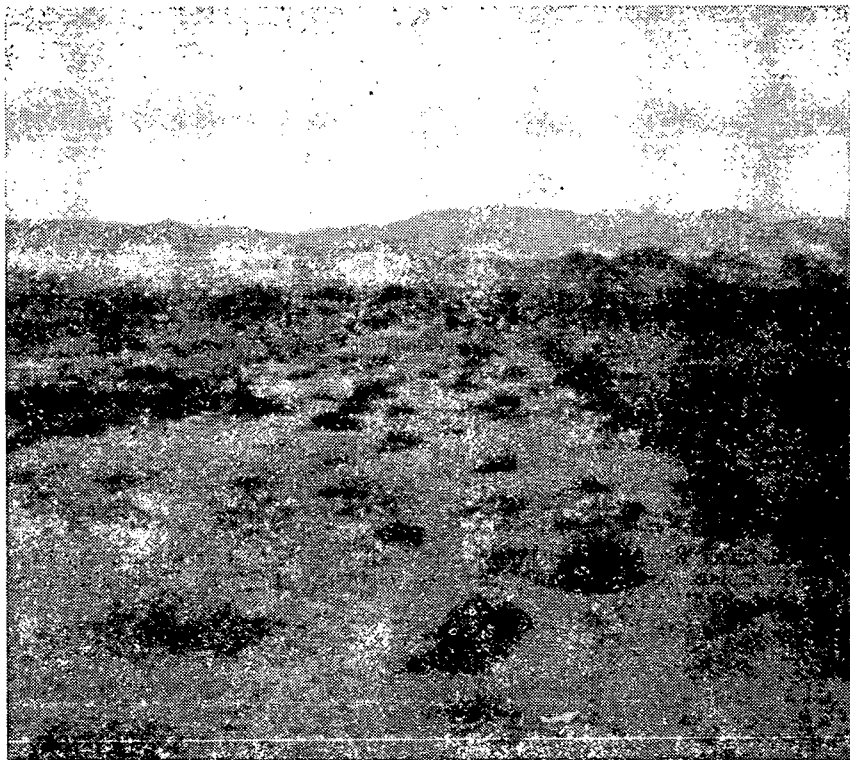




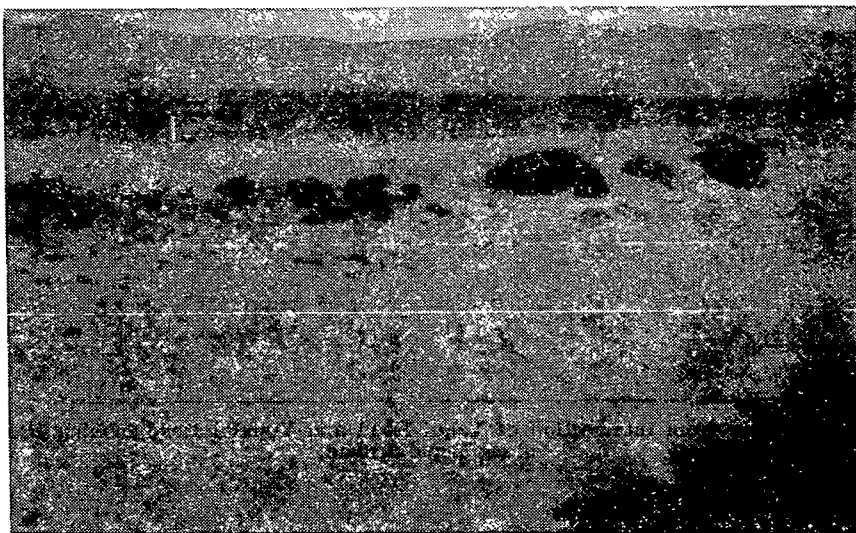
U.S. Highway No. 66 at Hackberry Road—19.6 miles east from east city limits of Kingman, Ariz. Looking easterly at turnoff to Lake Mead Rancheros. Asphalt 26'6" wide.



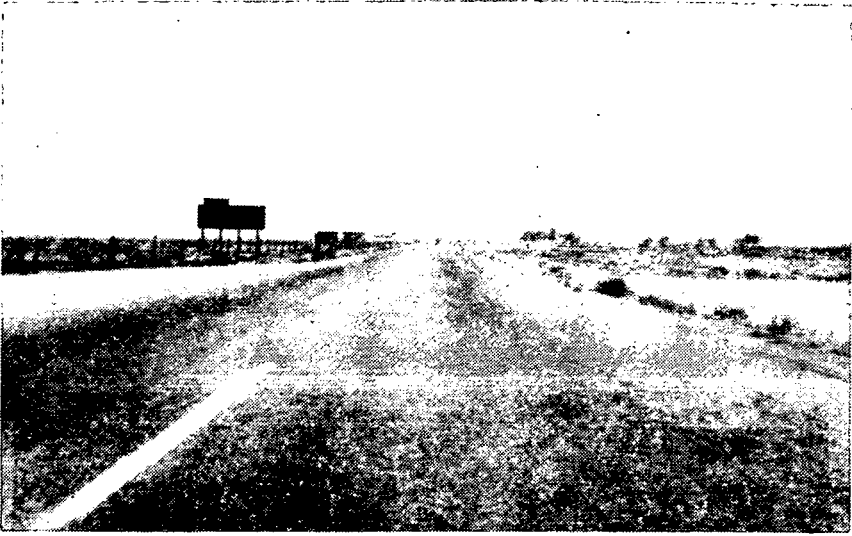
View taken from intersection of Yaqui Road and Yupalki Road looking west along Yupalki Road.



View looking east along Indian Hollow Road taken from in front of lots No. 207 (on north) and No. 210 (on south) in unit number 1.



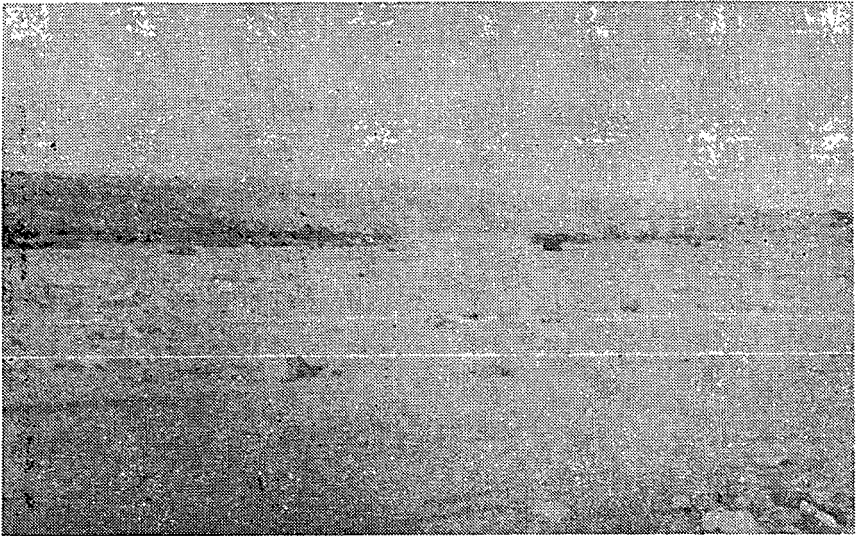
View taken just west of Mojave Drive looking east on Redondo Boulevard. Wash about 15 feet deep. Impassable.



U.S. Highway No. 66—3.6 miles east of east city limits of Kingman, Ariz., directly opposite Harrison's garage, looking easterly. Asphalt 28' wide.



View taken just north of Redondo Boulevard, looking south on Mohave Drive. Wash about 15' deep. Impassable.



Wash about 100 yards wide on sec. 7, T30N, R17W.

**LIVE** IN THE SUN  
IN THE HEALTHY  
WIDE OPEN SPACES

**INVEST** IN THE LAND  
WHERE MILLIONS  
WANT TO LIVE

**BUILD** IN A NEW  
COMMUNITY  
COMING TO LIFE!

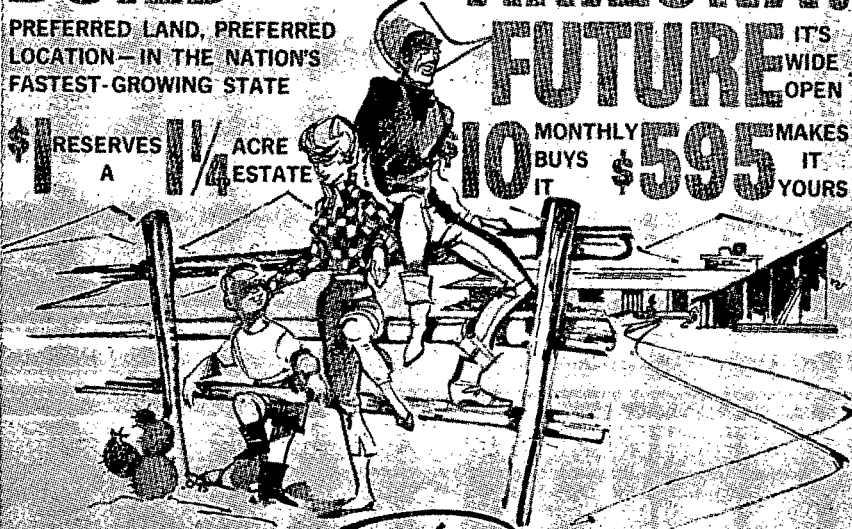
**ARIZONA!**

PREFERRED LAND, PREFERRED  
LOCATION—IN THE NATION'S  
FASTEST-GROWING STATE

**FUTURE** IT'S  
WIDE OPEN

**\$1** RESERVES  
A **1/4** ACRE  
ESTATE

**10** MONTHLY  
BUYS **\$595** MAKES  
IT YOURS



**LAKE MEAD Rancheros**

**ESTATE-SIZE HOMESITES! THIS IS REAL NEWS!** A new community is about to come to life — and you can have a part of its future! **LAKE MEAD RANCHEROS** has always been one of the best long-range investments you could make — but now your investment dollar gets much more! We have acquired **COMPLETE UTILITY SERVICES!** This means you can own a king-sized western estate... with **ROADS, and ELECTRICITY, WATER, and PHONES** available. **INVEST NOW AND HOLD FOR FUTURE PROFIT... OR BUILD NOW AND MOVE IN!**

**LAKE MEAD RANCHEROS** has been awarded subdivision approval... your Rancheros is already started out, waiting for you! 200 miles of roads have been constructed and are being maintained regularly. 100 more miles are now under construction. Every homesite will front on one of these roads.

**THE RANCHEROS** bank in the sun in the beautiful Valley of the Moon Mountains... pretty rolling desert country in Northwest Arizona, where 2½ million vacation yearly — and are directly on Flagstaff Road, main route to the Lake Mead Recreation Area. The property is 6 miles north of Route 66, the major highway to Kingman.

**KINGMAN**, 26 miles away, is the economic capital and cultural center... the transportation hub... of this part of Arizona, and the County seat of Mohave County... so you'll have all city comforts and conveniences when close to you than you would normally expect of estate-size living anywhere in the United States.

**ACT NOW... WHILE YOU CAN STILL BUY AN ESTATE FOR THE PRICE OF A LOT!**

Obviously, the presence of utilities makes the Rancheros even more rewarding as investment property... for once the community takes shape and homes go up, you can subdivide your 1/4 acres into smaller homesites, for sale at a profit!

- **LAKE MEAD RANCHEROS**, 1039 West Beale St., Kingman, Arizona
- Enclosed you will find \$1 to receive the notices checked below. Rush us full details including full color brochure, copy of record plat, and actual photos of the land.
- 1/4 Acres: Total Price \$500. Approximately 24 Acre Sq. Ft. Equal to 3 big city-sized lots.
- 1/4 Acres: Total Price \$1100. Approximately 108,500 Sq. Ft. Equal to 10 big city-sized lots.
- 3 Acres: Total Price \$2025. Approximately 317,800 Sq. Ft. Equal to 30 big city-sized lots.
- **PAY ONLY \$20 MONTHLY.** **PAY ONLY \$20 MONTHLY.** **PAY ONLY \$20 MONTHLY.**



Reference: **AGRAVE COUNTY CHAMBER OF COMMERCE** MOHAVE COUNTY, ARIZONA

NAME \_\_\_\_\_

STREET \_\_\_\_\_

CITY \_\_\_\_\_ STATE \_\_\_\_\_

TELEPHONE \_\_\_\_\_



Now! BUILD in  
LIVE in  
INVEST in  
Sunny  
**ARIZONA!**



**LAKE MEAD Rancheros**

**\*1 RESERVES 1/4 acres, \*10 a month BUYS IT, \*595 MAKES it YOURS**

ESTATE-SIZE HOMESITES! THIS IS REAL NEWS! A new community is about to come to life — and you can have a part of its future! LAKE MEAD RANCHEROS has always been one of the best long-range investments you could make — but now your investment dollar gets much more! We have acquired COMPLETE UTILITY SERVICES! This means you can own a king-sized western estate... with ROADS, and ELECTRICITY, WATER, and PHONES available. INVEST NOW AND HOLD FOR FUTURE PROFIT... OR BUILD NOW AND MOVE IN!

LAKE MEAD RANCHEROS has been surveyed, subdivided, recorded... your Ranchero is already staked out, waiting for you! 200 miles of roads have been constructed and are being maintained regularly. 100 more miles are now under construction. Every homesite will front on one of these roads.

THE RANCHEROS front in the sun in the beautiful Valley of the Moon Mountains — gently rolling desert country in Northwest Arizona, where 314 million vacation guests — and are directly on Hackberry Road, main route to the Lake Mead Recreation Area. The property is 6 miles north of Route 66, the super highway to Kingman.

KINGSMAN, 35 miles away, is the economic capital and cultural center... the transportation hub... of this part of Arizona, and the County seat of Mohave County... so you'll have all city comforts and conveniences much closer to you than you would normally expect of estate-size living anywhere in the United States.

**ACT NOW... WHILE YOU CAN STILL BUY AN ESTATE FOR THE PRICE OF A LOT!**

Obviously, the presence of utilities makes the Rancheros even more rewarding as investment property... for once the community takes shape and homes go up, you can subdivide your 1/4 acres into smaller homesites for sale at a profit!

Reference: MOHAVE COUNTY OFFICE OF COMMISSIONER KINGMAN, ARIZONA

**LAKE MEAD RANCHEROS, 1285 Fairground Blvd., Kingman, Arizona**  
 Enclosed you will find \$1 to reserve the acreage checked below. Rush me full details including full color brochure, map, if revealed plus, and aerial photos of the land.

1/4 Acre, Total Price \$395       1/2 Acre, Total Price \$1100       1 Acre, Total Price \$2095

Approximately 24,450 Sq. Ft.      Approximately 60,000 Sq. Ft.      Approximately 117,400 Sq. Ft.

Equal to 1/4 the city block size.      Equal to 1/2 the city block size.      Equal to 1/2 the city block size.

**PAY ONLY \$10 MONTHLY      PAY ONLY \$20 MONTHLY      PAY ONLY \$30 MONTHLY.**

NAME \_\_\_\_\_  
 STREET \_\_\_\_\_  
 CITY \_\_\_\_\_ STATE \_\_\_\_\_  
 TELEPHONE \_\_\_\_\_

EXHIBIT 16

[From the Wall Street Journal, Jan. 3, 1963]

LAND HUCKSTERS: MAIL-ORDER SALES FLOURISH: UNITED STATES AND STATES  
CURB SOME PROMOTERS

CALIFORNIA VOICES SKEPTICISM ON DESERT TRACT "BARGAIN": JUNGLE ACREAGE IS  
OFFERED—WEAK LAWS VEX AUTHORITIES

(By Norman C. Miller, Jr., staff reporter of the Wall Street Journal)

PHOENIX.—Mail-order land promotions are flourishing.

Here in Arizona in the last 18 months 630 "subdivisions" have been staked out on the desert; over 60,000 lots from 1 to 5 acres in size have been sold to people all over the country, according to State officials. Other land promotions have cropped up in such widely separated spots as Hawaii and the steamy jungles of Brazil. California Attorney General Stanley Mosk estimates sales to Californians alone of land located outside the State have jumped from almost nothing 5 years ago to \$100 million a year.

Regulatory authorities say some mail-order land promotions are completely legitimate, though often frankly speculative. But officials assert the methods of a number of promoters are at best questionable and at worst downright crooked.

Nathaniel Kossack, chief of the U.S. Justice Department's fraud section, terms land fraud "one of the most active confidence games" going now. Declares Cavett Robert, Arizona's assistant real estate commissioner: "We are on the verge of a national scandal over land sales."

Officials are increasing efforts to prosecute dishonest land promoters. Henry B. Montague, chief postal inspector, says over 150 promoters are being investigated for possible mail fraud, more than double the number of investigations underway a year ago. But mail fraud violations are difficult to prove, U.S. attorneys say. On the State level the lack of adequate laws is thwarting a broad crackdown, State authorities report.

ELABORATE ADVERTISING CAMPAIGNS

Typically, a mail-order promoter will buy a big tract of cheap, undeveloped land and chop it into lots of an acre or so. Then as elaborate advertising campaign is launched in an attempt to sell the lots sight unseen. According to a study made by the University of California at Los Angeles, promoters in one Western State paid less than \$20 an acre for several hundred thousand acres of parched grazing land; without making any improvements, they offered the land for sale at prices up to \$400 an acre.

Consider a few recent and current promotions:

Multicolor ads for an Oregon development show cattle grazing contentedly in green meadows; a wonderful place for a retired couple to buy 5 acres for \$990, with payments of \$17 a month, according to the promoter. But State officials report the barren soil at the isolated site supports little more than sagebrush and jackrabbits. "At the turn of the century people tried to homestead this same land and finally threw up their hands in disgust," says Robert Jensen, Oregon real estate commissioner.

In brochures American promoters described 3.5 million acres in Brazil's Amazon Valley as a sure-fire investment at \$10 an acre because the land was an ideal site for homesteading and was bound to rise in value. In reality, postal inspectors were told by U.S. Foreign Service officers, the land was "for the most part an impenetrable jungle infested by swarms of insects." Post Office authorities have stopped sales of the Brazilian land.

LIVING ON LAVA

Advertisements for Hawaiian Ocean View Estates, on Hawaii Island, state the land lies on a "gentle slope" close by the ocean and golf courses. What isn't said is that much of the "gentle slope" is covered by volcanic lava flow. The nearest beach is 25 miles away, and the nearest golf course is 51 miles distant. Charging false and misleading advertising, California authorities recently stopped sales in the State by Hawaiian Ocean View promoters, who are headquartered in Long Beach, Calif. The promoters deny the allegations.

Ads boast that Rio Grande Estates, a New Mexico tract 32 miles from Albu-

querque, is the "biggest land bargain in the Nation" at \$199 per ½-acre lot. Horizon Land Corp. of Phoenix, the promoter, does not mention these items reported by the California Real Estate Division, a State agency: The "desert acreage" is in a "relatively remote area"; "most regulated financial institutions will not lend money for construction in such undeveloped areas"; purchasers "will be required to develop and pay for their own water supply and sewage disposal systems"; there are no telephones, natural gas service or organized fire protection; the developers reserve oil, gas, and mineral rights.

In reply to charges their ads paint overly glowing pictures of their properties, Horizon and other promoters argue that the developments are now in their rudimentary stages. In due time, they promise, people will begin moving into the areas and roads and other facilities will be built. Says Joseph Timan, president of Horizon, which has three big tracts in the Southwest: "These developments are something very wonderful. We're laying out cities in areas where the people are going to come."

#### ANSWERING AN AD

For a closer look at a current land promotion, answer a newspaper ad for Lake Mead Rancheros in northwest Arizona's Mohave County. For \$1 the Miami headquarters of the promoter sends full details on a 1¼-acre lot. The price is \$595 or, with 6 percent interest, \$10 down and \$10 a month.

Among other things, you will receive a gaudy booklet which pictures lissome girls frolicking in blue lake waters and proclaims: "The Rancheros are livable now \* \* \* not raw, undeveloped and inaccessible land \* \* \* a jackpot investment." Answering a letter of inquiry, David P. Randell, president of Lake Mead Rancheros, assures a customer: "This property is complete with all utilities necessary, and in proximity to all services."

To view this development, drive into the desert on Route 66 east of Kingman, Ariz., whose 6,000 residents make it the largest town in the desolate emptiness of Mohave County. Fifteen miles from Kingman turn left on a rough dirt road, and there you will see the utilities for Lake Mead Rancheros—a powerline running 500 yards from Route 66 and then ending abruptly, plus a water pipe jutting from the ground. Put 50 cents in a meter and a thousand gallons of water gushes onto the desert. This installation makes the 640-acre site adjacent to the highway livable now, according to the promoters.

The biggest part of Lake Mead Rancheros' 10,880-acre tract is 6 miles distant by dirt road, however. There—50 miles from Lake Mead—a red-and-white billboard rises like a mirage from the desert to proclaim: "This is it." Not a person or a building is visible amid the sweep of sand and sagebrush. But a network of streets has been scratched by bulldozers, and white posts bearing such names as Hackberry Road and Mohave Drive dot the desert.

#### SIGNING UP BUYERS

In 14 months over 10,000 persons mostly easterners, have paid \$1 for information on Lake Mead Rancheros, and about 3,000 have begun payments on lots, Mr. Randell says. The promoters envisioned development as a "30- to 40-year program," he adds, but a peculiar problem developed—some of the purchasers wanted to build on the land. But, Mr. Randell says, that problem is now solved with the recent installation of the water pipe and the power line as utilities.

Mr. Randell doesn't believe that anyone who bought the land who can read can claim he was misled. California officials, however, have stopped sales in the State because the promoters failed to supply customers with reports on the development by the California Real Estate Division, as required by State law.

Lake Mead Rancheros is only one of 330 subdivisions in Mohave County, which is almost twice the size of Massachusetts. Drive along rutted dirt roads in the area, and sign after sign announces a stretch of desert is up for sale. The names include Arizona Ranchettes, Golden Valley, Enchanted Acres, Paradise Acres and Lake Mohave Ranchos, where you can see the ruins of a development which failed on the same site in the 1920's.

#### NO SMOG

A few people are living on this land in trailers or small, inexpensive houses. About 150 persons have settled at Lake Mohave Ranchos, in the desert 34 miles from Kingman. "I'm glad to get away from all that smog in Los Angeles," says



one of them, Mrs. Dorothy Previtt. But, noting that her teenage son must drive 17 miles to get the Kingman school bus at Grasshopper Junction, she reflects: "I'm not so sure I'm adapted yet to this type of life."

Law enforcement officials assert they are ill equipped to combat illegal land promotions. Federal attorneys say the problem is best handled by States, in view of the difficulty of proving violations of Federal mail fraud laws.

But the States claim they operate under severe handicaps. Jurisdiction is a headache. The State where an aggrieved purchaser resides may be powerless to move against a promoter living in another State. Moreover, the State where the land is located may be stymied in curbing a dubious promotion if, as is often the case, the land company is based elsewhere.

Only 15 States have laws to protect land buyers against misrepresentation. Most of these laws require full disclosure of the land's condition by the seller.

It frequently happens, however, that loopholes and weak punitive provisions in State laws encourage unethical promoters to circumvent the intent of State laws. After a study of State legislation on the subject, William D. Warren, a professor of law at UCLA, concluded that only six States have adequate statutes. "The position of the land buyer in some, if not most, of the States in the Union is scandalous," Mr. Warren charges.

Several State legislatures will be asked this year to enact or tighten land laws. Besides full disclosure laws, some States are considering empowering officials to review promoters' advertising claims; in Florida such a law is credited by State officials with greatly reducing the sort of deceptive promotions which had brought notoriety to the State in past years.

---

[From the Detroit News, Dec. 24, 1962]

#### PARADISE IN DESERT IS OFTEN ISOLATED, UNIMPROVED ACREAGE

Editor's note—In recent months advertisements in magazines and in major newspapers throughout the United States have promoted real estate and homesite possibilities in the developing Southwest.

Because of the nature of the ads, the News sent Don Tschirhart, associate home section editor, to Texas, Arizona, and New Mexico to investigate the validity of the promotion claims.

None of the advertisements were found to be technically fraudulent. Some, however, as pointed out in this series of articles, could mislead a buyer who did not check before buying.

As an editorial suggestion, the News advises the potential investor to follow the admonition of the Better Business Bureau: "Before you invest, investigate."

This is the second of five articles.

(By Don Tschirhart)

KINGMAN, ARIZ., December 24.—Using subtle allusions and glowing adjectives, promoters are selling residential lots in Southwestern United States to thousands of cold-weary northerners.

Sight unseen, thousands of parcels of Arizona land near here have passed into the hands of northern retirees and investors who are under the impression that utilities are available, that their lots are near lakes teeming with fish, that trout streams flow nearby and shopping facilities are close.

To read the advertisements in newspapers and magazines you would believe that the country around Kingman was paradise.

In nearly all cases the Arizona land being advertised so glowingly is unimproved desert acreage miles from the nearest city. Regulated financial institutions will not lend money for construction in these areas. There is no fire protection, and electricity and telephone services will cost thousands of dollars to install.

Government and civic leaders in Arizona recognize that adverse publicity from misleading advertisements can hurt the chances of their State to expand.

## PROBLEM TO BE AIREO

Gov. Paul J. Fannin said he would take the matter up with other Western Governors at their annual conference in April or May.

"The State of Arizona is anxious to curtail misleading ads so that we may maintain the reputation of our State," he said.

"I personally favor interstate cooperation in this matter rather than having the Federal Government concern themselves with the problem."

J. Fred Talley, commissioner of the Arizona State real estate department, said a new law passed last January has helped eliminate some of the abuses.

"The law provides for full disclosure of particulars when a piece of land is sold, allowing the purchaser to get an objective report from my office as well as the company's advertising brochure," he said.

Talley will appear before a U.S. Senate subcommittee on the problem of the aged in January to explain the land development problems as they affect the investments of retired people.

## FEDERAL ACT URGED

"I've advocated that the Federal Government pass a law to curtail some of these wild ads because they are definitely interstate commerce. The Post Office Department, though, seem to think they can handle the problem.

"I believe that ultimately the Federal Government will see such a law as necessary. I'm sure they will feel as I do that older people shouldn't sink their life savings into property like this unless they know exactly what they are doing."

Chris Tsouras is president of the chamber of commerce here. He owns and operates a motel on U.S. 66 on the city's outskirts.

"It shakes me up to see some of these glowing advertisements," said Tsouras. "There are some people in the area who are spearheading a drive to have these people present only truthful ads.

## CHAMBER AT WORK

"The chamber is doing its best to persuade people to make on-site inspections before buying the land and telling them it is impossible to describe in detail all the developments that surround the Kingman area."

The chamber's manager, Melville Templeman said, "I could not live out in that desert myself, but the people who are living out there seem to be tickled to death with their life and don't seem to care whether they have city conveniences or not."

Rancher Claude Neal has spent all his 48 years in the cattle business. He owned nearly 30,000 acres of land before selling most of it to land developers in the last few years.

"This is new country out here and its still undeveloped, but remember that Detroit was undeveloped at one time," Neal said.

## WATER IS NEEDED

"The only thing that is holding back this desert land is water and I think there is water all around this Kingman area. It may cost a little money to develop it, but it's there.

"People are buying this land out here because they think they can make a buck, but if we can find water around here they'll make a lot more than that."

In general, I found desert inhabitants happy with their choice of homesites, surrounded by mountain peaks and sometimes a half-mile away from their nearest neighbors.

Many said they lived here for their health, others enjoyed the peace and serenity of desert life, and all were expectantly waiting for progress and more people to settle in their valleys.

## FEW COMPLAINTS

Arizona officials and chamber of commerce heads said they had had few complaints from people who might have disliked the land they had bought sight unseen.

I suggested to the people living on the desert that they lacked most of the facilities of city life they were used to, but their reaction was nearly the same:

"We like it here very much. It might sound crazy, but we don't mind that it is primitive. It is plain living and isn't as complex as it was in the city."

## TRAILERS POPULAR

Distance in the desert areas means little because people there measure it in time and not miles or city blocks. There are no stoplights on a mountain or desert road.

Most still live in trailers even though some have been in Arizona for 18 months to 2 years. What homes there are are mostly prefabricated in a city factory and shipped to the site.

Water is hauled to them by trailer truck at one-half cent a gallon and is pumped into a 1,000- to 1,500-gallon storage tank on a raised platform in back of the home or trailer.

The homes are surrounded by desert plants and many types of cactus. Desert flowers bloom in the spring, they say. Some homeowners have decorated their home exteriors with colored rocks found in the sand.

## SOUGHT CLIMATE

Ben T. Vaughn, a former Army sergeant who retired 2 years ago after 26 years of service, was building a raised platform for his water storage tank when I drove up.

"You wouldn't think that 2 years ago I couldn't walk more than 100 feet without keeling over. Like nearly 75 percent of my neighbors I came to the desert country because of my health." He was suffering from bronchial asthma.

Vaughn, who lives in the heart of Lake Mohave Rancheros development, is a member of the civic association.

"Most of us belong because we get our water cheaper, half cent a gallon instead of 1 cent, and the clubhouse a few miles up the road has a public shower."

Lake Mohave Rancheros development is 34 miles northwest of here on U.S. 93. Nearly 90 percent of the 14,000 lots, 1½ acre each, have been sold sight unseen during the last 5 years.

Mrs. Edith Healey, of Los Angeles, who also lives in this subdivision, said she got what she wanted when she and her husband, J. W., a California real estate broker, moved to the desert "for elbowroom."

## DON'T MISS GRASS

"We know that so far this isn't an elaborate development, but we've found it fun during the last 2 years watching it grow.

"I don't miss the green grass back home (there is no grass in any of these Arizona developments), but my mother, Mrs. Blanche Campbell, of Los Angeles, who is visiting us, says she does."

Between the Cerbot and the Black Mountains there is a large desert area called Golden Valley. It is just west of U.S. 93.

About 6 miles out into the desert valley Mrs. Maude Ann Newgard, her daughter, Mrs. Carolyn Jacobs, and Mrs. Newgard's 80-year-old mother live in a small trailer. Each is a widow.

## KILLED A SNAKE

In front of the trailer is a platform on top of which is a 1,500-gallon water storage tank. An electric powerline extends from the highway about 600 feet away.

"You ever see the sun rising or setting behind those mountains, young man, and you will want to live here too," Mrs. Newgard said.

"Just think, the other day I killed myself a rattlesnake," she added.

DORY AUERBACH ASSOCIATES,  
Miami, Fla., September 26, 1962.

Re Lake Mead Rancheros, Inc.

Mr. J. FRED TALLEY,

State Real Estate Commissioner, State Real Estate Department, Capitol Building, Phoenix, Ariz.

DEAR MR. TALLEY: I have before me, and I am including for your referral, a letter which was sent to Mr. Allan Waldo of the Army Times Publishing Co. from your office, bearing your signature, dated September 14, 1962.

Would it be possible, Mr. Talley, that with the many subdivisions in the State of Arizona, for you to have received, by some clerical oversight, mis-information concerning the rancheros? As Army Times Publishing Co. is a reputable publishing house, with whom we have had numerous previous dealings, and from its advertising pages sold many of our rancheros, I think it would be to the best interest of all to review our file. It is to the best interest of this corporation that we continue to advertise within this media. Certainly, the understanding the directors of the publications have of the rancheros at this moment, and from your letter, does not conform to their censorship code.

Upon review, you will see the evidence of the movement of the corporation in solidifying our program for community development. It has taken tremendous effort and expenditures of time and money to bring the rancheros program to a point from which we can commence a logical development pattern. You know that Mr. Auerbach recently spent 6 weeks in Arizona to execute the planning phases which had been considered since the conception of the Lake Mead Rancheros program, and to check on development work completed. I know you will be pleased with the acquisition of the complete utilities services, not only because they place the rancheros in a unique position in Mohave County, but also because this movement is in the direction which your commission so forthrightly promulgates.

Mr. Talley, I wish to inform you that Lake Mead Rancheros has recently acquired sections 31, 19, and 29, in township 24 north, range 14 west, which, in effect, extends land owned by the rancheros down to U.S. Highway No. 66. See exhibit 10, location map, and exhibit 11, perimeter survey of section 31. I regret that we have not finished our preliminary engineering planning on these three sections and, therefore, cannot formally offer them for submission to the Arizona Real Estate Commission at this time. Upon such time as the programing of these units is completed, they will be duly submitted to your office. It is the desire of the corporation to offer an exchange privilege to transfer any rancheros owners wishing to build immediately into section 31, which presently has piped waterlines, telephone and power lines, a water reservoir and a coin-operated water meter on the land. You are familiar with the considerable expenditures the corporation is making to promote the rancheros, so you will verify from your own experience the probability of a growth community at this site, and will appreciate that careful planning must be employed in these three units which lead to the previously platted units. The acquisition of this property allows us to develop in an orderly manner, extending utility services as the need for them develops, to include plans for a community center, churches, schools, and shopping and business sites.

At this time, the city limits from Kingman are 17½ miles from section 31 via U.S. Highway No. 66; the city limits of the city of Hackberry are 5½ miles from section 31; the Kingman city schools are 20 miles from the property; and the school of the city of Hackberry is 6½ miles from the property. Please refer to exhibit 5. Schoolbus service is available at the property entrance at section 31. Mr. Talley, I am reasonably sure that the information concerning the Chloride School and U.S. Highway No. 93, in your letter to Mr. Waldo, was information passed on to you by an administrator who may have mistaken our subdivision for another with a similar name. Please refer to our location map, exhibit 10.

Piped water is available to anyone who wishes to build immediately. Telephone service is available to anyone who wishes to build immediately. Power is available to anyone who wishes to build immediately. We have in these three units, sections 31, 19, and 29, approximately 1,000-plus sites which can be available with complete utilities for a building program. In section 31 alone, there are immediate facilities for at least 300 families who may desire to settle at the rancheros. Section 31 now has all the ingredients for community development. It is the intention of this corporation to build or assist as need and feasibility develop. In line with this theme, we enclose for your file our exhibits 12 through 16, our new ads.

Additionally, we have contracted for maintenance of the roads, street signs, and survey markers throughout the property, including all registered and un-registered units.

I wish to clarify with our advertising media and purchasers our position with the Arizona Real Estate Commission in the most expeditious manner. We request your patience while we bring plans for this property to fruition. We are not going to abandon the rancheros or our purchasers, and it is our in-

tion to stimulate the growth of a community at this location. I am sure we can count on your cooperation, as it is to the best interest of the State and the industry that we do so.

We respectfully request that you reevaluate the public reports for units 13 through 17. We respectfully request that you and/or a member of your staff visit our Lake Mead Rancheros after you have examined the enclosed, comprehensive exhibits, which verify and substantiate the long-range community and investment planning this corporation has programed. We respectfully request that you verify all the development work completed. We respectfully request that your office issue a new, up-to-date report encompassing the new facilities and which will answer purchasers' and media requests for specific information to aid their evaluation of our project.

With our continued intent to always forthrightly represent all our real estate offerings, and with our continued desire to always cooperate with your office, I am,

Sincerely yours,

LAKE MEAD RANCHEROS, INC.,  
DAVID P. RANDELL, *President*.

Senator WILLIAMS. Now, Mr. Borgschatz. We are going to receive your full statement, and include that in the record; and I understand you do want to describe some of the experiences that you have had in Minnesota.

Mr. BORGSCHATZ. Mr. Chairman, it certainly is a grand opportunity to appear before this honorable body, to be invited here from the State of Minnesota to describe some of our problems.

However, I do observe that the time allotted has passed, and in view of the fact that your committee is willing to accept the advance statement which I have, together with the other exhibits, I would be more than happy to defer to any questions that you may have. I think these are quite important.

(The documents referred to follow:)

PREPARED STATEMENT BY ELMER A. BORGSCHATZ, DIRECTOR MINNESOTA REAL ESTATE DEPARTMENT, AND PAST PRESIDENT OF NATIONAL ASSOCIATION OF LICENSE LAW OFFICIALS

#### SALE OF SUBSTANDARD SUBDIVISIONS PARCELS TO OUR CITIZENS

The National Association of License Law Officials, usually referred to as NALLO, is an organization whose membership is composed of real estate licensing law department personnel throughout the United States and Canada. The primary purpose of this association is to form a federation of real estate license law officials for the better administration and enforcement of real estate license laws in the several States, districts, territories, possessions, and provinces in the United States and Canada. The association may assist member States in educational programs to increase the efficiency of service and protection to the public, and shall, in the spirit of mutual helpfulness, encourage and develop cooperation with all other organizations whose major objective is of a similar nature. Many times problems associated with real estate, even though they may not be covered in the respective State laws, come to the attention of the national association.

For many years the old advance fee racket was the subject of discussion at each annual conference of the association. Because it was evident that the public was suffering losses amounting to millions each year, NALLO developed a permanent committee to study the problem. This committee assisted in disseminating information to the States and waged war against the rackets. Through the efforts of many organizations, the development of restrictive legislation in many States, and the investigation and action taken by the Federal Trade Commission as well as the postal authorities, this racket was finally exposed to the point that noticeable curtailment of activity was evident.

Racketeers have strange characteristics in that they invariably take the course of least resistance. It was quite evident that NALLO would have to scrutinize other areas of racketeering within the real estate field. Therefore,

NALLO moved to rename the committee from the Advance Fee Committee to the Rackets Committee.

The Honorable J. Fred Talley, then president of NALLO, chose a most capable candidate as committee chairman, Col. Donald McClure, assistant commissioner of the California Real Estate Commission. Col. McClure did an outstanding job in exposing the entire field of rackets and also showing that these different rackets were closely associated with those formerly engaged in the original advance fee racket. A succession of activities developed from the advance fee operation to the advance fee loan finders, the secondary mortgage promoters, and then the entrance into the substandard subdivision promotions.

The subdivision field was a natural because of the national growth of population and the general economy which led to much needed massive development of subdivisions throughout the United States, and especially in those States that were growing most rapidly. The parasites moved into the field because it was difficult for the average person to distinguish between a legitimate subdivision and those properties that were of little value. State laws generally were inadequate. Less than 20 States in the Union at the present time have laws which apply to subdivisions, either in the field of requiring full disclosure or controlling the advertising medium of these promotions.

In 1961 while Colonel McClure was president of the national association, I was privileged to head the committee on rackets. It became evident to me that the problem was national in scope, and through numerous surveys made, we were convinced that this provocative problem was a matter for NALLO to take in hand. A special meeting was called in Oklahoma City, March 10, 1961, to review the problem. Transcript of the testimony given by members of the committee is available. However, the two important resolutions that came out of this conference are as follows:

1. It was moved, seconded, and carried that this rackets committee of NALLO go on record that immediate action be taken to apprise all of the members of NALLO that it is the purpose of this committee to immediately take the necessary steps to contact the various segments of the real estate industry, the governments of the respective States and the proper agencies of the Federal Government to the end that proper legislation be introduced at the 1961 session of the Congress of the United States to combat the out of State subdivision problem; and further that a brief extract of the material contained in the transcript of this meeting be prepared and distributed to all members of NALLO.

2. It was moved, seconded, and carried that we afford the States that do not have a subdivision law the opportunity to be apprised of the material available in California on that subject, and that those States that do not presently have subdivision laws be urged to give serious consideration to the enactment of such laws at the earliest practicable time.

These motions by the committee were later endorsed by the board of directors which met in Pittsburgh during the month of May of 1961.

At the board of directors meeting in Pittsburgh, President McClure was instructed to prepare a pattern subdivision bill that would be available to all States which would encourage their legislative bodies to enact legislation to protect the public from exposure to these worthless developments throughout the country. Colonel McClure was also instructed to contact Federal agencies, lawmakers, and in particular, the Fraud Division of the Attorney General's Office in Washington, D.C.

Since then, we have cooperated to the best of our ability with all segments of government, hoping to stamp out this parasitical bug that is threatening the whole legitimate subdivision promotion by casting a curse and a reflection on the entire industry known as subdivisions, as well as robbing the public of untold millions. The people who fall prey to these worthless promotions can least afford to lose these moneys. In our own office in St. Paul, Minn., we find that most victims of these \$1 down and so much per month offerings are people who cannot afford to personally inspect these so-called glamorous properties, nor are they able to complete the contract which they hope will ultimately make them owners of these properties which are sold to them on the basis of doubling or tripling in value within a short period of time.

During the year 1962, Gerald J. McBride, of Nevada, was chairman of the rackets committee and will continue in this some capacity this coming year. Many exposures of worthless promotions have been effected by Mr. McBride and his committee. We would like to place in the record a transcript of the rackets committee special meeting held in Minneapolis, Minn., on May 10, 1962.

Twenty-five States were represented at the special rackets committee meeting in Minneapolis. On May 11, 1962, at the NALLO board of directors meeting, the following resolution was passed, as presented by Gerald J. McBride and his committee:

"1. That NALLO formulate a statement of policy directed to the American public, alerting them to the inherent dangers of purchasing real property sight unseen.

"2. That this statement of policy contain a short guide or outline that every prospective purchaser may use in contemplating purchase of real property.

"3. That NALLO urge the active participation and cooperation of all appropriate agencies and institutions, such as the Federal Trade Commission, U.S. Department of Justice, postal authorities, Securities and Exchange Commission, National Better Business Bureau, the American Bar Association, and the Congress, in investigating and correcting abuses in the substandard subdivision field.

"4. That NALLO urge the advertising media throughout the Nation to practice discretion and investigation, satisfying themselves that properties, which are to be promoted or are being promoted, are actually as advertised.

"5. That NALLO urge its members to seek appropriate legislation relating to the proper control of substandard subdivisions."

To demonstrate the continued concern that NALLO has in the problem of substandard subdivisions was the participation of individual NALLO members at the recent conference on interstate land sales held in San Francisco, Calif., on October 1 and 2, 1962.

At the 34th annual conference of the National Association of License Law Officials held at the Princess Kaiulani Hotel in Hawaii, on October 14-19, 1962, NALLO's position was reaffirmed. An excerpt of the conference minutes reads as follows:

"President BORGSCHAZT. I now call on Mr. Gerald J. McBride, chairman of the floor committee on areas of rackets.

"Mr. McBRIDE. Mr. President, your floor committee on areas of rackets has met on two occasions during this 34th annual conference and has considered many things.

"Your committee has determined that there are two important actions that this association should act upon and make a part of its public record. They are:

"1. NALLO, the National Association of License Law Officials, at this time should take the positive move of adopting, formally and for the record, the NALLO-suggested pattern subdivision law, holding it forth as a step in the right direction toward combating unscrupulous land promotions, protecting the public, and aiding orderly land development.

"2. The task of organizing and activating a clearinghouse of information for the benefit of NALLO members and all other appropriate agencies, as suggested during the recent San Francisco conference, be added to the duties of our standing committee on interstate cooperation, said clearinghouse activity to coordinate with the office of the executive vice president of NALLO in disseminating pertinent information on all matters of mutual interest, including substandard land promotions.

"I want to thank the members of this committee, Edward J. Dyas of Maryland, Donald Portis of West Virginia, and Marion Voorhees of Idaho, who met, deliberated, considered, met again, and arrived at the following two conclusions:

"That at this time, NALLO should take the positive move of adopting, formally and for the record, the NALLO-suggested pattern subdivision law, holding it forth as a step in the right direction toward combating unscrupulous land promotions, protecting the public, and aiding orderly land development.

"Mr. President, that is our first recommendation, and I so move.

"Mr. VOORHEES. I second it.

"President BORGSCHAZT. You have heard the recommendation of the committee. It has been moved and seconded that the recommendation be adopted. Are there any remarks?

"The question has been asked for. All in favor signify by saying 'Aye.'

"(All members were in favor; there were none opposed.)

"Mr. McBRIDE. Thank you. Our second recommendation, Mr. President, is that the task of organizing and activating a clearinghouse of information for the benefit of NALLO members and all other appropriate agencies, as suggested during the recent San Francisco conference, be added to the duties of our standing committee on interstate cooperation, said clearinghouse activity to coordi-

nate with the office of the executive vice president of NALLO in disseminating pertinent information on all matters of mutual interest, including substandard land promotions.

"Mr. President, I so move.

"Mr. SHUMAN. Mr. President, I would like the privilege of seconding that motion.

"President BORGSCHATZ. The motion has been made and seconded. Are there any remarks to the motion?

"I hope we haven't made this too formalized. I don't want to give anyone the impression we are railroading things. These should be considered for the benefit of everyone, not just a few.

"The question has been called for. All in favor say 'Aye.'

"(All delegates being in favor, none opposed, the motion passed.)

"Mr. McBRIDE. Mr. President, I would like to add that after the committee finished its deliberations, I was approached by an official with a third proposal, and with your permission I will now yield the floor to Mr. Jack Palk of Honolulu.

"Mr. PALK. Mr. President, I can make my recommendation from here (standing at back of room). The third area of recommendation that I had discussed with Jerry was an action program implementing the first two motions that were made. We all recognize that we want to encourage States to have legislative programs adopting the subdivision laws presented in the motions made—particularly the western district States, to help the administrative officials, including the delegates of the various States, of the western district. Perhaps a committee of two or three of the rackets committee members could have this responsibility to help the States during legislative periods in terms of appearing at legislative hearings on the particular sale.

"In addition, my thought was perhaps NALLO could adopt a resolution that could be used at appropriate times to disseminate among representative States trying to adopt a subdivision law; and, finally, I would like to see the rackets committee summarize interstate land sales as it relates to investments.

"The other half of the problem is misleading advertising. This is an area I feel should be summarized and sent out to NALLO States as a handbook to implement a program on which efforts are being made for legislative action.

"Mr. McBRIDE. Mr. Palk, since I feel this would perhaps be one of the first things the new clearinghouse will do, it may be a way to get action started.

"As a windup of my work as chairman of the rackets committee, I am in the process of writing up this report and will present it in such a form to the Interstate Cooperation Committee.

"Mr. President, that ends my report.

"President BORGSCHATZ. Thank you, Mr. McBride."

It is evident that the problem is not restricted to the areas where climatic conditions are intriguing to our aged people only. We have just completed an investigation wherein two purported promoters from the State of Kansas sold lots to many people in Wisconsin, Iowa, and Kansas. These lots were supposed to represent an area of beautiful vacationland in Minnesota.

The lots that these gentlemen were selling were sold on the basis that it was a highly developed northern Minnesota area with airports, golf courses, restaurant facilities, and recreational areas of all kinds, adjacent to the property. Our investigation proved that the purported property was not owned by these two gentlemen, no plat had ever been filed in the county in which the property was supposed to be, the areas that were described as being contiguous for recreational purposes were far removed and not accessible to this property. Without a subdivision law in our State of Minnesota, our office was helpless even though the promoters, upon request, came to our office to inform us of their intent to purchase this property. We could only warn and advise them that their fraudulent operation would be reported to the proper agency of the Federal Government, and to the local district attorneys and the district attorney in the county where the public has been defrauded.

The remedy, as we see it, is that we need a disclosure law in all of our States. Our citizens must be advised to inspect properties before buying. The use of radio, television, and newspapers to warn the people that they should investigate before they buy may be a partial solution; but, the danger here is a tendency for news stories to place all subdivision promotions within the same category, which, of course, confuses the public. Most of the bad subdivisions are sold



across State lines. Therefore, it is essential that the Federal Government be encouraged to develop ways and means to curb this deplorable exploitation which has a tendency to ruin the name of our valued land.

Elderly people with limited incomes become easy victims of the misleading brochures and high-pressure telephone solicitations promising that the value of the property will be doubled or tripled in a short time.

Senator WILLIAMS. You are the Director of Minnesota State Real Estate Department?

Mr. BORGSCHATZ. Yes. I am the Director of the Real Estate Department of the State of Minnesota, and I am the immediate past president of our national association.

I believe it would only be fair that we tell you that our national association has been interested in these problems of racketeering for many, many years.

The old advance-fee problem used to come to our attention constantly.

Then during the time that Fred Talley was the president of our national association, it was evident that the old advance-fee racketeers had drifted from the racketeering field of advance-fee real estate, business opportunity promotions, into the lenders' services, then into the secondary mortgage business, and then finally—that all lucrative field, because it was so hard to distinguish between the good and the bad—they went into these subdivisions, or the substandard subdivision business.

So our association has taken it upon itself to study this problem and to try to find some means to work out the problems for our individual States.

It is the purpose of our association to help in the field of education and also in fields that come to our attention in the way of complaints.

Now actually, we have had great success in the past, and I want to allude to those just momentarily.

During the old advance-fee racketeering, when this came to the attention of the Federal agencies, the Federal Trade Commission, the postal authorities, and the Justice Department, when a few of these people were finally convicted, they would just melt out of the area that they were operating in and go into the next field that was lucrative to them. So there is a way to accomplish this without casting aspersions and condemning the whole industry.

The thing that we are so concerned about is that when we release a newspaper statement telling or warning the people that they should investigate before they buy, it is awfully difficult through the news media to separate the good from the bad. For this reason, we can only go so far.

Actually, in the State of Minnesota, we have the same problem. It is not only that the area's climatic conditions are good, so that it invites the aging people; we have the same situation. Very recently, we had two people from the State of Kansas who went into the States of Wisconsin, Iowa, and Kansas, to the State fairs, passing out brochures, giving away free lots for closing costs only. They were charging \$39.50 for this lot in a beautiful northern Minnesota area. The lot was supposed to be developed to the *n*th degree.

When we started checking into this, after finding that hundreds of lots had been sold, we found that these two people didn't even own the property, nothing had ever been platted out. It was certainly a fraud-

ulent situation, but how to get at these people so quickly is difficult.

We had these two gentlemen in our office, and because of the fact that we have no laws in our State on subdivisions, we could not actually do anything outside of telling them that we were going to bring it to the attention of the proper authorities, which we did.

Senator WILLIAMS. Mrs. Neuberger, do you have any questions?

Senator NEUBERGER. No.

Senator WILLIAMS. Senator Bennett?

Senator BENNETT. No questions.

Senator WILLIAMS. Do you have any further specific recommendations that we might consider at this level of government?

Mr. BORGSCHATZ. Well, certainly, we feel that all of our States should have a subdivision law, and our national association has provided a pattern subdivision law which has to, of course, be placed in the respective States' statutes according to their own laws. However, this is a slow procedure, but as Mr. Talley has indicated, 6 have a disclosure law, 17 all told have some type of a subdivision law. Until all 50 of our States have a subdivision law, I don't actually consider that we can consider the problem completely taken care of, but even then we have the matter of interstate commerce.

We would hope that possibly an agency which I am very familiar with, the SEC, or something similar, could function in this field; but, on the other hand, again, if I may refer to what I said before, as soon as we find that a few of these racketeers, these hoodlums are convicted in our Federal courts through the proper agencies, I think that they will start running for the woods. However, that doesn't mean that something can't be done on the Federal level, other than through the matters of conviction.

Senator WILLIAMS. Fine. Well, we are looking forward to the next witness, who comes to us from the Post Office Department and, as you know, that is one possible avenue of conviction.

We are indeed grateful to you two gentlemen. You have been most helpful.

Senator GOLDWATER. Mr. Chairman, might I ask a question?

I will have to profess ignorance. That is why I am asking it.

Because of the interstate nature of this problem, has the committee considered any investigation into these land swindles that have been disclosed here this morning, and others that we might not know about?

Senator WILLIAMS. Our hearings into this area, of course, we just began, but I am advised by the chairman that he learned enough yesterday, and we are learning enough today, to know that we have a great deal that is presented, and we feel the responsibility to pursue this further, to explore every possible avenue of remedy of these disgraceful situations we have found.

Senator GOLDWATER. Well, some of these lands are still being advertised, and I would like to suggest as a committee member that we get into a full-scale investigation of these organizations, even including bringing people in here for testimony before this committee.

Senator BENNETT. Are you referring to the publications people?

Senator GOLDWATER. I would not go so far as to refer to the publications people. I think the disclosures this morning should be enough to put any intelligent newspaperman or magazine person on the right track, but I do think that we should find out why this con-

tinues, even though officials like Mr. Talley, from my own State, have made these disclosures, and have warned the people, as far as he can in the absence of specific laws, about the abuses.

Senator WILLIAMS. Well, I, as one member of this committee, would join Senator Goldwater in full committee meeting to take that up and urge just that course of action.

Senator GOLDWATER. Thank you.

Mr. TALLEY. Senator, I believe, if you will pardon me for making one more statement, that what we need is action. We have talked about this problem for several years. Three years ago, I was president of the national group; we talked about it in Dallas, but they were still operating. The small minority is hurting the Nation and the Southwest. We have got many Southwestern Governors who are worried over the situation.

We need some action, and we need it right away.

Senator WILLIAMS. Well, no one could have sounded the alarm better than you did this morning, Mr. Talley.

Thank you.

Now Mr. H. B. Montague, who is the Chief Postal Inspector from the Post Office Department.

We have been looking forward eagerly to your statement this morning, Mr. Montague. We are most concerned as to whether you have the tools you need to deal with some of the fraudulent—or what we call if perhaps not in technical legal terms the fraudulent—practices that have been described to us. A lot of them, I am sure, are perpetrated through the use of the mails.

It would be very helpful to us, and we greet you and welcome you warmly.

**STATEMENT OF H. B. MONTAGUE, CHIEF POSTAL INSPECTOR, POST OFFICE DEPARTMENT, ACCOMPANIED BY ABRAHAM LEVINE, GENERAL COUNSEL'S OFFICE, AND WILLIAM F. CALLAHAN, DIRECTOR OF FRAUD INVESTIGATIONS, BUREAU OF THE CHIEF INSPECTOR, POST OFFICE DEPARTMENT**

Mr. MONTAGUE. Thank you, Senator.

This morning I am accompanied by Mr. Abraham Levine, of our General Counsel's office, and Mr. William F. Callahan, who is the Director of Fraud Investigations in the Bureau of the Chief Inspector.

It is a pleasure to appear before this committee and to have this opportunity to talk to you about some of our problems.

The postal fraud statutes, 18 U.S.C. 1341, and 39 U.S.C. 4005, are most important weapons in the fight against swindlers who prey upon consumers, particularly our elderly citizens. To suppress these white collar bandits who annually filch millions of dollars from the American public, the Postal Inspection Service has adopted new investigative techniques, including the coordination of major fraud investigations at the national level. Close liaison is maintained with the Criminal Division, Department of Justice, and U.S. Attorneys throughout the Nation. The success of these operations is evidenced by the fact that convictions for mail fraud in fiscal 1962 totaled 524, a modern record. Numerous other fraudulent schemes were termi-

nated through administrative action after reference to the General Counsel.

While the variety of mail fraud promotions is without limit, and persons in all walks of life are potential victims, experience has shown that certain schemes have particular appeal to elderly citizens, many of whom have been victimized by these promotions. It is believed that a brief résumé of some of these as outlined herein will be of interest to the committee. Details are available in the exhibits listed as attachments to this report.

These exhibits contain specifics with regard to individual cases, indictments, and convictions and also samples of promotional material, brochures, advertising, and so on, and we will not get into those in connection with this statement.

Senator WILLIAMS. Well, do you want to make this all part of your year statement for the record?

Mr. MONTAGUE. Yes, what I have said will be part of our statement, but the exhibits will be submitted to counsel later to be made part of the record.

Senator WILLIAMS. All right.

Mr. MONTAGUE. On the advance fee racket, which was just mentioned by Mr. Borgschatz, State regulatory officials reported that they were unable to cope with criminals operating across State lines to induce the owners of small businesses to sell their businesses or real estate or to secure business loans. The victim was required to pay an advance fee as evidence of good faith. Oral assurances were given that this would be returned if the desired services were not rendered. However, the signed contract in fine print provided only that the promoter would bring the victim's needs to the attention of various institutions. Millions of dollars were filched from small businessmen throughout the Nation through the operation of this scheme. Exhibit A.

#### VENDING MACHINE SCHEMES, FRANCHISES, AND DISTRIBUTORSHIPS

These swindlers lure their victims by offering lucrative part-time employment for those who need to supplement meager family incomes. They have been reaping a rich harvest. The victim is induced to purchase the machines upon representations that the promoter has arranged for their installation in profitable locations, whereas no such arrangements have been made. (Exhibit B.)

#### KNITTING AND SEWING MACHINE PROMOTIONS

Thousands of housewives have been victimized by promoters of this scheme who induce them to purchase machines at exorbitant prices ranging up to \$500 upon representations that they could supplement their incomes while working at home through the sale of garments which the promoters promise to purchase at a substantial profit. Many victims execute chattel mortgages to pay for the machines and lose their household possessions when the expected income does not materialize (exhibit C).

## OTHER WORK-AT-HOME SCHEMES

These are particularly vicious swindles whereby fees are obtained from victims on the promise of profitable employment in the home addressing envelopes, post cards, or doing similar work. These schemes have had particular appeal to persons who are ill or indigent or who for various reasons cannot obtain employment outside of the home (exhibit D).

And then land frauds, which have had very thorough discussion here, previous to this testimony.

These promotions are causing concern to State officials who have requested investigation by postal inspectors. Typically, they offer wholly unsuitable, undeveloped land for sale by means of beautifully illustrated brochures sent through the mails. In most instances, the land is barren and devoid of any development. Water is unavailable and the tract is inaccessible for practical purposes. Many senior citizens have been victimized since these offers have particular appeal to those looking for retirement homes. And I will have further comment on this a little later on (exhibits E and F).

## MEDICAL FRAUDS

A marked increase has been noted in the use of the mails by medical quacks promoting schemes which not only deprive the victims of their money for worthless nostrums, but also frequently result in loss of health and occasionally life, itself. Elderly people are particularly vulnerable to these schemes in seeking relief from infirmities incident to the aging process (exhibits G through O).

## SAVINGS AND LOAN ASSOCIATIONS

Our investigations of Maryland savings and loan associations have resulted in the indictment of 14 persons, 6 of whom have been convicted to date. These concerns advertised exorbitant dividends which they had not earned and represented that depositors' accounts were adequately insured. A number of the promoters were from out of State and had previous criminal records. The disclosures from our investigations of these cases contributed to the enactment of regulatory laws by the State legislature under which numerous savings and loan associations have been placed in receivership. Hundreds of elderly citizens were among those victimized by these operations (exhibit P).

## STOCKS, BONDS, OIL AND GAS LEASES

These cover a wide variety of schemes too voluminous to detail here. Examples of these operations and details of some of the cases are attached as exhibit Q.

## EYEGLASSES

Mr. Willson, of Better Business Bureau, mentioned those, where elderly persons suffering from failing eyesight are frequently victimized.

DANCE STUDIOS

Mr. Willson went into that very thoroughly.

Very recently we had a case out in the West with a number of indictments returned, which will go to trial very soon.

SONGSHARKS

These are cases where amateur song writers are victimized.

The 524 convictions for mail fraud during fiscal year 1962 represent a 21.6 percent increase over the prior record year. Fines of \$347,000 were imposed in these fraud cases, and the investigations also resulted in the restitution of \$1,414,000 to consumers who had been victimized. Convictions were obtained in 99.2 percent of all criminal cases brought to trial.

Following are statistics relating to prosecutive action in special fraud programs, January 1959 through December 1962. It should be noted that prosecutions often follow indictments by many weeks or months; therefore, there is no direct relationship between the number of indictments and the number of convictions during a particular period:

	Persons	
	Indicted	Convicted
Advance fee.....	181	103
Vending machine schemes, franchises, and distributorships.....	171	76
Knitting and sewing machines.....	94	52
Other work-at-home schemes.....	27	17

LAND FRAUDS

This is a new investigative program, which has been organized and which is being directed from our national level. Records show that we have 150 cases under investigation, and 5 of these have been presented to the U.S. attorney.

Senator WILLIAMS. Do you try to enjoin any of those, before you go to the criminal trial?

Mr. MONTAGUE. No, I will have a little comment on that later on.

Senator WILLIAMS. Well, what happened in this case Mr. Talley described, the Lake Mead Rancheros?

Now, this is obviously, and we have had testimony here that this is, clear fraud and is continuing, and yet the case has been known by the Post Office.

Could you describe where that is in your machinery?

Mr. MONTAGUE. Yes, that case has been investigated, our investigation is completed, all of our evidence is being summarized for the U.S. attorney.

Also, the State, Mr. Talley's commission, is having a hearing, I believe within the next 2 weeks, and we have authorized a postal inspector to testify at that hearing. He is not to give all evidence which might later be needed in criminal court but will testify in this

hearing which is going to be conducted by the State commission. That is our position on this matter at this time.

Now, in our cases, we have—

Senator WILLIAMS. How many people do you think will be victimized between when you first heard of this and when you finally get this case concluded in court?

Mr. MONTAGUE. That we have no way of telling.

Senator WILLIAMS. How long has the Department been investigating this case?

Mr. MONTAGUE. Since late last summer.

Senator WILLIAMS. The advertising is continuing.

Mr. MONTAGUE. Yes, sir.

Senator WILLIAMS. And the sales, I trust, are, too?

Mr. MONTAGUE. I assume so, yes, sir.

Senator WILLIAMS. Speaking as a legislator, and not as a lawyer—I have forgotten how to think as a lawyer—isn't there any way where you have what you consider clear evidence of fraud here for you to go into court immediately and enjoin further sale—well, in your Department, further mailing of any of their materials?

Mr. MONTAGUE. As has been mentioned by Mr. Talley, there are evident misrepresentations in this advertising, but we have to prove that there is a scheme to defraud, that there is an intent to defraud. We have to have this fully documented. We have to get behind the scenes, in every one of these representations, to determine what arrangements were made beforehand, what they are setting up to do in the future. In fact, in many of these cases, you have to have a complete audit of the books to determine what has been done with the money which has been taken in. You can't just go into court and say this has been a misrepresentation and get a fraud conviction on that basis, and we are in the same situation with our administrative procedure. We have to prove intent to defraud, that there has been a scheme devised.

This is one of the items which we were going to recommend, and it is the reason why the representative from the General Counsel's Office is here. We proposed legislation in the past that this requirement be eased, that we be permitted to obtain a stop order without having to prove intent to defraud.

Would you like to comment on that, Mr. Levine?

Mr. LEVINE. Yes.

Senator WILLIAMS. This gets right to the nub of your part of this area, I would say, does it not?

Mr. MONTAGUE. Yes.

Mr. Levine, I think you would have some comments on that.

Mr. LEVINE. Yes. As indicated by Mr. Montague, this phase of the burden of proving or establishing the intent to deceive, I think, is the main bulwark which has frustrated us in our effort to enlarge upon the activity of these postal fraud cases.

In 1960, the Post Office Department sponsored legislation to correct that situation by removing from the requirements of the postal fraud statute, 39 U.S. Code 4005, the necessary burden of establishing the intent to defraud, and we proposed legislation which would amend that statute, so as to obviate that burden by changing the language to read "false pretenses and misrepresentations" rather than "fraudulent representations."

While the statute—and I am referring to 39 U.S. Code 4005, speaks of “false or fraudulent pretenses,” this has been interpreted by the U.S. Supreme Court in 1949 in the case of *Reilly v. Pincus* (338 U.S. 269), as meaning “intent to defraud,” and this, I believe, is predicated on a common law concept wherein scienter, or the element of intent, is necessary when you are charging somebody with being guilty of a fraudulent undertaking.

Now we have always been of the view that this type of burden, this requirement, is incompatible with the legislative purpose behind the original postal fraud statute, which was 39 U.S. Code, section 259, now revised to 4005.

The intention of the legislature, as the legislative history would reflect, is that the statute is not of a punitive nature, that is to say not to punish the operator of a scheme, but rather to afford the public the necessary protection in preventing the operator from receiving the remittances from the public and we always felt and we are still of the position that the case of *Reilly v. Pincus* was not quite correct in its interpretation of the postal fraud statute, applicable to administrative fraud cases.

However, we in the Department stuck with that decision and we have to operate with that burden.

The 1960 proposed legislation referred to is H.R. 11141 and S. 3172. H.R. 11141 was reported to the Committee on Post Office and Civil Service March 14, 1960, and the Senate bill, S. 3172, on March 10, 1960. Nothing has happened with respect to the proposed legislation.

What we are presently working on by way of a program is a reiteration of our proposal of the same or similar legislation that I just referred to, and we hope that the reception that the proposal will receive currently will be far more encouraging than the reception these proposed bills received in the past.

The element or this burden of proving intent is not only incongruous with the legislative intention behind the postal fraud statute, but presents many difficulties, both for the Postal Inspection Service as well as the General Counsel's Office.

As a matter of procedure, these fraud cases come to our attention on referral from the Chief Inspector's Office.

A file is submitted to us for review and consideration under the postal fraud statute, and, as an example, out of about 10 cases submitted to the General Counsel's Office, no more than perhaps 1 would be able to reach a stage where we can proceed to hearing in trying to secure a fraud order. The other nine are either disposed of by way of a stipulation or an affidavit of discontinuance, or sent back to the Inspection Service for insufficient evidence, and these instances do not reflect a lack of meeting the responsibility insofar as the Inspection Service is concerned, because they are handicapped. They are not able to secure for us the necessary evidence to establish this element of intent, and, in turn, that difficulty is further enhanced by the fact that the Post Office Department, strangely enough, does not have subpoena power, so we are placed in a position where we have to rely on a prima facie showing. We are acting in the dark. We have no idea of what the possible defenses would be in the event of a hearing.



Very often, the respondent does not testify. Without the subpoena power, we can't examine his records. We can't subpoena people to testify. And as the old adage goes, "The thought of man is not triable, for the Devil himself knoweth not the thought of man." Then how in heaven's name can we meet the burden of establishing fraudulent intent, without having the proper facilities or legislation to act on?

And we are taking the step, at the present time, as I have indicated, to propose legislation again, and we are doing so hopefully at the present time.

Senator WILLIAMS. Well, do you refer your cases for trial to the Department of Justice?

Mr. LEVINE. No, sir; we handle the cases, by way of an administrative hearing before a hearing examiner, from whose initial decision appeal can be taken to the judicial officer of the Post Office Department, and that is the final departmental decision at that level. We have no further appeal to the courts from a final departmental decision adverse to us.

However, our adversary has the advantage of judicial appeal from a departmental decision adverse to him.

Senator WILLIAMS. I see.

Mr. LEVINE. Now you made some mention a little while ago about injunctive relief as an interim procedure. Now there again, the element of intent is a frustrating factor. We do have at the present time legislation that does give the Postmaster General injunctive relief, and this was enacted in July of 1960, but, there again, inasmuch as injunctive relief is a drastic procedure, the courts would look with a jaundiced eye at any application, unless we were able to show not only that the representations were materially false but that they were made with intent to deceive. So we are up against a proposition where we have a facility to expedite these matters by injunctive relief, and stop the operator in his tracks at that point until we get a hearing, but we are reluctant to proceed where establishment of intent is a problem.

We haven't found the ideal case yet, where we can make a conclusive showing, or at least a reasonable showing, that we will be successful in establishing intent.

We have no problem on falsity, on misrepresentations of fact. Our problem is entirely on the element of intent.

Senator MUSKIE. Mr. Chairman.

Senator WILLIAMS. Senator Muskie has a question.

Senator MUSKIE. I want to be sure that I understand you clearly.

Are you taking the position that with respect to the crime itself, intent ought not to be an element?

Mr. LEVINE. No, Senator. Perhaps you did misunderstand. I was talking about administrative fraud proceedings.

We have two statutes that we work under in the Post Office Department with respect to mail frauds. One is the criminal statute that Mr. Montague touched upon. The other is the 39 United States Code 4005, which is the administrative fraud statute. That is, it goes to a hearing which will ultimately lead to the issuance of a fraud order. The fraud order is directed to the local postmaster, directing him to return the remittances to the sender, that is, the remittances addressed to the fraudulent scheme.

This is the administrative procedure; this is the administrative statute that I make reference to when I speak of the undue burden of this element of intent.

Senator MUSKIE. Now, you are saying with respect to the administrative statute that intent ought not to be a necessary element?

Mr. LEVINE. Precisely.

Senator MUSKIE. Are you also saying this with respect to injunctive relief?

Mr. LEVINE. I didn't quite get that, Senator.

Senator MUSKIE. Are you also saying that with respect to injunctive relief?

Mr. LEVINE. No; I say, in connection with injunctive relief, we would have to make a reasonable showing, in order to get that injunction, pendente lite, and in connection with that showing, we have the burden not only of showing falsity of representation but we also have the burden of showing intent, and that we can establish it.

Senator MUSKIE. Now, with respect to this question of intent, which I now understand is involved in the administrative statute, and also in connection with injunctive relief, are you saying now that the element of intent ought not to be a necessary element in terms of the burden imposed upon you?

Mr. LEVINE. Yes, sir; I am suggesting, and I am proposing, that we have legislation obviating the necessity of showing intent.

Senator MUSKIE. You are saying that you ought to have legislation requiring only that you establish the falsity of the representation?

Mr. LEVINE. Right, sir.

In the final analysis, it is the remitter who we are seeking to protect. We are not attempting to punish the operator. Our emphasis is on the remitter—on public interest. In the instance of the crippled arthritic victim who shells out the remittance, does it make any difference to him whether the operator is a very fine gentleman in his community or whether he has the mind of a culprit—of a criminal, when the remittance is obtained on the basis of deception and misrepresentation?

It should not make any difference, bearing in mind that we are not seeking to put the operator out of business. We are not ordering him to discontinue a legitimate undertaking. We are merely saying that he is not going to receive remittances based on false representations.

Let me cite an interesting case. We had a case a while ago where the attorney—and I don't know whether he did that by way of a test case or not—but one of the attorneys in his answer to our fraud case admitted the falsity of representation; he conceded that every representation was materially false, but he denied intent, and he went to hearing, and he succeeded.

What are we left with? With an adjudication which found an advertisement to be false and misleading as a matter of material fact.

So we have that decision, but we don't have a fraud order, and he carries on with his enterprise.

Senator MUSKIE. Let me ask you this, and I am simply asking for a clarification of your position.

Mr. LEVINE. Yes, sir.

Senator MUSKIE. This would change some important legal concepts in this field, would it not? Are you saying that falsity, whatever its degree, or gravity, ought to be grounds for relief, from your point of view?

Mr. LEVINE. To some extent, I would say yes, but permit me to qualify that, because I realize what you have in mind by asking that question.

I am speaking of an area somewhere between fraudulent intent, that is the criminal type, and gross misrepresentation. I am not speaking of an inadvertent misrepresentation. I am not speaking of areas that are somewhat in doubt, or have not yet crystallized, insofar, as let us say, the medical profession is concerned, if you are dealing with a therapeutic product.

I am speaking of a case where the nature of falsity of representations are so clear, so patent, as to leave little doubt that the area involved is completely crystallized, there is no question by substantial evidence that it is false and misleading. Regardless of whether individuals—

Senator MUSKIE. I think that is important clarification. What legal language, what statutory language, do you use to get that concept over?

Mr. LEVINE. Do we use? Well, let me quote some of the language in the proposed legislation that I referred to a little while ago that came up in 1960.

We have inserted the language, "by means of false or misleading pretenses, representations, or promises." That is the essence of the statute.

Senator MUSKIE. Would you repeat that?

Mr. LEVINE. "By means of false or misleading pretenses, representations, or promises."

Senator MUSKIE. Now, the use of the word "pretense" suggests that you still have in your test some element of intent, or something related to the state of mind of the person or organization or agency making the misrepresentation.

Mr. LEVINE. Well, that might raise an interesting legal question, based on the proper interpretation of language, but in my mind there is a distinction. There is a legal distinction between a false pretense and a fraudulent representation. In the latter the element of intent is embodied, and is part of the essential ingredient of proof.

When speaking of a false pretense, it is representing something to be what it is not. You are pretending that a device for example is effective. You are pretending that the remitter is getting something which, in fact, he is not getting.

So "false pretense" is a little more innocuous than the other terms, and it is not laden with the element of intent as you may see it, as you would have in the case of a fraudulent representation, where there is no question as to intent.

Senator MUSKIE. What you are really trying to do, as I understand it, is to spell out a legal standard that would cover situations which are so grave as to appeal to the conscience under any objective analysis as requiring action but where intent is difficult to prove.

Mr. LEVINE. Precisely.

Senator MUSKIE. You want to get as close to fraudulent intent as you can, without the requirement that you actually spell out what was in the mind of the person making representation.

MR. LEVINE. Right. As a matter of fact, I am considering proposing language such as, well, inserting in a proposed legislation that the willfulness is not an essential element to be established. It doesn't have to be a willful misrepresentation.

Senator MUSKIE. Very interesting. I thank you for the clarification.

Senator WILLIAMS. Are you not trying to achieve through legislation a position comparable to the Securities and Exchange Commission with its authority to stop the issue of fraudulent issues on the basis of false statement—not fraudulent, but false statements in the prospectus that accompanies an issue?

MR. LEVINE. I would say so. In a manner of speaking, to some extent, it is a comparison. I am no too versed in their legislation, but superficially, I can say there is that analogy.

There are many pieces of legislation throughout the country at the Federal and State level where the element of intent is completely immaterial, criminal cases, I am speaking of, where you can be convicted of a crime without establishing the element of intent.

Senator MUSKIE. This is not the first illustration of the inability of the Government to appeal administrative finding.

Do you think the Government ought to be allowed to appeal to the courts from an administrative finding?

MR. LEVINE. I have been thinking about that from time to time, and tempted to suggest it, but it seems to me we may be placed in an incongruous position, because in the final analysis, the Judicial Officer, a recently-created office in the Post Office Department, is the alter ego of the Postmaster General, so we would in effect be going into the courts appealing from our own superior's decisions, and—

Senator MUSKIE. Is that bad?

MR. LEVINE. Personally, I think it may be precarious, but not bad in the sense that you are referring to, Senator. I wouldn't want to be in that position.

Senator WILLIAMS. Senator Bennett?

Senator BENNETT. This proposed legislation was offered in 1960? Was it the difficulty which Senator Muskie has dramatized that was the reason the law was not seriously considered or passed in 1960?

MR. LEVINE. There were not any hearings in connection with the bill.

Senator BENNETT. The bill was ignored?

MR. LEVINE. It was shelved. Not having had the benefit of hearings, we don't know exactly what the thought process was in the rejection.

Senator BENNETT. I just wondered whether the Senator has raised a technical difficulty which so plagued the committee that they decided they were not ready to try and find language to solve that technical difficulty.

MR. LEVINE. Senator, I don't think that was the situation in 1960. It didn't get to that stage, where there was exchange of views in any intensity, so, actually I don't know what the thinking was, except that it just fell by the wayside.

It might be that some agencies raised some objection. I don't know.

Senator BENNETT. Was it offered again in the 87th Congress?

MR. LEVINE. No, sir. It will be offered in this session.

Senator MUSKIE. Sir, on the point made by Senator Bennett, is this—the area that you and I have been discussing—is this the area that is likely to create the problems for the legislation that are most serious?

Mr. LEVINE. Well, it will create problems, as it will create——

Senator MUSKIE. Is this the major problem?

Mr. LEVINE. That is right; it may invite some opposition, as a lot of proposed legislation does. I don't think the mail-order operators are going to welcome it, so you may hear some contrary views from them in the event of any action in the future, but, actually, I don't think there is a serious legal problem involved in the terminology, or the justification for the amendment.

Senator MUSKIE. Well, it is serious to the degree that you want to be sure that the legal tests you devise are realistic in their application to the disease that you want to cure.

Mr. LEVINE. That is right.

Senator BENNETT. You do not want the Supreme Court to knock you down again, if you can avoid it.

Mr. LEVINE. That would be one of our objectives; when we submit something again in the near future, we will try to document every possible situation where a perplexity might arise. Having in mind that the Supreme Court, as you say, knocked us down in 1949, we will try to avoid that attack.

Senator WILLIAMS. All right, sir.

Mr. MONTAGUE. To come back to what we were saying before this discussion, we need about the same evidence now to obtain a fraud order or a stop order—whichever way you want to refer to it—as to obtain a criminal conviction.

On our medical frauds, we had 7 indictment, 3 convictions.

On savings and loan associations, we had 14 indictments and 6 convictions.

On stocks, bonds, oil and gas leases, we had 200 indictments and 144 convictions.

And then we get to the subject we have just been discussing.

In addition to criminal cases of the type outlined, many schemes to defraud the aged are handled administratively by the Office of the General Counsel, leading to the issuance of fraud orders. 39 U.S.C. 4005 "is aimed at protecting the public against fraudulent schemes—the prevention of future injury to the public. \* \* \* The purpose of the statute is to protect the unwary and the unsuspecting \* \* \* (*Gottlieb v. Schaffer*, 141 F. Supp. 7). Under this statute a showing must be made that the promoter is conducting a scheme for obtaining money or property through the mail by means of false or fraudulent pretenses, representations, or promises. An intent to deceive must be established. The provisions of the Administrative Procedure Act providing for notice, hearing, ect., are followed in respect to domestic cases. A fraud order, issued by the Department's Judicial Officer, directs the postmaster in the city of the promoter's headquarters to return mail addressed to the promoter to the send, marked "Fraudulent" (subject to right of inspection by the promoter, etc.), and it also forbids the payment of postal money orders directed to the promoter (exhibit U).

Many minor cases are settled by acceptance of an affidavit of dis-

continuance, under which the promoter agrees to discontinue his scheme, subject to further expeditious action leading to a fraud order in the event he should resume the operation.

Foreign fraud cases are also handled before the judicial officer by the Office of the General Counsel. This type of case is aimed at promoters operating abroad, who cannot be reached by our criminal laws. In these cases foreign fraud orders are expeditiously issued, without hearing, to intercept the remittance by our citizens to foreign promoters; such intercepted mail is returned to the senders (exhibit F).

We agree with your stated purpose of these hearings, and other recommendations made here, that the public should be educated. That is one of the principal needs.

Every month we send out what we call our "Enforcement Bulletin." It goes to members of the press, to certain people in Congress, to better business bureaus, chambers of commerce, and so on. It lists the cases in which we have had indictments and/or convictions, and it tells the nature of the fraud that has been perpetrated, so that the people in these various States will know what is going on and what we are doing.

We have to depend to a great extent on complaints from the public, and having the public educated will help us to get these complaints.

In some of these very serious frauds that we have mentioned, amazingly, we have had very few complaints from the public. We look into many of these things before the public actually realizes a fraud is being committed, and the land frauds are in that category.

At the conference which was held in San Francisco back in early October, we at that time stated that we think one of the first steps is adequate State legislation.

I think Mr. Talley and the other people who testified here today have also said that: that we need stringent regulation and adequate laws by the State, and then to follow that up with a Federal law with teeth in it.

We think the Federal fraud statute has those teeth. On conviction there is a 5-year sentence for fraud. Then if we could have our legislation applying to the administrative procedure modified in accordance with the discussion here, we think that would give us a means of stepping in more promptly and taking some corrective action to stop the money from going out from victims.

At the conference in October, we promised State officials that they would have our full cooperation. We did this in the advance fee case and, as the previous witness testified, that fraud has practically been eliminated.

Since October, our inspectors have contacted every State attorney general, and the members of real estate commissions in the various States, and we are working very closely with these people. We feel quite certain that the land frauds are going to have the same history that the advance fee rackets have had.

Thank you very much.

Senator WILLIAMS. Are there any further questions or observations from committee members?

Thank you, Mr. Montague, and thank you, Mr. Levine.

(The prepared statement of Mr. Montague follows:)

PREPARED STATEMENT OF CHIEF POSTAL INSPECTOR H. B. MONTAGUE

The invitation to discuss the Post Office Department's program for consumer protection before this distinguished committee is sincerely appreciated. The Postal Fraud Statutes, 18 U.S.C. 1341, and 39 U.S.C. 4005, are most important weapons in the fight against swindlers who prey upon consumers, particularly our elderly citizens. To suppress these white collar bandits who annually filch millions of dollars from the American public, the Postal Inspection Service has adopted new investigative techniques, including the coordination of major fraud investigations at the national level. Close liaison is maintained with the Criminal Division, Department of Justice, and U.S. attorneys throughout the Nation. The success of these operations is evidenced by the fact that convictions for mail fraud in fiscal 1962 totaled 524, a modern record. Numerous other fraudulent schemes were terminated through administrative action after reference to the General Counsel.

While the variety of mail fraud promotions is without limit, and persons in all walks of life are potential victims, experience has shown that certain schemes have particular appeal to elderly citizens, many of whom have been victimized by these promotions. It is believed that a brief résumé of some of these as outlined herein will be of interest to the committee. Details are available in the exhibits listed as attachments to this report.

*Advance fee racket.*—State regulatory officials reported that they were unable to cope with criminals operating across State lines to induce the owners of small businesses to sell their businesses or real estate or to secure business loans. The victim was required to pay an advance fee as evidence of good faith. Oral assurances were given that this would be returned if the desired services were not rendered. However, the signed contract in fine print provided that the promoter would bring the victim's needs to the attention of various institutions. Millions of dollars were filched from small businessmen throughout the Nation through the operation of this scheme (exhibit A).

*Vending machine schemes, franchises, and distributorships.*—These swindlers lure their victims by offering lucrative part-time employment for those who need to supplement meager family incomes. They have been reaping a rich harvest. The victim is induced to purchase the machines upon representations that the promoter has arranged for their installation in profitable locations, whereas no such arrangements have been made (exhibit B).

*Knitting and sewing machine promotions.*—Thousands of housewives have been victimized by promoters of this scheme who induce them to purchase machines at exorbitant prices ranging up to \$500 upon representations that they could supplement their incomes while working at home through the sale of garments which the promoters promise to purchase at a substantial profit. Many victims execute chattel mortgages to pay for the machines and lose their household possessions when the expected income does not materialize (exhibit C).

*Other work-at-home schemes.*—These are particularly vicious swindles whereby fees are obtained from victims on the promise of profitable employment in the home addressing envelopes, post cards, or doing similar work. These schemes have had particular appeal to persons who are ill or indigent or who for various reasons cannot obtain employment outside of the home (exhibit D).

*Land frauds.*—These promotions are causing concern to State officials who have requested investigation by postal inspectors. Typically, they offer wholly unsuitable, undeveloped land for sale by means of beautifully illustrated brochures sent through the mails. In most instances, the land is barren and devoid of any development. Water is unavailable and the tract is inaccessible for practical purposes. Many senior citizens have been victimized since these offers have particular appeal to those looking for retirement homes (exhibits E and F).

*Medical frauds.*—A marked increase has been noted in the use of the mails by medical quacks promoting schemes which not only deprive the victims of their money for worthless nostrums, but also frequently result in loss of health and occasionally life, itself. Elderly people are particularly vulnerable to these schemes in seeking relief from infirmities incident to the aging process (exhibits G through O).

*Savings and loan associations.*—Our investigations of Maryland savings and loan associations have resulted in the indictment of 14 persons, 6 of whom have been convicted to date. These concerns advertised exorbitant dividends which they had not earned and represented that depositors' accounts were adequately insured. A number of promoters were from out of State and had previous criminal records. The disclosures from our investigations of these cases contributed to the enactment of regulatory laws by the State legislature under which numerous savings and loan associations have been placed in receivership. Hundreds of elderly citizens were among those victimized by these operations (exhibit P).

*Stocks, bonds, oil, and gas leases.*—These cover a wide variety of schemes too voluminous to detail here. Examples of these operations and details of some of the cases are attached as exhibit Q.

*Eyeglasses.*—Elderly persons suffering from failing eyesight are frequently victimized by mail-order eyeglass concerns. A classic example of this type of fraud is attached as exhibit R.

*Dance studios.*—Exhibit S.

*Song sharks.*—Exhibit T.

The 524 convictions for mail fraud during fiscal year 1962 represent a 21.6 percent increase over the prior record year. Fines of \$347,000 were imposed in these fraud cases, and the investigations also resulted in the restitution of \$1,414,000 to consumers who had been victimized. Convictions were obtained in 99.2 percent of all criminal cases brought to trial.

Following are statistics relating to prosecutive action in special fraud programs January 1959 through December 1962. It should be noted that prosecutions often follow indictments by many weeks or months; therefore, there is no direct relationship between the number of indictments and the number of convictions during a particular period.

	Persons	
	Indicted	Convicted
Advance fee.....	181	103
Vending machine schemes, franchises, and distributorships.....	171	76
Knitting and sewing machines.....	94	52
Other work-at-home schemes.....	27	17
Land frauds <sup>1</sup> .....	2	2
Medical frauds.....	7	3
Savings and loan associations.....	14	6
Stocks, bonds, oil and gas leases.....	200	144

<sup>1</sup> 150 cases under investigation; 5 presented to U.S. attorneys.

In addition to criminal cases of the type outlined, many schemes to defraud the aged are handled administratively by the Office of the General Counsel, leading to the issuance of fraud orders. 39 U.S.C. 4005 "is aimed at protecting the public against fraudulent schemes—the prevention of future injury to the public. \* \* \* The purpose of the statute is to protect the unwary and the unsuspecting \* \* \*" (*Gottlieb v. Schaffer*, 141 F. Supp. 7). Under this statute a showing must be made that the promoter is conducting a scheme for obtaining money or property through the mail by means of false or fraudulent pretenses, representations, or promises. An intent to deceive must be established. The provisions of the Administrative Procedure Act providing for notice, hearing, etc., are followed in respect to domestic cases. A fraud order, issued by the Department's Judicial Officer, directs the postmaster in the city of the promoter's headquarters to return mail addressed to the promoter to the sender, marked "Fraudulent" (subject to right of inspection by the promoter, etc.), and it also forbids the payment of postal money orders directed to the promoter (exhibit U). Many minor cases are settled by acceptance of an affidavit of discontinuance, under which the promoter agrees to discontinue his scheme, subject to further expeditious action leading to a fraud order in the event he should resume the operation.

Foreign fraud cases are also handled before the Judicial Officer by the Office of the General Counsel. This type of case is aimed at promoters operating abroad, who cannot be reached by our criminal laws. In these cases foreign fraud orders are expeditiously issued, without hearing, to intercept the remittance by our citizens to foreign promoters; such intercepted mail is returned to the senders (exhibit F).



## EXHIBIT A. ADVANCE FEE RACKET

As a result of reports to Congress by State regulatory officials and others that they were unable to cope with criminals operating across State lines who were defrauding the owners of small businesses, Senator Karl E. Mundt introduced Senate bill 3889 on May 28, 1958, which was cosponsored by Senator John L. McClellan, to make it a criminal offense to induce a person by fraudulent oral misrepresentations to enter into a contract in the advertising of businesses or real estate for sale in interstate commerce. Following hearings held in July 1958, on this proposed legislation by the Senate Permanent Subcommittee on Investigations of the Committee on Government Operations, we began a study of this problem. In the fall of 1958, and in cooperation with the Criminal Division, Department of Justice, a national coordinated program was implemented as it was felt the mail fraud statute provided the most effective means of meeting this challenge to law enforcement.

During the 86th Congress, the subcommittee gave further consideration to the need for additional legislation to combat the advance fee frauds. Prior thereto, we informed the subcommittee that action under the mail fraud statute was being achieved by means of the coordinated program. We also apprised the subcommittee that the promoters of the business property scheme were now obtaining advance fees from businessmen on promises of securing loans which was even more vicious than the former scheme. After reviewing the Department's progress in this field and other rackets coordinated under this national program, the subcommittee, in its report of January 21, 1960, concluded that additional legislation was unnecessary.

*Modus operandi.*—These racketeers sought their victims by innocent looking circular letters or postal cards inquiring, "Is your business for sale?" or "Can you use \$1,000 to \$5 million?" with advice that, "We may be able to help you." Persons responding were contacted by high-pressure salesmen who through innuendoes, half truths, and other forms of misrepresentations, led victims to believe that for the signing of the contract and payment of an advance fee ranging upward from \$100, their business could be quickly sold at more than its actual worth or that a substantial loan could be arranged in a matter of weeks.

The contracts were carefully drawn so as to promise only an advertising service. This the racketeers accomplished with glossy impressive-looking catalogs and similar brochures mailed to some legitimate real estate brokers or lending institutions but which seldom produced actual buyers or loans. There was no written promise to sell the business or obtain the loan or refund the victim's money if the company failed but the oral sales pitch was full of high-pressure talk designed to lead victims to form such conclusions.

After this coordinated program was initiated, the first indictment under the mail fraud statute was returned on October 28, 1958, against nine defendants doing business as Midwest Business Service, Carroll, Iowa. In May 1959, five of the defendants entered pleas of guilty and on June 2, 1959, three were found guilty by jury trial. The remaining defendant, due to a heart attack, was not tried until November 1959, but he was also convicted. The following prison terms were imposed by the court:

Clarence M. Brown: 2 years.  
 Albert E. Chapman: 1 year 9 months.  
 Ralph R. Neudeck: 1½ years.  
 Kingsley R. Barham: 1½ years.  
 Raymond V. Kawell: 1½ years.  
 Merlin W. Nair: 1½ years.  
 Leo H. Damm: 1½ years.  
 Merle E. Wood: 1½ years.  
 Richard B. Gurney: 1½ years.

In this operation the promoters filched an estimated \$250,000 from businessmen, many of whom were elderly and desirous of selling their business to enter a life of retirement.

An advance fee loan scheme, prosecuted in the district of North Dakota, involved a loss of \$1,250,000 to small businessmen. Following a 4½-month trial which was concluded in August 1961, 20 of 36 defendants indicted in the nationwide operation of Lenders Service Co., Inc., Little Rock, Ark., were convicted. Two defendants were placed on probation for 5 years and the remaining 18 received prison sentences ranging from 1 year and 1 day to 5 years, plus 5 years' probation. Prior to trial, two defendants died and four could not be located. The charges are still pending against the latter.

On July 13, 1962, 11 defendants were sentenced in U.S. district court at Denver, Colo., for participating in a nationwide advance fee mail fraud scheme. Doing business as North American Associates, Inc., with offices at Denver, Chicago, and New York City, these defendants grossed more than \$2,700,000 from 3,800 businessmen in 3 years. In passing sentence, Judge William E. Doyle remarked that this was one of the most cleverly devised fraud schemes he had ever seen. Nine of the defendants received prison terms ranging from 3 months to 3½ years. The U.S. attorney, in commenting on the circumstances which resulted in the filing of pleas of "no contest" by the defendants, stated to the press that "the taxpayers were saved at least \$100,000 in trial costs due to the excellent investigation made by postal inspectors."

#### *Exhibits*

1. Photographs of quarters occupied by Midwest Business Service and promotional literature as identified in postal inspector's report of May 23, 1960.
2. Sales manual which is representative of promotional material used by Lenders Service Co., Inc.
3. List of defendants convicted in Lenders Service Co., Inc., and sentences imposed.

#### EXHIBIT B. VENDING MACHINES, FRANCHISES, AND DISTRIBUTORSHIPS

Oldsters and youngsters alike are talked out of their money by racketeers whose ugly little schemes are paraded under the heading of "Business Opportunities," "Help Wanted," etc., in daily newspapers and magazines throughout the country. It is surprising how easily these racketeers make it appear financial success is certain for an investment upward to \$10,000 and sometimes more in a vending machine, distributorship, or franchise business.

Victims are so taken in they often pay part or full payment to these operators without any proof of the company's integrity or its product. Usually these racketeers operate on a financial shoestring, often changing names to dodge creditors and use money from victims to pay other obligations. While many victims never receive anything further, many of those that do usually find the product is not as represented; locations selected are in out-of-the-way retail establishments; and the exclusive territory and moneymaking opportunities only existed on the glib tongue of the company's salesman or its advertising literature.

A case in illustration involved the activities of John J. Nordhoff and Robert Lee Molstrom, who in 1958, operated as International Distributing Co., at Oklahoma City, selling vending machines throughout the Southwest. After a brief partnership operation the two formed a corporation of the same name and then split up, each forming separate individually owned companies in which they continued to collect money from all over the United States for machines that vended nuts, candy, and cigarettes.

Advertisements inserted in newspapers across the country falsely represented that their company was seeking responsible persons to service and collect from automatic dispensers and that no selling was involved. These advertisements stated a car, references, and \$600 to \$1,800 investment were necessary. A monthly income up to \$350 for 7 to 12 hours' work each week was promised. Many of the victims were widows, retirees, aged, and physically handicapped persons. Profits of the three promotions operated by these defendants may well have exceeded a million dollars. These promoters were indicted at Oklahoma City, on December 8, 1959, and, following pleas of nolo contendere, were sentenced on January 6, 1961, to 3 years' imprisonment each. They commenced serving their sentences on February 7, 1961.

A typical distributorship fraud promoted on a nationwide basis was operated by Jack Morgan Watt, of Los Angeles, Calif. One of the commodities was a so-called waterless battery which he sold through distributorships, as well as to individuals under a 10-year guarantee. Watt was indicted at Los Angeles, on July 18, 1962, and after entering a plea of guilty, he was sentenced November 20, 1962, to 3 years' imprisonment. This promoter, who operated as Waterless Battery Corp., Cadmium Battery Corp., and numerous other names over a period

of approximately 6 years, filched an estimated \$5 million to \$6 million from the public.

*Exhibits*

1. Promotional literature of the Waterless Battery Corp., which includes advertisements, distributorship agreement, etc., is representative of the representations and inducements through which this fraud was consummated.

2. The photograph of display stands the promoter sold to distributors.

3. Samples of promotional material used by International Distributing Co., Oklahoma City, Okla.

EXHIBIT C. KNITTING AND SEWING MACHINE RACKETS

National in scope, victims of this scheme were sought through direct mail and newspaper advertising offering work at home. The scheme was designed to victimize housewives and those who responded were called on by high-pressure salesmen. These salesmen would represent there was a market demand for homemade garments and told housewives of the ease with which these garments could be made in their homes. They were assured of earnings up to \$25 weekly but to earn this kind of money, it was candidly explained that one of the firm's machines would have to be purchased to take advantage of its "buy back" agreement. These housewives were further assured that the promoters had sales outlets for garments they made and that a few hours' work each day would net an income that would more than cover the cost of the machines.

With the stage set, the promoters convincingly induced housewives to sign a conditional sales contract obligating them to pay exorbitant prices for these machines. Usually the promoters would buy back the garments for a short time, using the early customers as evidence to sell others and to pay for a few garments. Once a particular area became saturated, the promoters would close up and in many instances move on to another area. The housewives soon found they had a machine of little value to them and were indebted to the finance company for a debt they could ill afford to pay.

Many elderly women with time on their hands and eager to supplement meager incomes were easy prey for these swindlers. A case in illustration was brought to a conclusion when the two operators were convicted and sent to the penitentiary in January 1960 for 5 years each. Doing business as American Knitting Center of West Chicago, Inc., Chicago, Ill., Edward J. McLane and Melvin Barron defrauded women in the Chicago area of over \$400,000 in the sale of imported knitting machines. Many of the 1,200 women swindled were crippled and elderly persons who paid up to \$550, including finance charges, for machines for which the operators paid between \$60 and \$90.

The Strick-Matador Corp. of Buffalo, N.Y., was the principal firm responsible for the spread of this racket throughout the country. The operators, Morris Baren and Samuel C. Stein, initiated the scheme in 1955, and by 1960, had established distributorships and dealerships in 86 different localities throughout the United States, such as the American Knitting Center in Chicago, previously commented on. Baren and Stein furnished the dealers with printed sales instructions providing for the "work at home" gimmick and charged up to \$90 for machines they had imported for \$40. Approximately 14,000 machines were sold under this ruse with a loss of over \$5 million to the public.

The mail fraud statute also reached these promoters. They were both indicted at Brooklyn, and after a 2-month trial, a verdict of guilty was returned by the jury in December 1960. Prison sentences of 18 months each were imposed. An appeal was filed by the defendants, but the conviction was affirmed July 10, 1962, by the Second Circuit Court of Appeals.

A typical work-at-home sewing machine racket operating from Cedar Rapids, Iowa, as Main Sewing Service, bilked women in that area of about \$250,000.

These operators mailed out over 50,000 postcards advertising for women to make men's shorts. Through this ruse, sewing machines costing the operators less than \$90 were sold to victims for approximately \$370, including finance charges. After selling over 800 machines, the firm filed bankruptcy.

On November 21, 1961, seven of the operators were indicted. In October 1962, defendant Carleton E. Bradley entered a plea of guilty and the following defendants were convicted in November 1962, after a 19-day trial:

1. Robert H. Slocum.
2. Lester Brockmeyer.
3. LeRoy Eaton.

The jury was unable to reach a verdict as to defendants Bobie Brockmeyer and Pat McNeil and acquitted Eugene VanDusen. Sentencing date has not been set for those convicted.

*Knitting machine exhibits*

1. Brochure entitled "The Regina Princess Home Income Plan."
2. Conditional sales contract.
3. Promissory note.
4. "Buy back" agreement.
5. Qualification checklist.
6. Receipt signed by customer acknowledging receipt of machine at time of delivery.
7. Knitting yarn.
8. Samples of knitted items salesman used for demonstration purposes.
9. Regina Princess knitting machine.

EXHIBIT D. WORK-AT-HOME FRAUDS (EXCLUSIVE OF KNITTING AND SEWING MACHINES)

L. V. Verrette and B. W. Coates, operating as L. V. Enterprises at Manchester, N.H., advertised in magazines extensively stating homeworkers were needed, as per sample ad herewith. Those replying were sent the 4-page brochure, also herewith, reiterating that workers were needed and that they were "willing to pay for it." When the required \$3 was sent in, which was the prime concern of these swindlers, they received the accompanying "Home Instruction Manual" and then learned that it was necessary to own a typewriter and to obtain addresses of new mothers. Approximately \$8,000 was filched from the public through this scheme before it was stopped. Verrette was given an indefinite jail sentence and placed on probation for 2 years. Coates was fined \$1,000 and given a year and a day suspended sentence, placed on probation for 2 years and ordered to make restitution to all claimants. Coates, who had also operated independently out of Boston for years, promoting various questionable work-at-home schemes was convicted for his operations in that jurisdiction and received a 6-month prison sentence and \$2,500 fine. It is estimated he realized at least \$300,000 in those additional ventures.

Alfred J. Crowe (alias Robert A. Montgomery) doing business at San Bruno, Calif., as Self-Service, Inc., was sentenced to 2 years for mail fraud. Two schemes were involved—one having to do with the sale of catalogs and mailing lists through newspaper ads enticing persons to start their own mail-order business—48 victims of this fraud lost \$35,000—the second venture was that of selling vending machines upon misrepresentations relative to amount of profits, the construction and performance of the machines, and the assistance to be given in obtaining desirable locations for said machines. At time of investigation, an additional four persons had been taken for \$6,250. Crowe is an habitual criminal with a record dating back 40 years for various offenses and has been a "con" man at every opportunity between jail sentences.

Carman J. Ciarfella and James H. Webster, doing business at Boston, Mass., as Magic Weave, Inc., pleaded guilty and were sentenced to 1 year and 6 months, respectively, for mail fraud, and the corporation was fined \$1,000. These swindlers advertised in newspapers implying that legitimate jobs were available to women to do hand needlework at home, full or part time. The main objective, however, was to sell cheap kits, worth about \$3, for \$39.50 and \$49.50, after which the victims were on their own and made nothing. During the investigation it came to postal inspectors' attention that Ciarfella was filing fraudulent claims for unemployment compensation. This information was made available to State authorities and as a result Ciarfella also received a 3-year prison sentence for that offense. It is estimated this work-at-home fraud netted the operators about \$100,000.

These cases which are representative are particularly vicious because they prey upon the elderly, the infirm—those least able to afford even the minimal individual losses.

It is estimated conservatively that the continued attention to these work-at-home frauds is saving the public at least \$100,000 each year.

## EXHIBIT E. LAND FRAUDS—DOMESTIC

Joseph F. Cole, who did business as Cole & Co., Miami, Fla., was sentenced on September 21, 1962, to 2 years on each of four counts of indictment, for use of the mails to defraud in the sale of swamplands in the Florida Everglades. He extracted \$80,000 from investors, as well as senior citizens looking to Florida for a homesite for their declining years. (See his brochure herewith and, in contrast, an actual photo taken of the land by an inspector.)

One Robert Samuel Strauss, who had previously been sentenced to 5 years for mail fraud involving the mailing of Bibles to deceased persons but who was on probation, recently became involved with one Ralph J. Monk, in a scheme to sell near worthless land in Florida, which they did not own. Strauss's probation has been revoked on account of this latest activity and he is now serving the 5-year term originally imposed and action against Monk is pending. The scheme was promptly discontinued and it appears the loss was limited to \$1,000 or less, although could have been substantial if allowed to continue.

Five cases have been presented to U.S. attorneys for prosecutive action, while approximately 150 cases are currently under investigation by postal inspectors.

## EXHIBIT F. LAND FRAUDS—BRAZILIAN

A group of Washington, D.C. businessmen advertised for sale 40-acre tracts of Brazilian land at \$10 an acre—\$10 down and \$10 a month. In their brochure they stated: "Where you can retire to live comfortably and inexpensively—where you can hunt and fish in some of the world's most beautiful forests and rivers—where the climate has a mean average of 78° and where in most areas the elevation is between 500 and 800 feet above sea level." (See accompanying brochure.) Actually this land was located in a jungle, entirely unsuitable for normal human habitation, and was not even owned by the promoters. Due to prompt action by postal inspectors an affidavit of discontinuance was executed by the promoters in December 1960, and the public was saved a potential loss of \$35 million, inasmuch as 3,500,000 acres were being offered.

A salesman located at Bayonne, N.J., used the mails to promote the sale of Brazilian land, using brochures like attached copies, and claiming that the land was owned by another party at Evansville, Ind. Prompt attention by postal inspectors resulted in discontinuance of the scheme in June 1961, without loss to the public. He had advertised that 500,000 acres were available and based on asking price, the public was saved approximately \$2 million. Investigation at Evansville, Ind., also disclosed that the alleged owner of the land had also ceased operations.

An ambitious promoter at Rye, Colo., claimed to have visited Brazil and obtained an option on 500,000 acres of land for resale. As a result of attention by a postal inspector on January 8, 1962, this man allowed his option to expire and disclaimed further interest in the venture. Based on average asking price of \$2.98 an acre, potential loss of \$1,500,000 was averted.

In addition, foreign fraud orders have been issued by the Department against several firms operating exclusively from Brazil in the sale of land there. The information necessary on which to base their preventive action was obtained by postal inspectors. Such orders, thus far, have been issued against the following: Santa Catarina Land Developments, et al., at Joinville, Santa Catarina, Brazil on June 15, 1962.

Pan American Land and Development of Brazil, et al., Sao Paulo, Brazil on April 2, 1962.

New California Subtropical Settlement et al. (Raymand Bernard), Joinville, Santa Catarina, Brazil on July 29, 1960.

It is believed that a conservative estimate of the amount saved the American public thus far in the Brazilian cases alone would be at least \$50 million.

## MEDICAL FRAUDS

## EXHIBIT G

Las Vegas, Nev.: Cora Galenti Smith, self-styled beauty scientist, sentenced October 28, 1962, to 5 years and \$1,000 fine on count 1, and 5 years probation and \$1,000 on count 2, for mail fraud, sentences to run consecutively. This so-called scientist, with no medical training nor cosmetician's license, has continuously since 1949 been administering a highly dangerous face peeling treat-

ment to movie stars and other persons, who traveled from points as far distant as South Africa and Australia. She has been convicted twice previously in State court for practicing medicine without a license. Mrs. Smith claimed she was the beneficiary of a secret and magic formula, which had been in the family for 150 years, and which permitted her to perform glorious facial rejuvenation. "Magic formula" actually was nothing more than a strong solution of carbolic acid and consequently numerous victims were permanently scarred and disfigured. The postal inspectors' task of locating persons who had similar experiences was a difficult one because of personal vanity and the fear of public embarrassment. It is a known fact that many persons used fictitious names and traveled to her "Fountain of Youth Beauty Ranch" without telling their husbands, wives, or other close relatives. It is estimated that 500 persons were treated and the operator realized at least \$1 million. Disfigurement suits against her have resulted in judgment awards totaling \$186,000.

#### EXHIBIT H

Irwin N. Greene, doing business as Tigrion Distributors, Jersey City, N.J., grossed an estimated \$120,000 in the sale of sex stimulants for overaged men and women, which contained only common vitamins.

Such claims that the product was a "concrete compound accepted by medical men and scientists;" "So potent your body will function with the youthful energy and sex energy lost in the process of aging," etc., brought hundreds of complaints from the public.

The promotion, which came into existence about January 1959, was suppressed by means of a fraud order issued on October 28, 1959. The operator was subsequently indicted at Newark, N.J., on 29 counts of mail fraud, to which charges he entered a plea of guilty on March 19, 1962. He received a suspended sentence, a fine of \$750, and was placed on probation for 5 years.

#### EXHIBITS I-N ON FILE WITH THE COMMITTEE

Advertising, copy of indictment, product, and news clipping which appeared in Newark Star Ledger, September 21, 1960.

#### EXHIBIT O

For many years the Postal Inspection Service has investigated complaints from indignant postal patrons (primarily elderly males) regarding the receipt of unsolicited advertisements offering for sale a variety of devices alleging efficaciousness in overcoming the male partner's inability to develop and maintain more complete and satisfying marital relations. These devices vary in form from so-called splints to large plastic instruments made to simulate the male penis to the closest possible detail. The consensus of modern medical testimony is to the effect that these articles were ineffective in enabling males to achieve satisfactory intercourse. Thus they were misrepresented and fraud order action was indicated. This sufficed until 1954 when in the case of *Jeffries v. Olesen*, 121 F. Supp. 463, Judge William C. Mathes in Federal court, southern district of California, permanently enjoined the postmaster from enforcing a fraud order issued against such an operation. While this has greatly hampered our efforts to rid the mails of such devices, numerous promoters have been persuaded to discontinue their operations as a result of our investigations. One of the largest promoters of these devices, Louis Wolff Lenitsky, whose operations under the name Medco Sales resulted in the receipt of hundreds of complaints from irate citizens, was indicted at Detroit, Mich., on December 18,

1962, for violation of Title 18, United States Code, Section 1461, the postal obscenity statute and we are hopeful that successful prosecution in this case will set a precedent enabling us to purge the mails of these devices. Our investigations led to the discontinuance of these devices in the following listed cases:

Promoter	Name of device	Remarks
The Essentials Co., Fort Worth, Tex.	The Ae-sis-tor.....	Out of business, letter, June 11, 1962.
Reliable Products Co., Dallas, Tex.	The Sphinx.....	Affidavit of discontinuance, July 19, 1961.
Autumn Co., Dallas, Tex.	The Splint.....	Out of business, letter, Mar. 14, 1962.
The Spring Co., New York, N.Y.	The Pit.....	Out of business, letter, July 18, 1961.
Stanbro Co., Red Bank, N.J.	do.....	Out of business, letter, Jan. 26, 1962.
The Pit Co., Fort Worth, Tex.	do.....	Business discontinued.
Timely Clues Service, Clinton, Iowa.	The Ae-sis-tor.....	Out of business, letter, May 16, 1962.
Modern Sales Co., Alhambra, Calif.	do.....	Out of business, letter, Apr. 25, 1962.
Frank Earl Co., Muncie, Ind.	The Pit and Growth and Warmth Cream Impotency.	Affidavit of discontinuance, Oct. 13, 1961.

EXHIBIT P. SAVINGS AND LOAN ASSOCIATIONS

There have been 8 indictments returned against 12 persons. In addition, 2 individuals were tried on contempt of court. The status of these cases is set forth below:

Association	Indicted	Status
Commercial Savings & Loan Association (18415-F, Baltimore, Md.).	{C. Oran Mensik.....	Indictment pending. Two indictments pending. Serving sentence of 3 years.
First Capital Savings & Loan Association (24555-F, Baltimore, Md.).	{Robert F. Suchman....	
First Colony Savings & Loan Association (24470-F, Pr. Frederick, Md.).	{James G. Sorce, Jr....	
United Armed Forces Savings & Loan Association (30633-F, Washington, D.C.).	J. Kenneth Edlin.....	Completed 6 months' sentence.
Wall Street Savings & Loan Association (30631-F, Washington, D.C., closed).	James L. Kane.....	Serving 1 year sentence.
Free State Savings & Loan Association (30630-F, Washington, D.C.).	J. T. Moton.....	181 days, \$1,000 fine and costs.
International Guaranty & Insurance Co.....	Harold G. Applegarth.	Convicted; awaiting sentence.
Phoenix Savings & Loan Association (30360-F, Baltimore, Md.).	{Stewart B. Hopps.....	} Trial to begin in January 1963. } Convicted; fined \$10,000 and costs. } Tried for contempt of court. (Not guilty.)
First Union Savings & Loan Association.....	{Robert S. Hopps.....	
Monumental City Savings & Loan Association (30505-F and 30506-F, Baltimore, Md., respectively).	{Saul Marshall (tried for contempt of court).	
	{Bernard J. Coven.....	
	J. Thomas Ellicott.....	} Indictment pending.
	Harvey C. Jones.....	
	Lewis L. Fleury.....	

EXHIBIT Q. STOCKS, BONDS, OIL AND GAS LEASES, AND SIMILAR FRAUDS

On August 20, 1962, in Federal court at Miami, Fla., 10 defendants (Norman Gradsky, Mrs. B. J. Gradsky, Robert Grene, George Levine, Leonard Glaser, Howard L. Meadors, Robert B. Roberts, Alfred Schiff, E. E. Gibbons, and Mrs. Gertrude Hogue) received prison sentences ranging from 20 years to 6 years for the operation of a scheme involving the sale of short-term promissory notes of the Credit Finance Corp., holding forth an 8 percent return under numerous fraudulent representations. This scheme resulted in a loss of over one-half million dollars to 158 investors.

Carl A. Pruett and his wife, Gertrude, operating as Pruett & Co. and Diversified Financial Service, Inc., investment brokers, Atlanta, Ga., pleaded guilty to mail fraud and SEC violations on July 20, 1962, and each was sentenced to 9 years in custody of the Attorney General. This couple counterfeited securities and embezzled funds of investors in an amount estimated at over \$2 million.

Six individuals (Joseph A. Peel, Jr., Floyd A. Holzapfel, John J. Crane, Robert B. Sills, Robert Zane, and Herbert Gilmore) were sentenced on April 12, 1962, at Orlando, Fla., for mail fraud incident to sale to the public of short-term promissory notes of Insured Capital Corp. Five of these six defendants were given 2

years on each of 9 counts in indictment to run consecutively for a total of 18 years for each defendant. The sixth man (Holzapfel) was awaiting the death penalty for his part in the slaying of a judge and his wife in another case. At least \$224,000 was filched from the public.

M. A. S. Makris and Clyde Levingston, who did business at Miami, Fla., as Intercity Finance Corp., were sentenced on October 3, 1962, and September 28, 1962, respectively, for mail fraud, SEC violations, and conspiracy. Makris was originally sentenced to 5 years imprisonment on one count and 5 years probation on other counts, to run concurrently, but then produced evidence he was able to make restitution in total amount he received (\$66,250), and the court thereupon suspended the 5-year imprisonment on condition he make immediate restitution. Levingston was placed on probation for 3 years and imposition of sentence withheld. Scheme involved the manipulation and sale of corporate stocks and mortgage notes in which the public was defrauded of approximately \$111,000. Previously, the same company, headed by another group, defrauded the public of approximately \$570,000 in the sale of 12 percent and 15 percent 1 year promissory corporate notes. The principals are awaiting trial.

Harry Kaskowitz (alias Kass), Ronald Tilley, and Sheldon Gottheim, doing business as Oil Lands, Inc., at Washington, D.C., were convicted in late 1961, and early 1962, for mail fraud. The scheme of these men involved the offering of leases on parcels of land located in New Mexico, mostly to members of the Armed Forces, with promises of striking it rich when oil or gas was discovered on said land. They misrepresented the value of the lease assignments sold and in many instances the assignments were never actually made to victims. It is estimated that these swindlers realized at least \$250,000.

These are representative cases, and it is believed that a conservative estimate of the amount saved the investing public as a result of attention to all cases of this nature, which were consummated during the fiscal year 1962, would be at least \$20 million.

#### EXHIBIT R

Another classic example of frauds perpetrated against our elder citizens with failing eyesight involved widespread advertisements placed in newspapers and publications by a New Yorker offering magnifying reading glasses at \$3.95 with satisfaction guaranteed. When victims returned the glasses, actually valued at 25 cents, under the guarantee, the operator, Arthur Gould, doing business as Jenar Co., sent a postal card claiming a lens was broken, and the guarantee did not cover this situation. A 3-month investigation disclosed that the operator was in many instances actually mailing glasses with broken lenses, and had taken the public for about \$75,000. Arrest of the operator on May 3, 1962, suppressed this fraud. He was subsequently indicted, convicted, and sentenced August 31, 1962, to 2 years' probation.

Exhibits attached consist of (1) advertising; (2) postal card used to claim lens broken; and (3) pair of eyeglasses.

#### EXHIBIT S. DANCE STUDIO RACKET

One type of fraud perpetrated upon persons of a gullible and gregarious nature is the dance studio racket. Aside from a personal sense of accomplishment, enjoyment, companionship and social intercourse provided by dancing skill, these studios promise fame, fortune, and highly successful professional careers in the theater, television, etc.

#### SCHEME

These rackets employ many different methods of separating the victim from his money. The gimmick most generally used in a typical case was to call prospects on the telephone, pose a simple question, and, whether or not the question was answered correctly, each was awarded free dancing lessons to get them to the studio. The mails were also used in this respect.

The principals of Dale Dance Studios and National Dance Studios, of Minneapolis and St. Paul, Minn., were indicted on September 28, 1962, on 12 counts of mail fraud. This is the first such indictment of its kind and, depending upon the outcome of this case, investigations may be taken up in other parts of the country.

The indictment charges that "false and fraudulent promises, pretenses, and representations" were made by the 11 defendants to acquire students; that



instructors were advised of methods of "coercion, duress, and undue influence" that could be exerted on students and prospective students. At sales meetings, the instructors were told how students could be induced to pay large amounts of money without the studios having to abide by terms of contracts entered into for dancing lessons.

Among the false promises alleged are that students, upon signing a contract, would get free trips to places such as Chicago, New York, San Francisco, Honolulu, and Kingston, Jamaica; that the student could become an exhibition dancer for television programs; that his principal activity would be social parties and gatherings, and that he would receive a mink stole, win a contest, award or other prizes.

The indictment charges that "feigned, fake, false, and fraudulent" dancing tests were given prospective students "to approve, commend, and exaggerate the dancing ability, actual and potential, of each person so tested." During the testing period, telegrams were sent by the defendants encouraging the person involved and recommending that he be accepted in "a new and different club, class, or division" for students at the dancing studio. The defendants also presented to the persons being tested flowers, candy, and other gifts and inducements.

New inducements were made to students for contracts for additional dancing lessons before the existing ones had been completed. But as part of the scheme, the defendants had no intention of fulfilling their portion of the contracts.

Other promises listed as false and fraudulent in the indictment were that a student would receive free taxicab and automobile transportation from his home to the studio, and return, for dancing lessons, parties, and dinners; that if the student were unable to continue the course of dancing instructions, he could regain the unused portion of the contract price; that the student would have a particular dancing instructor during an expense-paid trip, and could have a number of private, individual dancing lessons if he executed a contract with the studio; that he would receive money immediately by cash or bank draft, and also could get from the studio specific services for the rest of his life if he signed a contract.

The indictment charges that the studios defrauded at least 12 women up to \$10,000 each, in some instances most of their life's savings. If convicted, the 11 defendants could be sentenced to a maximum of 5 years in prison, \$1,000 fine, or both, on each count.

#### *Exhibits*

No. 1: File containing promotional material and related exhibits illustrating modus operandi.

No. 2: Looseleaf binder containing instructions in sale of dance courses.

#### EXHIBIT T. "SONG SHARKS"

A type of fraud unknown and unsuspected by the great majority of our population is the exploitation of would-be songwriters and poets by unscrupulous fraud artists known as song sharks. These racketeers prey on the amateur songwriter who is anxious to have his masterpiece published and reap the profits from sales of recordings and sheet music.

#### SCHEME

A charter member of this promotion is Mortimer Singer, of Los Angeles, Calif. He has for many years, and more recently his son, Stephen Francis, operated various song-promotion schemes under numerous fictitious names to defraud the unwary would-be songwriter by luring them into advancing sums of money to have their songs published and receive royalties from such songs. The only persons who have profited have been the Singers.

Each fraudulent scheme has been based upon a gimmick such as offering to place the song in a radio show which would result in royalties if commercial sponsorship were obtained; or to publish the song in sheet music form or on phonograph records which, if sold, would provide royalties to the songwriters, more appropriately described as victims.

Mortimer Singer was acquitted in 1951 for operating a similar scheme and thereafter was apparently encouraged in his endeavors. In convincing the victims of the need for more and more financial investment, the promoters promised such as the following in varying degree: (1) special melody and harmony instrument features and "the Madhatters" (a professional group) solos if written in

feature; (2) place his recording in a moving picture; (3) have the recording pressed on commercial records and distributed to key discjockeys; (4) notify music stores that commercial records are ready and available to be put on sale, etc.

Occasionally, a song would actually be recorded or several copies would be printed in sheet music form. At other times nothing whatever was done except to relieve the victim of his money. Frequently, telegrams would be sent to the songwriters advising that the recording had been accepted by a publishing firm on a standard royalty contract and was ready to go to press—provided, of course, that an additional fee was furnished.

In the years Mortimer Singer has been operating this type of scheme, he has defrauded thousands of amateur songwriters of an amount estimated at more than \$1 million. On May 2, 1962, he was convicted and on August 27, 1962, sentenced to serve 18 months and fined \$4,500 and to be placed on probation for an additional 3 years. His son, Stephen Francis Singer, was indicted October 31, 1962, on 19 counts of mail fraud in a similar operation and is awaiting trial.

*Exhibit T-1 (3 parts)*

Complaint files of Mrs. Cora Maloof, Las Vegas, N. Mex., and Miss Erma Christine Walker, Atlanta, Ga., consisting of promotional literature, contract agreements, lulling letters, and phonograph records, etc.

EXHIBIT U

POST OFFICE DEPARTMENT, WASHINGTON

ORDER No.—

Satisfactory evidence having been presented to the Post Office Department that the United States mails are being used by:

in conducting a scheme for obtaining money through the mails by means of false and fraudulent pretenses, representations and promises in violation of section 4005 of title 39, United States Code.

Now, therefore, by virtue of the authority vested in the Postmaster General by the provisions of said law and by him delegated to me (39 U.S.C. § 308a; 23 F.R. 2817, Apr. 26, 1958), you are hereby forbidden to certify any postal money order drawn to the order of said \_\_\_\_\_ and you are hereby directed to inform the remitter of any such postal money order that payment thereof has been forbidden, and that the amount thereof will be returned upon the presentation of said order at the issuing office or in the event the original order is not available that repayment may be effected by means of a duplicate order applied for and obtained under the regulations of the Department.

And you are hereby instructed to return all letters, whether registered or not, and other mail matter which shall arrive at your office directed to the said \_\_\_\_\_ to the postmasters at the offices at which they were originally mailed, to be delivered to the senders thereof, with the word "Fraudulent" plainly written or stamped upon the outside of such letters or matter. Provided, however, that where there is nothing to indicate who are the senders of letters not registered or other matter, you are directed in that case to send such letters and matter to the appropriate dead-letter branch with the word "Fraudulent" plainly written or stamped thereon, to be disposed of as other dead matter under the laws and regulations applicable thereto.

-----  
*Judicial Officer.*

POD Form 2109, Aug. 1961.

Senator WILLIAMS. Finally, this morning we have Mr. Quinn Tamm, who comes to us from the International Association of Chiefs of Police, and, as I understand it, Mr. Tamm is executive director of that organization.

Welcome, Mr. Tamm. I am sorry we have kept you waiting. We had an awful lot to discuss this morning.

## STATEMENT OF QUINN TAMM, EXECUTIVE DIRECTOR, INTERNATIONAL ASSOCIATION OF CHIEFS OF POLICE

Mr. TAMM. Senator, I have a prepared statement.

Senator WILLIAMS. We have copies now, and we will be able to peruse that while you are talking.

Mr. TAMM. All right, sir.

May I say first that it is a real privilege to have the opportunity to appear here today representing the International Association of Chiefs of Police and to express the view of this country's chiefs of police and other local law enforcement executives. I would also like to commend this committee for recognizing the need for obtaining the opinion of local law enforcement relative to the problem which is the subject of these hearings.

To get right to the point, perpetrators of the frauds known as confidence games have but one common criterion when it comes to selecting a victim for fleecing: the victim must have money or possessions which can be readily converted into cash.

Whether a person is young or old, able bodied or disabled, educated or uneducated, honest or dishonest has but little bearing on a conscienceless swindler's decision to strike.

Of course, these factors make a swindle easier or more difficult, but the confidenceman's supreme confidence in himself makes these of less importance.

A potential victim usually must have three things before he is considered a suitable prospect by the confidenceman. These three things are gullibility, greediness or goodness, and greenbacks.

Gullibility and greenbacks are, of course, self-explanatory.

If a person is greedy, he has that little touch of larceny in his heart which makes him an easier target. A good, kindly person is a potential victim because of his desire for helping a fellow being in distress.

To reiterate, a swindler is not a respecter of age.

And, since the age of a victim is not necessarily a significant factor in establishing the modus operandi of a confidenceman, police statistics are not usually kept on this basis. Of course, the age of victims in such cases is many times a part of police reports, but they are not broken down usually as a separate statistic.

It is not possible, therefore, to make an unequivocal statement to the effect that elderly people are primary targets of confidencemen.

It is unfortunate, however, that certain circumstances make elderly persons attractive to swindlers.

For instance, consider the following factors:

(1) As I have said, the acquisition of money is the ultimate aim of confidencemen, and elderly people quite frequently have considerable sums resulting from retirement annuities, lifetime savings, insurance, sale of properties, et cetera.

(2) Elderly persons are more available to confidencemen; that is, they are frequently not employed and may be found idling in the downtown area with time on their hands, making them more susceptible to approach.

(3) Older persons are many times very lonely and readily accept the friendly overtures and what at first appear to be harmless conversations struck up by confidencemen.

(4) It is unfortunate but true also that with age there often-times comes senility which makes an older person easier prey for the smooth-talking swindler.

(5) And, at the same time, many of our senior citizens are prone to be less suspicious of their fellow man and out of the kindness which frequently comes with age are more ready to help out a young person who has a glib story of misfortune to tell.

These are merely some of the reasons older persons are sought after by confidence teams, of course, but I should like to reemphasize that this type of criminal considers any age person a likely source of easy money.

Whatever appears to the conman to be a person's weakness is the trait which he tries to exploit, and there are as many different confidence games as there are human weaknesses and frailities.

Some confidence games, such as the "Judge Baker" swindle, have as their goals sums of money totaling \$50,000, \$100,000 or more. One of the most notorious confidence men of all times, James Weil, better known as "Yellow Kid" Weil, testified in 1956 before the Subcommittee to Investigate Juvenile Delinquency of the Senate Committee on the Judiciary that during the course of his career he and his cronies made about \$8 million in confidence games. During this testimony he described in detail the "Judge Baker" swindle.

Briefly, this type of confidence involves two or more persons who, ostensibly unknown to each other, set about to fleece a victim using as their wedge the victim's desire to make a "killing" on horseracing.

The scene is usually a high-class resort hotel or any other such area where affluent people are likely to be found. After selecting what appears to be a wealthy person, one of the swindlers will, himself, pose as a well-to-do individual in, for instance, the oil or real estate business. Through ingratiating himself and spending lavishly on his intended victims, the confidenceman ultimately builds up the victim's confidence in him.

When this is accomplished, perhaps at dinner one night the confidenceman will "find" a wallet under the table at which they are dining. Of course, the newly found wallet is one which he himself surreptitiously dropped. As he and the victim examine it, they find it contains several hundred dollars, a newspaper clipping identifying the owner of the wallet as a fabulously lucky winner at the horse races and a telegram reporting one of his winnings which reveals he is staying at a certain hotel.

The finders of the wallet proceed to the hotel and locate the owner who is overjoyed to have his wallet returned and who is so grateful he offers them the money contained in the wallet as a reward. Bear in mind that the victim has no idea, of course, that his companion and the owner of the wallet are conspirators. At this juncture, the companion, supposedly a man of means, demurs and says they do not want the reward. He does bring up the subject, however, that they could not help noticing that the owner of the wallet has a reputation for winning at the races.

The owner of the wallet then admits, confidentially, that he is actually a part of a syndicate which "fixes" races and which makes a fortune by betting on the "fixed" races.

And, he says, in view of the honesty of his new friends he will take \$200 of the money they returned and bet it on the races for them.

This, of course, is the beginning of the trap. The three become fast friends and before the victim knows it he has won a sizable sum merely by letting the "syndicate man" continue to place the winnings from the original race on certain horses.

Later on the victim is induced to bet a vast sum of money in the form of a check. His horse wins. A third member of the confidence team, who has since entered the picture as a "runner" and who makes the bet and picks up the winnings, is dispatched to obtain the money that has been won.

He returns a short while later to point out, however, that the manager of the "bookie joint," who was not present when the check was accepted by a cashier, has declined to pay off because he does not know the victim, is not sure the check is good, and cannot be certain the victim could have paid off had he lost. He demands that he be shown \$50,000 or \$100,000 in cash to prove the solvency of the bettor.

At this point the victim can see a huge amount of money escaping from his grasp and his "friend," the person who originally found the wallet, is equally dismayed because he had taken half the bet with the victim.

It suddenly dawns on this member of the confidence team, however, that if he and the victim can raise \$50,000 each in cash, they can collect the winnings. He says he will have no trouble raising the money, and gives the victim a questioning look. The victim, of course, says he will have no difficulty either. The victim catches a plane to his hometown bank and withdraws \$50,000 in cash. The conman ostensibly does the same.

When the three meet again, his unsuspected "friend" unveils what appears to be a stack of \$500 bills. In reality, of course, the stack consists of cut paper with but three or four \$500 bills on top and bottom. At this, the victim pulls out his \$50,000 in cash.

At this stage, the "syndicate man" says they can collect their winnings, and stop but that he has a "sure winner" that day, and if they wish, they may bet one more time. By this time the victim, who has not lost a cent, but who has, in fact, supposedly won every time, is ready to make a "killing." He and his "friend" give their money to the "syndicate man" who gives it to the runner to make the bet.

After a while, the "runner" returns in a state of alarm and consternation. The horse they bet on to win, he says, has lost.

The syndicate man is furious. "I explicitly told you," he screams, "to bet that horse to place. He was fixed to come in second, not first."

The scene then is one of dismay and confusion. The victim's horror is matched only by that of his "friend" who has also ostensibly lost.

The "syndicate man" succeeds in calming them, however, and sorrowfully says that since it was all his fault, he will recoup the losses himself and see to it that they get their money.

The "friend" agrees and the victim agrees. The victim flies back to his home or to some designated hotel in another city. Of course, that is the last he sees of any of the group. On occasion the victim

will get a telegram or telephone call from the "syndicate man" after a few days reassuring him that all is well and that he is progressing nicely. This is merely a "cooling off" message, however, to allay the victim's suspicion so that he will not rush out and contact authorities.

As can readily be seen, this scheme can be used against anyone, regardless of his age.

This, in my opinion, however, is not the type of swindle which this committee should concern itself with primarily. The type of scheme which is used against our senior citizens most successfully is that which wipes out the savings or other assets of the older person who had but little to start with. These schemes cost the victims anywhere from \$500 to \$3,000 generally, hard-earned money which means the difference in a comfortable life and one of hardship.

One of the more successful types of con games used to bilk older persons—as well as others—of sums in the comparatively lower brackets is the well-known "pigeon drop."

The best way to outline this type of swindle is to read you two police reports which briefly describe two cases of this classical swindle:

#### REPORT No. 1

This Bureau has had three flim-flams: January 8, 1962, for \$1,400; January 26, 1962, for \$2,000; and July 20, 1962, for \$4,000. The victim is usually an elderly person and is engaged in conversation at a lunch counter in a downtown department store. During the period of this conversation, a No. 2 subject is introduced to victim by No. 1 subject and told that No. 2 subject had found a large sum of money. At this time, No. 2 subject interrupts the conversation and states the amount that she found and claims she took the money to her boss (who in these three cases was supposed to be the manager of the Household Finance Co.) who told her that if she was able to show a certain amount of money for good faith, her boss would give her all the money. No. 2 subject would then tell No. 1 subject and victim that she has no money to show for good faith but states that if she is able to borrow the money, she will divide equally the amount she found. Then No. 1 subject offers No. 2 subject part of this amount, claiming she had just received this amount from an accident in which her daughter had been involved. No. 1 subject will then request victim to loan an amount large enough to meet the required amount needed to show good faith. After the victim draws money from the bank and gives same to No. 2 subject, she is then told to see the boss, manager of Household Finance Co. at which time No. 1 and No. 2 subjects abscond with the victim's money.

#### REPORT No. 2

While shopping in a hardware store, victim, aged 79, was approached by No. 1 suspect, who told victim that she had found a package containing \$21,000 in cash that had fallen from a passing car; that she had waited at spot where she found this package and that no one had come to claim it; also told victim that she worked for a rich man and was taking this money to him for advice on how to dispose of it. No. 2 suspect then appeared and told No. 1 that she had seen her picking this found package up with the \$21,000 in it. No. 1 then told victim No. 2 to wait and she would be back as soon as her rich employer told her what to do. She returned in about 5 minutes and stated her boss said this money should be split three ways and all parties must put up money to show good faith. Then both suspects and victim went to victim's home and victim gave the No. 1 suspect \$300. Both suspects told victim this was not enough money and that she must put up more money to receive her share. Both suspects and victim then went to a bank. No. 1 suspect and victim went to the basement where victim signed a slip for safe deposit box. Victim and No. 1 went into booth and victim gave her \$2,000 in cash. Then No. 1 and victim met No. 2 and then drove to victim's home where No. 2 left saying she would see them the following day. No. 1 stayed at victim's home from 4 p.m. on December 18, 1957, to 9 a.m., on December 19, 1957, talking about church and faith to the victim. The following day, December 19, 1957, the No. 1 suspect told victim

that she would have to put up \$2,000 more to close the deal and get her share of found money. Then No. 2 came to residence of victim and all three got into Yellow Cab and were driven to another bank where victim withdrew \$2,000 and gave same to No. 1 suspect.

They then met No. 2 outside of bank and all returned to an area near victim's home. They told victim to wait until they had seen the boss on the second floor of building and then she would get her \$7,000 share of the \$21,000 (found currency). Victim waited for 2 hours and when suspects did not return she notified police of this swindle.

There are myriad other con games, of course, which differ only in their machinations.

These are deplorable crimes perpetrated by a heartless group of criminals. In recent times, Congress has passed legislation aimed at reducing swindles and providing ways of bringing about the speedy apprehension of confidence men.

I will not go into local laws relating to confidence games since one of the questions here is whether further Federal legislation is needed to combat swindlers.

Confining myself to the type of confidence game which usually comes to the attention of police—that is, excluding matters which fall, for instance, within the jurisdiction of the Food and Drug Administration, U.S. Post Office and Securities and Exchange Commission—I believe the laws now on the books are adequate.

Congress has given the FBI investigative jurisdiction in swindles when the sum is in excess of \$5,000. Such a crime falls within the purview of the interstate transportation of stolen property statute. Congress has also made it a violation of Federal law to use such interstate communications as telegraph and telephone in furtherance of such schemes. Under the Fugitive Felon Act the Federal Government will also seek fugitives for local authorities when the criminals commit a felony and there is indication they have fled interstate.

These statutes are good because big-time confidence men range far and wide, and the investigative facilities of the Federal Government which stretch across the country are ideal for bringing about the apprehension of such criminals.

At the same time, local law enforcement agencies in this country can use the services of the FBI Laboratory for scientific examination of evidence and the facilities of the Identification Division for fingerprint matters.

To recommend that further legislation be introduced in this area is, in my opinion, unnecessary since local and Federal authorities, working together, can accomplish the same purpose within our separate jurisdictions. I know that the subject of consideration here is the elderly person. In this regard, I do not believe the answer lies in additional legislation.

I would instead recommend to this committee that a nationwide program of education be undertaken to alert our senior citizens to this very prevalent danger of confidence games.

I believe such an activity would be well within the area of interest of an agency such as the Department of Health, Education, and Welfare. A campaign encompassing warning flyers to be mailed with social security checks; brochures to be distributed in cooperation with banks and savings and loan institutions; printed material which can be made available to the elderly people in a community by service and

civic organizations and myriad other educational techniques are just some of the ways in which the Government could help focus attention on the confidence game problem.

One of the primary functions of the International Association of Chiefs of Police is to assist in the fight for crime prevention.

As the representative association of the Nation's local law enforcement officials, we would be happy to lend our experience and assistance to the Federal Government on such a program.

As representatives of law enforcement, we owe it to the public, and as the very existence of these hearings indicates, the Federal Government has this duty to our senior citizens.

You will find us, as the law enforcement officers of the country, willing to be of any service in connection with this problem.

Senator WILLIAMS. Thank you very much, Mr. Tamm. Where do you work as executive director?

Mr. TAMM. Here in Washington. Our headquarters is now here. We represent the law enforcement administrators, some 5,000 strong in this country, and 26 foreign countries.

Senator WILLIAMS. Well, do the committee members have any questions or observations?

I know Jennings Randolph made an observation to me earlier that you had a reputation for greatness in your field.

Mr. TAMM. Thank you, sir. It is very nice of the Senator.

Senator RANDOLPH. Mr. Chairman, earlier today we have had from most of the witnesses and now from the testimony of Mr. Tamm the recognition of the need for an approach through effective educational media. I wonder if the record might reflect that legislation introduced by Senator McNamara, the chairman of this committee, by Representative Fogarty of Rhode Island, with other Senators and Representatives, would be helpful in this effort to educate the elderly regarding the frauds which have been uncovered here during the hearings.

A U.S. Commission on Aging would be created at the White House level, and certainly one area of the responsibility of such a Commission could be the important need to inform and educate the senior citizens of our country on these problems.

I think the record should reflect that this would be an area for the Commission to operate in, if it is created, and I believe that it should become law.

Senator WILLIAMS. Thank you. Senator Muskie?

Senator MUSKIE. No questions, Mr. Chairman.

Senator WILLIAMS. Thank you, Mr. Tamm.

Mr. TAMM. Thank you, Mr. Chairman.

Senator WILLIAMS. The committee will now recess until 10 o'clock tomorrow.

(Whereupon, at 12:10 p.m., the committee recessed, to reconvene at 10 a.m., Thursday, January 17, 1963.)

