

MEMORANDUM
OF THE DIVISION OF TRADING AND EXCHANGES
OF THE SECURITIES AND EXCHANGE COMMISSION
REGARDING LETTER DATED APRIL 2, 1962 TO THE CHAIRMAN
FROM SENATOR JOHN J. WILLIAMS OF DELAWARE

In his letter to the Chairman, Senator Williams advises that information has come to his attention concerning a bond issue which presumably was sold by Deming, New Mexico, and allegedly was purchased by the Teamsters Union. There are allegations of a kickback or payoff. Senator Williams understands that the Commission is investigating this transaction and requests a report.

As Senator Williams indicates, this situation is having our attention, but no final conclusion has been reached.

The following is the general background of the matter. The New Mexico Industrial Municipal Revenue Bond Act of 1955 authorizes municipalities in that state to issue revenue bonds for the purpose of acquiring business property which, in turn, is leased to business corporations, it being contemplated that the revenue from the lease will cover interest and principal on the bonds. The purpose of this legislation, of course, is to assist in attracting industry and providing employment.

Under this statute, in October 1959, the Village of Deming issued \$2,980,000 face amount of Class A bonds and \$1,500,000 face amount of Class B bonds to acquire the Auburn Rubber Company of Indiana and to relocate this business in Deming. The project is known as the Auburn-Hosdreg Project, since the Hosdreg Company, Inc. acquired the assets and, in turn, deeded them to the Village in exchange for the bonds. Hosdreg, in turn, sold the \$2,980,000 of Class A bonds to the Central States Southeast and Southwest Areas, Pension Fund of the Teamsters Union. The \$1,500,000 Class B bonds apparently were sold to one James D. Glatt, a real estate broker and promoter, under circumstances which are not altogether clear, pursuant to an arrangement between him and the Hosdreg Company which included compensation to him, allegedly for finding a purchaser for the Class A bonds. The Class B bonds are subordinated to the Class A bonds.

The extent of the Commission's jurisdiction with respect to this transaction is quite limited. The revenue bonds, being securities issued by a municipality of the State of New Mexico, are exempt from the registration requirements of the Securities Act of 1933 and from the reporting requirements of the Securities Exchange Act of 1934, and the Commission therefore has no jurisdiction over transactions in these securities unless it is determined that there was fraud either in the purchase or in the sale. To the extent that the situation has implications with regard to the operation of labor organizations, the

Commission would have no jurisdiction over that phase of the matter which, we understand, is receiving the attention of the Department of Justice and other government agencies. We are not presently in a position to comment upon the allegation that there was a kickback or payoff, particularly in view of the fact that our inquiries are still in progress.

CHAIRMAN'S OFFICE
MAILED

APR 11 1962

Signed by: _____

Honorable John J. Williams
United States Senate
Washington 25, D. C.

Dear Senator Williams:

This is in reply to your letter of April 2, 1962, with reference to a bond issue sold by the Village of Deming, New Mexico, and purchased by an affiliate of the Teamsters Union.

I attach hereto a memorandum from the Division of Trading and Exchanges with regard to this matter, which I hope will be of some assistance. If you need any further information which we are in a position to supply, we would be most happy to do so. In that connection, you might get in touch with Mr. Philip A. Loomis, Jr., Director of the Division of Trading and Exchanges, who can be reached at WOrth 3-3368.

Sincerely,

William L. Cary
Chairman

Enclosure

PALoomis:jce
4/6/62