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Closing the Deal

As Banks Bid for City Bond Work, 'Pay to Play' Tradition Endures

**How 2 Men From J.P. Morgan
Rewarded a Fund-Raiser
For Philadelphia's Mayor**


Invoice for a Job Not Done

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In 2001, two **J.P. Morgan Chase & Co.** investment bankers were looking for a way to get more work underwriting municipal bonds in Philadelphia. Then the bankers, Charles LeCroy and Anthony Snell, met one of the Philadelphia mayor's top fund-raisers, and their lives got complicated.

The fund-raiser was a folksy lawyer named Ronald A. White. According to accounts later introduced in a trial in federal court in Philadelphia, Mr. White suggested he could help the bank get bond work and also suggested various ways the bank could compensate him.

J.P. Morgan eventually gave \$20,000 to fund a scholarship in Mr. White's name. It also donated \$70,000 to a charity of which he was co-chairman. And according to accounts later introduced in court, the bankers got J.P. Morgan to pay \$50,000 to Mr. White's tiny law firm for work that, it turned out, it never did.



Ron White

Mr. Snell, asked later about such events in a J.P. Morgan internal investigation, said that if Mr. White "was going to use his contacts to help J.P. Morgan, he expected J.P. Morgan to help his friends." In big cities, Mr. Snell added, according to J.P. Morgan lawyers' memo about the debriefing, "99.9% of the time there is a go-to guy" like Mr. White.

Federal prosecutors saw the matter less benignly. Last June they brought indictments against a dozen people, including the two bankers, Mr. White and a former city treasurer. Five people have pleaded guilty, Mr. Snell and Mr. LeCroy to wire fraud. Several others are currently on trial. Mr. White, the fund-raiser, died last fall.

As financial shenanigans go, the case is small change. J.P. Morgan's fee for underwriting the bonds at issue was about \$424,000 -- less than Tyco International paid to paint Dennis Kozlowski's apartment foyer, according to testimony in the former Tyco chief's corruption trial. But the Philadelphia case, as revealed in interviews and nearly 1,000 wiretapped conversations and corporate memos, illustrates a larger problem. In America's city halls, traditions of cronyism and petty influence-peddling are alive and well, despite a decade of efforts to guarantee fair play.

Back in 1903, The Wall Street Journal pined for a day "when a man who has built up for himself a large fortune by dishonest trafficking with politicians, for example, in municipal contracts, shall be looked upon as an undesirable member of society." A century later, big municipal-bond "pay to play" cases still arise at a rate of about one a year. In Cincinnati, an arm of **Fifth Third Bancorp** paid \$1 million in 2002 to settle federal allegations of unlawful donations to politicians. (It neither admitted nor denied them.) Currently in Chicago, investigators are probing hospital executives' allegations that a **Bear Stearns Cos.** banker improperly used his political clout to win a role in a \$10 billion pension-funding issue. (Bear Stearns said it is confident in the integrity of its business.)

Cities, counties and other entities issue about \$400 billion of municipal bonds in the U.S. each year. Banks can earn fees as high as \$1 million for underwriting complex deals. While underwriters for some issues are named based on low bids, 80% of the deals are "negotiated" ones, in which officials can use other considerations to pick the underwriters. As recently as the early 1990s, banks looking for this business frequently, and legally, made campaign donations to municipal officials and other politicians.

But 1994 saw an effort to crack down. A self-regulatory group forbade bond underwriters to do business with municipal officials to whose campaigns they had contributed. The Municipal Securities Rulemaking Board also required disclosure of all contributions by underwriters, and later by consultants as well. The board, whose rules the Securities and Exchange Commission enforces, now is proposing to bar underwriters from using consultants at all when they seek municipal-bond work.



Charles LeCroy

The rules don't prevent fraternizing. "We're not going to sit there and write a rule saying that you can't go play golf with the mayor," said Christopher Taylor, the MSRB's executive director. Pay-to-play practices have been tough to root out partly because it can be hard to draw the line between friendly networking and illicit influence-peddling.

Building relationships with people who could help J.P. Morgan get bond-underwriting work was Mr. Snell's job, he later told the bank's lawyers. "Philadelphia has a strong mayor, so access to his office is crucial," he said, according to the lawyers' debriefing memo. Mr. Snell, now 45 years old, reported to Mr. LeCroy, 50, who was a managing director.

Around the start of 2001, Mr. Snell went to see Philadelphia's finance director, Janice Davis, whom he knew from a prior job. He introduced her to Mr. LeCroy.

Ms. Davis then advised the pair to go see Mr. White, the fund-raiser, according to the memo about Mr. LeCroy's debriefing.

Mr. White was a major figure in the city's African-American community. He held no city office. But Finance Director Davis permitted him to influence the city's choice of underwriters and gave him access to internal city documents, after Mayor John Street effectively told her to do so, she later testified in federal district court for the Eastern District of Pennsylvania.

"Ron [White] was a friend of the administration, and it was understood that if he was proposing someone who had the qualifications, that they should be included," she testified. A spokesman for Mayor Street, a Democrat, said he wouldn't comment on the substance of the case. Ms. Davis, who is now Atlanta's finance director, declined to be interviewed.

For the past 2½ years, Ms. Davis has also served on the self-regulatory board that sets the underwriting ground rules, the MSRB. Its executive director, Mr. Taylor, said Ms. Davis has "no conflict of interest." Neither she nor Mayor Street has faced charges.

The two J.P. Morgan bankers met with Mr. White in October 2001. He behaved in a "self-important manner," letting it be known he was a big fund-raiser for the mayor and frequently interrupting the meeting to take calls, Mr. Snell told J.P. Morgan lawyers, according to their debriefing memo.

Just how much sway Mr. White had over Philadelphia bond deals and how he exercised it remain matters of debate. He cultivated ties with the city's then-treasurer, Corey Kemp, giving him gifts such as tickets to the 2002 NBA All-Star game and a trip by private jet to the 2003 Super Bowl. Mr. Kemp -- now on trial on fraud and other charges -- confirms receiving the gifts, his lawyer said, but denies any impropriety. The lawyer also said Mr. Kemp didn't have final say about who got underwriting work.

In any case, the bankers were sufficiently convinced of Mr. White's influence that they sought to hire him as a \$10,000-a-month consultant, according to the debriefing memos. To that end, Mr. White traveled to J.P. Morgan headquarters in New York and met with Mr. LeCroy and some of his superiors. During the meeting, a problem emerged: Bank policy didn't permit hiring consultants who made political contributions.



Still, "Everyone wanted to continue developing a relationship with White," Mr. LeCroy told the bank lawyers who interviewed him later, their memo said.

Soon, J.P. Morgan donated \$20,000 for a scholarship in Mr. White's name at Wesleyan University in Middletown, Conn.

But Mr. White had set his mind on the figure of \$10,000 a month, according to the bankers' debriefings. They said Mr. White suggested that J.P. Morgan hire his small law firm as counsel on bond deals and also donate to his charity, the Youth Leadership Foundation, which it did. They also said Mr. White asked that J.P. Morgan give printing work to a firm belonging to his girlfriend, Janice R. Knight. That work never materialized.

Ms. Knight knew he was trying to drum up J.P. Morgan business for her firm, her lawyer said, but she wasn't privy to Mr. White's talks with the bankers or aware of any wrongdoing. The lawyer said he had advised his client not to speak to the press.

As it happened, federal investigators began in January 2003 to wiretap Mr. White, and later others, trying to determine if there was corruption in City Hall. Though that investigation evolved from other matters, not the underwriting, the wiretaps later helped prosecutors bring last June's indictments. A federal judge in Philadelphia unsealed the wiretap transcripts and other documents this January at the request of the Philadelphia Inquirer and Daily News.

One wiretap picked up a call on Jan. 31, 2003, between Mr. White and then-treasurer Kemp. Mr. White told Mr. Kemp how to handle a meeting with Mr. LeCroy. The banker was seeking underwriting jobs including a \$218 million refinancing for the Philadelphia Municipal Authority.

"Make sure that he knows that ain't nothing going to happen without them coming back to me. That's important for you to tell him so he, so the white boy can go back to New York and let them guys know what's up," Mr. White said.

After the meeting, Messrs. Kemp and White spoke again, and agreed that J.P. Morgan was trying to get too much work for too little. "There's a difference between being hungry and greedy, man," Mr. Kemp said. Mr. Kemp doesn't challenge the transcript, his lawyer said.

The bankers and Mr. White had discussed hiring Mr. White's small law firm to work on bond deals. The firm, Ronald A. White P.C., comprised just Mr. White, his daughter, Simone, and two other lawyers. But according to Mr. LeCroy's memo, J.P. Morgan "was in a difficult position because they could not tell White that they did not believe his daughter was capable of doing the work" on complex bond deals.

Mr. LeCroy decided to have the White firm be counsel on a bond issue for the school district of Mobile, Ala., as a way for it to "become educated" about complicated bond transactions. However, an Alabama law

firm working with J.P. Morgan on the Mobile deal objected to the White firm's involvement, and ultimately the White firm didn't work on the deal.

Lawyers at the law firm were prepared to testify to that effect, Messrs. Snell's and LeCroy's guilty-plea agreements say. At one point, Mr. White asked his daughter, in a call that was wiretapped, whether they'd done any work on the Mobile deal. She said no.

Nonetheless, the bankers decided to pay the law firm \$50,000, and Mr. Snell sought an invoice for that amount from the law firm. He asked Mr. White for the bill in a recorded call on April 8, 2003. Here's how Mr. Snell described the law firm's role: "We were not able to get you in as underwriter's counsel, so we just decided to have you guys as counsel to the underwriter, and the deal is done, and we just need an invoice from you." The law firm did supply an invoice, subsequently introduced in federal court.

Phone messages left for the White law firm weren't returned. Simone White declined to comment.

In December 2003, the Philadelphia Municipal Authority bond deal finally went through. J.P. Morgan, as co-lead manager, received a fee of \$423,963.



Anthony Snell

Beyond that, the bankers didn't get much chance to benefit from the relationships they'd built. The federal investigation of City Hall became public when police found a bug in Mayor Street's office. J.P. Morgan quickly moved to cooperate, having its lawyers interview Messrs. LeCroy and Snell, then giving memos about these interviews to prosecutors. (Messrs. LeCroy and Snell decline to say whether the memos represent their words accurately.) In March 2004, after the bank finished interviewing the pair, it fired them.

In January, the two pleaded guilty. They admitted defrauding J.P. Morgan by getting it to pay a false invoice from the White law firm. The court ordered the \$50,000 returned to J.P. Morgan. The charges against the bankers carry a maximum sentence of 40 years in prison. They haven't yet been sentenced.

Mr. LeCroy said he believed he had his superiors' approval to pay Mr. White's law firm because it was "a common approach in the industry," according to bank lawyers' debriefing memo. But a bank spokeswoman said, "We have found no evidence that anyone at J.P. Morgan other than Snell and LeCroy was aware of or complicit in their fraud."

Mr. Snell declines to comment, his lawyer said. Mr. LeCroy, in an interview, said he had brought J.P. Morgan about \$60 million in underwriting fees in 2003 and expected his pay for that year to be about \$2.2 million. Instead, he said, he got far less and lost stock options and restricted stock. "For five years, seven days a week, I gave them everything I had -- I loved J.P. Morgan," he said.

Throughout the case, prosecutors have portrayed the bank as a victim. J.P. Morgan, asked why it donated \$90,000 to the scholarship fund and charity of the mayoral fund-raiser and whether it did so in hopes of swaying the city's choice of underwriters, said: "J.P. Morgan makes charitable donations to support worthy causes and to develop goodwill in local communities. We regret the association with Mr. White, but we still think the money provided real benefits to needy and deserving young people."

Now on trial in Philadelphia are former treasurer Kemp, Mr. White's friend Ms. Knight and two executives of **Commerce Bancorp** of Cherry Hill, N.J., which was also a co-lead manager of the bond issue. They're charged with conspiring to deprive taxpayers of Mr. Kemp's "honest services." Mr. Snell testified in the trial last week.

---- Paul Davies contributed to this article.

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