

**UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON STANDARDS OF OFFICIAL CONDUCT**

Citizens for Responsibility and Ethics in Washington

Complainant

Hon. Charles H. Taylor, M.C.

Respondent

COMPLAINT

Parties

1. Citizens for Responsibility and Ethics in Washington is a non-partisan, non-profit watchdog organization dedicated to identifying, challenging, and deterring unethical conduct on the part of government officials.
2. Charles H. Taylor is a duly elected Member of the 109th Congress from the 11th District of North Carolina.

Jurisdiction

3. This complaint is brought pursuant to House Rule X, cl. 1(p), which assigns to the House Committee on Standards of Official Conduct (“Ethics Committee”) jurisdiction over all matters pertaining to the House Code of Official Conduct, which is codified at House Rule XXIII. In addition, House Rule XI, cl. 3(b)(2)(A) provides that the Ethics Committee may “undertake an investigation relating to the official conduct of an individual Member... or employee of the House only... upon receipt of information offered as a complaint in writing and under oath, from a Member.”

Background

Blue Ridge Savings and Loan

4. Rep. Taylor is the founder, chairman of the board of directors, and majority owner of Blue Ridge Savings and Loan (“Blue Ridge”), a bank in Asheville, North

Carolina. Damon Chappie, Taylor May Be Sued Over Bank Killings, *Roll Call*, July 15, 2004 (attached as Exhibit A). Beginning in 1992, Blue Ridge made a series of fraudulent loans to Rep. Taylor's long-time friend and political supporter, Charles Cagle. Joseph Neff, Two plead guilty in bank-fraud case, *The News & Observer*, December 6, 2001 (attached as Exhibit B). At the time, the bank's lending limit to a single borrower was \$500,000, but Blue Ridge made five loans totaling \$2.27 million to Mr. Cagle, Mr. Cagle's mother, daughter, and son-in-law, his mother's estate and a man whose family relationship was unclear. *Id.* In a 1998 trial involving the loan to Mr. Cagle's daughter and son-in-law, Mr. Cagle's daughter testified that she was unaware of the \$467,999 loan until the bank foreclosed. *Id.* In 2001, Mr. Cagle pleaded guilty to bank fraud in borrowing \$1.3 million from Blue Ridge. Damon Chappie, Feds: No Taylor Shield, *Roll Call*, June 9, 2003 (attached as Exhibit C). According to Mr. Cagle, Rep. Taylor knew the loans made by Blue Ridge were fraudulent. Pat Stith, Taylor linked to loan fraud, *The News & Observer*, July 6, 2003.

5. In addition, Hayes C. Martin, the former president of Blue Ridge and former treasurer for Rep. Taylor's campaign committee, pleaded guilty to bank fraud for making the loans to Mr. Cagle. Neff, *The News & Observer*, Dec. 6, 2001. In an FBI interview and during the criminal trial of Mr. Cagle's attorney, Thomas Jones (who assisted Cagle in preparing the fraudulent loan documents), Mr. Martin testified that Rep. Taylor had extensive knowledge about, and was involved in the making of, the loans to Mr. Cagle. Stith, *The News & Observer*, July 6, 2003; John Wagner, Taylor Inquiry Urged, *The News & Observer*, August 15, 2003 (attached as Exhibit D). Mr. Martin testified that he spent a fair amount of his time "helping Charles Taylor to skirt issues with the Office of

Thrift Supervision.” Tammy Jones, Testimony closes in fraud trial linked to Rep. Taylor, *Asheville Citizen-Times*, April 11, 2003 (attached as Exhibit E). He also testified that when the FBI began to investigate the Cagle loans, Rep. Taylor ordered the removal of an employee who was suspected of cooperating with federal investigators. Tammy Jones, Banker: Taylor Aware of loans, *Asheville Citizen-Times*, April 9, 2003 (attached as Exhibit F).

6. Rep. Taylor led nearly all meetings of the bank’s board of directors and, until 1999, the board approved all new loans. Throughout the 1990s, most members of the board were relatives or close associates of Rep. Taylor. After 1999, new loans had to be approved by a committee consisting of Rep. Taylor and the bank’s president, Dwayne Wiseman. Neff, *The News & Observer*, Dec. 6, 2001.

7. In his testimony, Mr. Martin described Rep. Taylor as a “micromanager” concerning activities of the bank. Rep. Taylor allegedly “maintained constant contact with the bank, either physically or telephonically – 10 to 11 calls per day.” Stith, *The News and Observer*, July 6, 2003. Mr. Martin further stated that Rep. Taylor would regularly call him and ask “how much money have you made for me?” and “when can you pay me dividends?” Id.

Relationship with Russian Business

8. Beginning in the mid-1990s, Financial Guaranty Corp., the holding company for Blue Ridge, and an entity chaired and owned by Rep. Taylor, made a series of loans to Russian companies with interest rates as high as 60%, according to a copy of a loan agreement and testimony given to the FBI at the time of the investigation into Blue

Ridge. Greg Walters, American Lawmaker Banks on Ivanovo, *Moscow Times*, May 26, 2005 (attached as Exhibit G).

9. In September 2003, Rep. Taylor bought an 80% stake in the Commercial Bank of Ivanovo. Id. The plan was apparently to create a “trade bridge” allowing the Russian bank and Blue Ridge to match up small and mid-sized importers in their respective regions. Id. Although the plan did not work out, the Ivanovo bank’s portfolio tripled after Rep. Taylor took it over. Id. A spokesperson for Rep. Taylor stated that Rep. Taylor had purchased the bank “to promote small business in Russia,” which, she claimed would increase democracy in the country. Id.

10. In addition, Financial Guaranty has made loans to Russian businesses. For example, Financial Guaranty agreed to loan Ivanovo businessman Sergei Zvonov \$100,000 to finance the construction of an apartment building. Id.; James Rosen, Russian dealings blur public, private, *The News & Observer*, August 22, 2000 (attached as Exhibit H). The loan carried a 60% interest rate and required an additional \$10,000 payment to help finance the construction, according to a copy of the agreement dated August 21, 1995 and signed by Rep. Taylor. Walters, *Moscow Times*, May 26, 2005. It is unknown how many loans Rep. Taylor made through Financial Guaranty to Russian firms. Id.

11. Rep. Taylor’s closest associate in Russia is Boris Bolshakov, a former member of the Supreme Soviet representing the Ivanovo region as well as a former Soviet KGB colonel who worked as a senior officer in a bank, SBS-Agro, which has been linked to an international multibillion-dollar money-laundering scheme. Rosen, *The News and Observer*, August 22, 2000; Walters, *Moscow Times*, May 26, 2005. Since their initial

meeting in 1993, Mr. Bolshakov has visited North Carolina at least twice, and met Rep. Taylor in Washington where Mr. Bolshakov was introduced to Republican congressional leaders. Id. Boris and Marina Bolshakov own the remaining 20% interest of both the Commercial Bank of Ivanovo and Columbus investment company. Walters, *Moscow Times*, May 25, 2005.

12. Rep. Taylor also founded a Russian investment company called Columbus, which works in concert with his bank. Id. According to Rep. Taylor's spokesperson, Columbus was formed to overcome some of the restrictions of Russian banking law and expand Rep. Taylor's Russian investments. Id. Marina Bolshokova said that Columbus serves as a way to legally circumvent Russia Central Bank regulations that require banks to set aside reserve funds equal to the amount they lend. Id. Both Rep. Taylor and Columbus maintain accounts with the Commercial Bank of Ivanovo. Id.

13. Since 1999, Rep. Taylor has spent at least \$25,000 in taxpayer money visiting Russia. Angie Newsome, The Businessman and the Congressman: Taylor's Interest Puts Russian Town on Political Map Amid Praise, Criticism, *Asheville Citizen-Times*, August 28, 2005 (attached as Exhibit I); see also *politicalmoneyline.com*. Notably, when asked by a reporter, Rep. Taylor could not recall whether any of those trips included trips to Ivanovo. Newsome, *Asheville Citizen Times*, Aug. 28, 2005. In fact, aides to Rep. Taylor failed to provide information on any of the specific cities Rep. Taylor visited on his official trips. Id.

14. In addition, information put out by the Ivanovo bank repeatedly refers to Rep. Taylor as "Congressman Charles Taylor." Id. Moreover, according to Juliet Johnson, author of "A Fistful of Rubles: The Rise and Fall of the Russian Banking System" and

associate director of graduate studies at Montreal's McGill University, "[y]ou couldn't walk into Russia as a regular, unconnected person and buy a bank." *Id.* Sergei Zonov, who borrowed money from Financial Guaranty at 60% interest, said of Rep. Taylor, "I know that he is a man who conducts business and politics at the same time." Rosen, *The News and Observer*, Aug. 22, 2000.

Relationship with General Electric

15. General Electric Company ("GE") is the primary polluter of a long stretch of the Hudson River, having deposited significant amounts of polychlorinated biphenyls ("PCBs") over the course of decades of industrial activity. The portion of the Hudson River impacted by this pollution was declared a federal Superfund site by the Environmental Protection Agency. Daren Fonda and Perry Bacon, Jr., GE's Green Awakening, *Time*, July 11, 2005 (attached as Exhibit J).

16. GE has argued that the removal of the PCBs would cause more environmental harm than leaving them in the river sediment. This position has been criticized, however, as a front for avoiding the massive expense of the clean-up. *Id.* Between 1990 and 2005, GE spent over \$114 million on public relations, lobbying, government relations and legal maneuvering to avoid paying to remove PCB's from the Hudson River. See GE Report on PCB Expenditures, 1990-2005, http://www.ge.com/files/usa/en/citizenship/pdfs/GE_2005_citizen_env.pdf/ (attached as Exhibit K).

17. General Electric Company Political Action Committee ("GE PAC"), the federally registered political committee for GE, contributed \$7,500 to Rep. Taylor's 2004 re-

election. See GE PAC, FEC Form 3x, March Monthly Report, September 3, 2003 at 26; GE PAC, FEC Form 3x, May Monthly Report, September 3, 2003 at 66; GE PAC, FEC Form 3x, August Monthly Report, August 20, 2003, at 199; GE PAC, FEC Form 3x, May Monthly Report, May 20, 2004, at 79; GE PAC, FEC Form 3x, June Monthly Report, June 18, 2004, at 97; GE PAC, FEC Form 3x, Year End Report, January 31, 2005, at 597 (all attached as Exhibit L). In addition, Rep. Taylor's former chief of staff was then a lobbyist for GE, focusing on environmental budget issues. Steve Bailey, Forget the Elephant, *The Boston Globe*, June 3, 2005 (attached as Exhibit M).

18. In May 2005, at GE's request and using research provided by the company, Rep. Taylor inserted language in H.R. 2361, the Department of the Interior, Environment, and Related Agencies Appropriations Act, that benefitted the company by funding a study of PCB dredging projects. Ned Sullivan and Rich Schiafo, Talking Green, Acting Dirty, *The New York Times*, June 12, 2005 (attached as Exhibit N). The provision specifically instructed the EPA to "enter into an agreement with the National Academy of Sciences to examine remedial actions at contaminated sediment sites... [and consider whether] such risk reduction benefits will be achieved significantly faster than other less costly remedial alternatives including source control and natural recovery." Brian Sarzynski, In their own words: General Electric co-authors legislation introduced by Taylor, *Mountain Xpress*, June 15, 2005 (attached as Exhibit O). H.R. 2361 passed the House of Representatives and later became Public Law No. 109-54 (2005).

19. The EPA study was intended to provide GE with another way to justify further delay in its clean-up of the Hudson River. Id.; see also Sullivan and Schiafo, *The New*

York Times, June 12, 2005; Rich Schiafo, GE Refuses to Admit Responsibility for PCBs, *Poughkeepsie Journal*, June 18, 2005 (attached as Exhibit P).

The Saginaw Chippewa Tribe

20. In 2002, the Saginaw Chippewa tribe of Michigan, working with Greenberg Traurig, LLP and its lobbyist Jack Abramoff, was trying to secure federal funding to construct a school on its reservation. John Solomon and Sharon Theimer, E-Mails Show Abramoff's Donation Leverage, *Associated Press*, April 11, 2006 (attached as Exhibit Q). The funding was held up due to the objections of officials in the Department of Interior and a Republican House Appropriations Committee staff member. Id.

21. On April 11, 2003, Greenberg Traurig held a major fundraiser for Rep. Taylor's campaign committee, which collected \$2,000 from Abramoff, \$3,000 from other Greenberg Traurig employees, and \$1,000 from the Saginaw Chippewa tribe. See Charles Taylor for Congress Committee, FEC Form 3, July Quarterly Report, September 23, 2003 (attached as Exhibit R).

22. On May 16, 2003, Rep. Taylor and Sen. Conrad Burns (R-MT) wrote a letter to the Assistant Secretary of the Department of Interior, P. Lynn Scarlet, supporting the Saginaw Chippewa request for the school construction appropriation. Letter from Sen. Conrad Burns and Rep. Charles Taylor to P. Lynn Scarlet, May 16, 2003 (attached as Exhibit S). Notably, the letter from the two members of Congress referenced correspondence that had been drafted at the Department of Interior to be sent to the House and Senate Appropriations Subcommittees on the Interior, but had never actually been sent. Solomon and Theimer, *Associated Press*, Apr. 11, 2003. Federal agents are investigating whether an Interior official leaked a draft of the letter to Abramoff's team,

who then sent it to Capitol Hill so the lawmakers could use it to pressure the Department. Solomon and Theimer, *Associated Press*, Apr. 11, 2003.

23. On June 27, 2003, one month after Rep. Taylor and Sen. Burns sent their letter, the Saginaw Chippewa donated an additional \$3,000 to Rep. Taylor's campaign. See Charles Taylor for Congress Committee, FEC Form 3, July Quarterly Report, September 23, 2003, at 65 (attached as Exhibit T).

COUNT ONE

CONSPIRACY TO COMMIT BANK FRAUD

24. Federal law prohibits any person from knowingly obtaining "any of the moneys, funds, credits, assets, securities, or other property owned by, or under the custody or control of, a financial institution, by means of false or fraudulent pretenses, representations, or promises." 18 U.S.C. §1344(2). Federal law also prohibits conspiracy to commit bank fraud. 18 U.S.C. §1349.

25. There is ample evidence from FBI interviews, the sworn testimony of Hayes Martin and the statements of Charles Cagle, showing that Rep. Taylor was an active participant in the series of fraudulent series of loans made to Mr. Cagle by Blue Ridge. Rep. Taylor was personally involved in approving all loan requests during the time of these loans, and according to Mr. Cagle and Mr. Martin, Rep. Taylor knew that Charles Cagle was taking out loans in the names of others. By providing Mr. Cagle with fraudulent bank loans, Rep. Taylor likely violated of 18 U.S.C. §§1344, 1349.

COUNT TWO

BRIBERY

26. Federal law prohibits public officials from directly or indirectly demanding, seeking, receiving, accepting, or agreeing to receive or accept anything of value in return for being influenced in the performance of an official act. 18 U.S.C. § 201(b)(2)(A). It is well-settled that accepting a contribution to a political campaign can constitute a bribe if a *quid pro quo* can be demonstrated. McCormick v. United States, 500 U.S. 257, 273 (1991); United States v. Biaggi, 909 F.2d 662, 665 (2d Cir. 1990), cert. denied, 499 U.S. 904 (1991).

27. Rep. Taylor accepted campaign contributions from General Electric Political Action Committee in apparent direct exchange for his support of legislation that GE lobbyists asked him to champion. By accepting contributions in apparent return for his assistance, Rep. Taylor may have violated the federal bribery statute, 18 U.S.C. §201(b)(2)(A).

28. Rep. Taylor accepted campaign contributions from the Saginaw Chippewa tribe and Jack Abramoff in apparent exchange for his support of the Saginaw Chippewa appropriation. By accepting contributions in apparent return for his assistance, Rep. Taylor may have violated the federal bribery statute, 18 U.S.C. § 201(b)(2)(A).

COUNT THREE

HONEST SERVICES FRAUD

29. Federal law prohibits a member of Congress from depriving his constituents, the House of Representatives and the United States of the right of honest services, including conscientious, loyal, faithful, disinterested, unbiased service, performed free of deceit,

undue influence, conflict of interest, self-enrichment, self dealing, concealment, bribery, fraud and corruption. 18 U.S.C. §1346.

30. By using his position as a member of Congress to gain business contacts in Russia, by allowing the Commercial Bank of Ivanovo to capitalize on his position as a member of Congress, by knowingly and willfully conducting business and politics at the same time, and potentially by conducting bank business while on taxpayer funded trips to Russia, Rep. Taylor may be depriving his constituents, the House of Representatives and the United States of his honest services in violation of 18 U.S.C. §1341.

COUNT IV

IMPROPER INFLUENCE

31. House Rule XXIII, clause 3 provides:

A Member, Delegate, Resident Commissioner, officer, or employee of the House may not receive compensation and may not permit compensation to accrue to his beneficial interest from any source, the receipt of which would occur by virtue of influence improperly exerted from his position in the Congress.

A memorandum issued by the Committee on Standards of Official Conduct on April 25, 1997, clarified this rule, stating:

House Members, officers and employees are generally *prohibited* from asking for anything of value from a broad range of persons: specifically, anyone who seeks official action from the House, does business with the House, or has interests which may be substantially affected by the performance of official duties.

Memorandum from House Comm. on Standards of Official Conduct, to All Members, Officers and Employees, re: Rules Governing (1) Solicitation by Members, Officers and

Employees in General, and (2) Political Fundraising Activity in House Offices (Apr. 25, 1997) [*emphasis in original*] (attached at Exhibit U).

32. Rep. Taylor received \$4,000 in campaign contributions from the Saginaw Chippewa tribe and Jack Abramoff in apparent consideration for his support of the tribe's appropriation request. Notably, the contributions were made by the tribe in two installments, before and after Rep. Taylor sent the letter of support to the Department of the Interior. In addition, Rep. Taylor received campaign contributions from Jack Abramoff as part of a major fundraiser organized by his lobbying firm Greenberg Traurig immediately before the letter was drafted. To the extent these campaign contributions influenced his actions, Rep. Taylor violated House Rule XXIII, clause 3.

33. Rep. Taylor received campaign contributions from General Electric Political Action Committee and, at the request of GE, championed a provision in H.R. 2361 that mandated a study intended to delay Hudson River cleanup operations, potentially saving GE millions of dollars. To the extent these campaign contributions influenced his actions, Rep. Taylor violated House Rule XXIII, clause 3.

COUNT FIVE

CONDUCT NOT REFLECTING CREDITABLY ON THE HOUSE

34. Rule XXIII, clause 1 of the House Ethics Manual requires all members of the House to conduct themselves "at all times in a manner that reflects creditably on the House." House Rule XXIII, clause 1. This ethics standard is considered to be "the most comprehensive provision of the code." House Comm. on Standards of Official Conduct, House Ethics Manual. When this section was first adopted, the Select Committee on Standards of Official Conduct of the 90th Congress noted that it was included within the

Code to deal with “flagrant” violations of the law that reflect on “Congress as a whole,” and that might otherwise go unpunished. House Comm. on Standards of Official Conduct, Report under the Authority of H. Res. 418, H.Rep.No. 1176, 90th Cong., 2d Sess. 17 (1968).

35. Rep. Taylor’s personal involvement in the series of fraudulent loans made by Blue Ridge to his friend and political supporter Charles Cagle led to the guilty pleas and convictions of several close associates at the bank. Given his tight control of Blue Ridge and his personal oversight of these fraudulent loans, Rep. Taylor’s conduct does not reflect creditably on the House and violates House Rule XXIII, clause 1.

36. Rep. Taylor has actively established new enterprises in Russia for his own gain, even while he has taken numerous taxpayer-sponsored trips to Russia and used those trips to further his individual business interests. In addition, Rep. Taylor appears to use his position as a member of Congress to benefit his Russian bank, as is demonstrated by the fact that the bank repeatedly refers to its congressional owner in the information it puts out. As a result, Rep. Taylor’s activities pertaining to his Russian business interests suggest that he is using his office for personal financial gain, which does not reflect creditably on the House and, therefore, violates House Rule XXIII, clause 1.

37. Rep. Taylor apparently accepted campaign contributions in return for legislative favors that benefitted GE and the Saginaw Chippewa tribe. Accepting anything of value in exchange for official action does not reflect creditably on the House and, therefore, violates House Rule XXIII, clause 1.

COUNT SIX

DISPENSATION OF SPECIAL FAVORS

38. In a 1999 memorandum, the House Committee on Standards of Official Conduct quoted approvingly the Code of Ethics for Government Service, which provides that government officials should “[n]ever discriminate unfairly by the dispensing of special favors or privileges to anyone, whether for remuneration or not.” Memorandum from Comm. on Standards of Official Conduct, to All Members, Officers and Employees, re: Prohibition Against Linking Official Actions to Partisan or Political Considerations, or Personal Gain (May 11, 1999) (attached as Exhibit V). The Committee stated specifically that the provisions in the Code of Ethics for Government Service apply to House Members, and that formal charges may be brought against a member for violating that code. Id.

39. By using the power of his office to provide benefits to the Saginaw Chippewa tribe and GE, Rep. Taylor may have dispensed special favors in violation of House Rules.

COUNT EIGHT

BANNED FIDUCIARY RELATIONSHIP

40. The Ethics Reform Act prohibits Members from engaging in professions that provide services involving fiduciary relationships. 5 U.S.C. app. 7, §502. Under the terms of that statute, Members “shall not . . . receive compensation for affiliating with . . . [an] entity which provides professional services involving a fiduciary relationship.” Id.

41. As defined by the House Ethics Manual, a banned fiduciary relationship is one involving a company where its “regular work is to transact business or to handle money

or property for another's benefit in a relation implying and necessitating great confidence and trust on the one part and a high degree of good faith on the other part." House Comm. on Standards of Official Conduct, House Ethics Manual.

42. The fiduciary restriction flows from "the fundamental principle that a public office is a public trust, all officials of the government are expected to act in the interests of the beneficiaries of that trust, that is, the general public." Id. Professional activities involving a fiduciary relationship with a "private client or a limited number of private parties . . . create the potential for a serious conflict of interest" with that public trust. Id.

43. According to Rep. Taylor's financial disclosure forms, he does not directly receive compensation for his role as founder, chairman of the board of directors, and majority owner of Blue Ridge. See U.S. House of Representatives Financial Disclosure Statements of Charles Taylor for Calendar Years 1995 through 2005 (attached as Exhibit W). This appears to be a mere subterfuge, however, since Rep. Taylor is intimately involved with the day-to-day operation of Blue Ridge to the same, if not a greater degree than if he were actually on the bank's payroll, which explains why he lists his occupation as "banker." See Robin Acton, Lawmaker's Flight 39 Stance May Be His Last Straw, [Greensburg, PA] *Tribune-Review*, May 7, 2006 (attached as Exhibit X).

44. The substantial degree of control Rep. Taylor exercises over the bank's operations and his daily constant contact with the bank, including direct participation in approving every bank loan, bear a direct relationship to the many millions of dollars in dividends and interest Rep. Taylor has earned from Blue Ridge. Id. Rep. Taylor is the virtual alter ego of Blue Ridge, for which he has reported owning stock worth over \$50 million. Tim Funk, A Peek Into Congress Members' Finances; Disclosures Indicate Taylor is

Wealthiest From the Carolinas, *The Charlotte Observer*, June 19, 2006 (attached as Exhibit Y). As such, he has a fiduciary relationship with that entity that raises the same concerns of conflict with his public obligations as the conflicts that flow from being a paid employee. Accordingly, Rep. Taylor appears to have a fiduciary relationship that is prohibited by 5 U.S.C. app. 7, §502.

Conclusion

The United States Constitution gives the House of Representatives -- and only the House of Representatives -- the power to create its own rules and the power to police its Members. As a result, it is incumbent upon Members of the House of Representatives to protect the integrity of the House. In fact, the Committee on Standards of Official Conduct was created for this purpose.

Unfortunately, it appears that in recent years Congress has abdicated this responsibility. Rep. Taylor's ability to flout federal law and the House Standards of Official Conduct in multiple ways over a period of years without reprisal is proof of this abdication of responsibility. This complaint offers the House of Representatives, acting through the Committee on Standards of Official Conduct, the opportunity to uphold the integrity of the House by initiating an immediate, thorough, and non-partisan investigation of Rep. Taylor's conduct.

Respectfully submitted,

Melanie Sloan
Executive Director
Citizens for Responsibility and Ethics in Washington

I hereby certify that this complaint has a good faith basis and warrants consideration by the House Committee on Standards of Official Conduct.

Member of Congress

_____ District of _____

Sworn to and subscribed before me this _____ day of _____, 2006.

Notary Public