

## CHAPTER VI

### ELSA'S CREATION AND DISINTEGRATION

This chapter chronicles Chito's relationship with foreign banks, especially those of Irving Trust Company of New York City. In reviewing Chito's financial and banking activities in the 1960's, and his relationship with political allies who aided his corporate endeavors this chapter examines the amalgamation of his mills and factories under one unit entitled Empresas Longoria, S.A., (hereafter called ELSA). It investigates the elements of disintegration of the Longoria family as a united economic entity.

Chito sought financing from United States credit institutions because Mexican banks charged higher interest for loans and insisted that a large operating commercial account be maintained at a certain ratio in relation to the amount borrowed from the creditor bank. For instance, in the early 1950's, Chito had a line of credit for several million pesos with Banco de Londres de Mexico S.A., which was only used for a small fraction of the amount allowed. However, the bank attached many conditions to the loan, and

20% compensating balance. He considered these demands unreasonable and repaid the loan immediately.<sup>1</sup> U.S. banks on the other hand, were more reasonable with their lines of credit and the interest they charged. In 1956, Industrias Unidas had availed itself of lines of credit from Bank of America, Chemical Corn Bank, and Irving Trust of New York. The lines of credit were good for 90 days and the interest charged was 4% to 4½% per annum.<sup>2</sup>

Chito enjoyed extremely cordial relations with United States bankers. He and his family made a point of lavishly entertaining bankers who came to inspect their operations. No amount of time or money was too much to assure their comfort. This was reflected in inter-bank credit memos.<sup>3</sup> Commenting in a bank memo on a visit to Nuevo Laredo, J.D. Zutter, an executive vice president of Irving Trust, described his visit to the Longoria home to celebrate Chito's fifty-second birthday. Zutter related that most of the guests were relatives, except for "several government people and Cantinflás", the famous Mexican actor.<sup>4</sup>

Bankers who traveled from New York to San Antonio, Texas, by commercial planes, were met by a private plane

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<sup>1</sup> Irving Trust, Credit Report from J.D. Zutter, 5-19-55.

<sup>2</sup> Ibid, Zutter, 3-1-56. Doc. 02402.

<sup>3</sup> Irving Trust inter-bank memos, Volumes I, II and III.

<sup>4</sup> Irving Trust, credit memo, 3-23-57.

belonging to Industrias Unidas which carried them to the Laredos. The bankers were guests of the Longorias at the El Rio Motel, the best in Nuevo Laredo, which happened to belong to Chito's nephews. After sufficient food and beverage, the bankers toured the facilities of Industrias Unidas, including the ice plants, cotton mills and gins, and one or two ranches. Also on the standard tour was a meal at the Cadillac Bar which is on the main street of Nuevo Laredo, and owned by Chito. The Cadillac Bar is renowned for its excellent food and drinks, especially its Ramos gin fizzes. No banker passed through Nuevo Laredo without experiencing some of the famous Longoria hospitality. These endeavors were not wasted on the United States bankers. Rarely were bankers so well cared for, nor could Chito and his family be held any higher in their esteem.

In the 1950's, United States banks were cautious about loaning money to foreign customers. Dollars were hard to obtain, but interest rates were relatively low. By the 1960's, money in the United States was more abundant, and bankers were not as cautious making foreign loans.

Because Mexican private banks were constrained by law from lending any customer more than a government regulated amount, Mexican businessmen were encouraged to obtain loans with less conditions from the North Americans. Although

the general impression of United States bank loan policy was that it was conservative, even reluctant to extend loans, bank memos from Chemical, Bank of America and especially Irving Trust indicate the opposite. United States banks were eager to loan money, in fact the more the better.

Chito and Industrias Unidas were the darlings of the U.S. banks. Not only were the bankers from the north entertained royally, but they believed a subtle but persistent rumor (probably started by Chito) that Chito was one of the insiders of the Mexican government.

On the basis, perhaps, of the fact that Chito had known President Alemán well, and had received many favors in return for his early support, the rumor spread among the New York bankers that under later Presidents, Chito somehow dictated the operations of Banco de México. Nevertheless, credit reviews of Chito by Irving Trust occasionally remarked: "on the other hand, average current account balances of Banco de México, S.A., a bank in which Mr. O. Longoria is said to exert great influence in matters concerning balances with other banks, have been decreasing continuously."<sup>5</sup>

The 1950's was a profitable decade for Industrias Unidas. Bank borrowings were kept to a minimum and the

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<sup>5</sup> Ibid, doc.01879.

loans were usually short term, that is, loans which had to be repaid within 30, 60, or 90 days, or within the same fiscal year. Collateral for the banks was presented in the form of certified cotton warehouse receipts, stock certificates, and the unaudited profit and loss statements of Grupo Longoria.

When presenting audits of Industrias Unidas to the banks to show their annual profits, Chito also presented statements for Grupo Longoria, which were holdings of the Longoria family held outside the corporate structure of Industrias Unidas. Grupo Longoria assets were composed of real estate, automobile agencies, movie theatres and other entities usually belonging to The Brothers and located in Northern Mexico. Chito did not include the former statements in combination with Industrias Unidas. He explained to the banks that the other statements were private and unknown to the Mexican government and therefore unavailable for taxation.

The Brothers met almost daily for lunch at the home of their mother Sara, to discuss business operations and resolve any current problems. Chito was the acknowledged leader of the family and his decisions were final. Michael Sieniawski of Irving Trust, in another annual credit review, stated that "Chito is the eldest brother and the real head, and nothing is done without his consent; even

his brother's wives consult Chito as to what dresses they should buy. The fortune of the Longoria's is hard to estimate, but it is one of the very largest in the country. We can have full confidence."<sup>6</sup>

During the 1960's, Chito borrowed heavily from many banks, mostly those of the United States. In the beginning he had borrowed locally from Longoria-owned banks in Mexico, such as Banco Longoria, and Financia Frontizera<sup>7</sup>. Later he looked to New York banks for funds, using Chemical Corn Exchange Bank of New York, Bank of America, First National City Bank of New York, and Irving Trust Company of New York. The United States banks had established combined credits for Industrias Unidas of more than fifteen million dollars of which only five million was for direct, unsecured loans.<sup>8</sup>

In 1959 Chito wrote Zutter of Irving Trust and informed him that the profits of Industrias Unidas for the last three years averaged over thirty million pesos per year, but that "there was a mistake made in our inventories and this mistake was not caught until after our statements had been mailed; actually our average annual profits were

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<sup>6</sup> Ibid, from Michael Sieniawski, 3-1-56.

<sup>7</sup> A Longoria owned Savings and Loan Company located in Nuevo Laredo.

<sup>8</sup> Letter from O.L.L. to J.D. Zutter, 6-10-59. P.6.

around forty million pesos..."<sup>9</sup> One can almost hear the muted giggle in the letter to Zutter as Chito corrected his accounting "error".

The 1960's opened quietly for Industrias Unidas, with statements indicating steady growth and expansion. Irving had become the primary banker for Industrias Unidas, and Chito began to use the lines of credit offered by Irving more frequently. As demand grew, it was imperative that the compresses, gins and mills be supplied with the most modern equipment. This meant heavy borrowing in order to furnish the various gins and mills with the latest technically advanced machinery.

Chito bought first class equipment and kept his machinery well maintained. It was his firm belief that only through good equipment could optimum results be obtained. As his mills became old or obsolete, he replaced them. This philosophy was apparent even in 1932, when the original machinery was destroyed by fire. To replace the burned plant, he sent to the United States for the best plants available and had them installed with monies from his personal savings. The wisdom of purchasing the best was proved during World War II when the machinery was run at its maximum, 24 hours a day, seven days a week.

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<sup>9</sup> Ibid, p. 2.

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At the end of 1961, in their annual financial statement, Chito reported significant expansion of Industrias Unidas. To the three cotton gins of Industrias Unidas del Pacífico, five more were added, making this unit the most active for the year. A modern gin was installed by Industrias Unidas del Norte, bringing the number of gins for that unit to seven. Because of increased electrical costs, Chito decided to generate his own power at two of the ice companies, at a cost of one hundred thousand dollars per plant. As a result, the cost of ice production was much lower. Two movie theaters were constructed, one in Reynosa and another in Nuevo Laredo. Chito repurchased a cotton oil mill for seven hundred and fifty thousand dollars from Mc Fadden of Fresno, California. He had sold the mill to Mc Fadden a few years earlier for 2 million dollars. He also installed a new flour mill with a capacity of 80 tons per day. Of the total cotton produced in Mexico in 1961, Industrias Unidas handled about 10%, or 210,000 of 2,100,000 bales.<sup>10</sup>

In the early sixties Industrias Unidas continued to finance the farmers, but the financing was made more attractive because the notes of the farmers to Industrias

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<sup>10</sup> Irving, H. Ertugrul, 5-62. Doc. 02513.



Unidas were guaranteed by Banco Ejidal or Banco Agrícola, both official Mexican agricultural banks. Industrias Unidas also took out insurance on the farmer's crops, and coincidentally, the insurance company was owned by a member of the extended Longoria family. Before the issuance of insurance, Industrias Unidas had lost close to 15,000,000.00 pesos over the last decade.<sup>11</sup> In this fashion, Industrias Unidas was assured the return of the monies and materials it lent.

The unaudited financial statements which Chito sent to the banks showed 100% growth between 1954 and 1961, (220 million pesos in 1954 and 459 million pesos in 1961). This represented an average annual rate of growth of 15% for seven years. Irving Trust noted in its annual credit review of Industrias Unidas that "One detects a degree of inconsistency, especially in recent years in that the almost fixed rate of growth in net worth does not correspond with the varying levels of profitability of each year. This observation is made to emphasize that what is disclosed on the Longoria statements as profits are understated since several accounts in the individual statements serve to hide the profits."<sup>12</sup>

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11 Ibid.

12 Irving, H. Ertugrul, 5-62. Doc. 02517.

To avoid taxes, the Longoria brothers, most likely Chito and Federico, had arranged a method by which most of the profits from Industrias Unidas and the other enterprises were hidden from the government. This was accomplished by the employment of kick-backs, padded invoices and inflated sales prices. The monies not declared were accounted for in a "little book", which was in the possession of each Longoria brother. In every Longoria business, whether it was an automobile agency or a movie theatre, the undeclared profits were partially obscured.

Table 6.1 illustrates the increase of profits from 1959 to 1961.

**TABLE 6.1**

**Comparative Liquidating Statement of Industiria Unidas**

(000's pesos)

		% Change		% Change	
	<u>12/31/59</u>	<u>59-60</u>	<u>12/31/60</u>	<u>60-61</u>	<u>12/31/61</u>
Cash/Banks	15,232	+13	17,199	+46	25,172
A/C recvble.	80,559	+14	92,339	+21	112,170
Total Quick Assets	95,791	+14	109,538	+25	137,342
Less: Curr. Liab.	127,948	-52	61,004	+250	213,631
Plus: Mkt. Securities					
Inventory	183,203	-29	130,861	+92	251,261
Working Capital	172,580	+17	201,823	-2	197,463
Net Fixed Assets	172,584	-8	158,968	+19	189,827
Investments	63,076	+9	68,993	-2	67,868
Deferred Charges	1,082	+31	1,481	+156	3,797
Total 2nd Assets	236,742	-31	229,442	+14	261,492
Net Worth	409,332	+5	431,265	+6	458,955
Quick Ratio	.75		1.80		.64
Current-Ratio	2.35		4.31		1.92

Source: Irving Trust, Doc. 02517.

As shown in Table 6.1, the working capital was down slightly, 2%, and the rise in current assets did not offset the effect of heavy borrowing and increased investments in fixed assets. Accounts receivable in 1961 were a smaller percentage of the receivables than in years past, indicating that the insurance program instituted against crop losses was a success. Net fixed assets, next to inventory, represented the second largest portion of equity (41%). Disclosed earnings were higher than in the past, but not as high as Chito had hoped. He blamed this on his new equipment, which took time to make operational, and the fierce competition in the cotton business.<sup>13</sup>

In a review of the unaudited Longoria statements Irving Trust noted that they could not determine the profitability of a separate company because they were never given the individual profit and loss statements. A break down of the different products by Irving Trust revealed the following:

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<sup>13</sup> Irving, Doc. 02518.

**TABLE 6.2**

**Types of Businesses Owned by Industrias Unidas:\***

(000's pesos)

	% Change*		% Change**		<u>12/31/61</u>
	<u>12/31/59</u>	<u>59-60</u>	<u>12/31/60</u>	<u>60-61</u>	
Cotton, including ginning, Cottonseed, Veg.Oil, etc.	12,867	+49	19,142	+47	28,516
Flour Mills:	897	-27	658	-20	528
Auto Agencies:	415	+150	1,036	-63	386
Ice	300	+145	765	-35	494
Lumber	483	-1	477	-21	377
Furniture	168	+22	206	-66	71
Movie Theaters:	447	+66	741	-42	431
Butane Gas:	15	+220	48	+119	105
Banking:	274	-36	171	-70	51
Financing:	1,134	-	1,347	-8	1,234
<b>Total</b>	<b>17,098</b>	<b>+44</b>	<b>24,591</b>	<b>+31</b>	<b>32,193</b>

Returns on Net Worth:

(4.4%)

(6%)

(17.4%)

\* Industrias was amalgamated and renamed Empresas Longoria, S.A. in 1965.

\*\* There were minor errors in the lists of percentages which I have corrected here in order not to confuse the reader.

Source: Irving Trust, Doc. 02523.

There was a lower level of cotton demand world wide in 1962, ostensibly because of a greater demand for man-made fibers such as polyester. Polyesters had become the rage of the industrialized world because of their ability not to wrinkle and their easy care. These man-made fabrics could easily be washed in water and never required dry cleaning. For several years cotton producers suffered with the competition of polyesters.

Nevertheless, for Industrias Unidas the volume of business conducted that year was the largest in its history, with combined sales of over 80 million dollars. The company was not affected by the lessened demand for cotton; Chito merely sent his sales force farther afield. Chito sent his salesmen throughout the Pacific scouting for new sources of sales potential. Industrias Unidas established offices in Tokyo, London and Rome. The salesmen had to work harder, but the profits were the reward. Industrias Unidas handled 363,000 bales compared with 210,000 bales the previous year, and became the number one cotton producers in Mexico. Chito and Industrias Unidas had finally been vindicated. After all of his struggles with the Mexican Government and the Secretary of Agriculture had been worth the trouble.

The honor of being the number one cotton producer for the past twenty years had been held by Anderson-Clayton. Yet in 1962, Anderson-Clayton handled only 325,000 bales. For Chito, this achievement was one of the proudest moments in his life. He had spent the last twenty years in competition with Anderson-Clayton, always placing second. Finally, he could boast that a Mexican cotton company was first in its own land and no longer a step-child of the Mexican government. In addition to attaining first place in cotton production, they produced 150,000 tons of cottonseed oil and purchased another 50,000 tons from small cotton merchants. They also handled 100,000 tons of wheat.

By the end of the year, Irving Trust increased its lines of credit to Industrias Unidas to \$8,000,000. On September 12th, the anniversary of the Revolution, Chito sent every high ranking member of the Mexican government a gift box of all items produced by Industrias Unidas.<sup>14</sup>

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<sup>14</sup> O.L.L. personal files, contains list of all recipients, what each was sent, and their thank you notes.

In 1962 Industrias Unidas had loaned 25 million pesos to the farmers, which was more money than ever loaned before. It was loaned at the urging of the Mexican government<sup>15</sup>.

Since cotton is produced in Mexico on a year round basis, except for April, and Industrias Unidas operated in each cotton growing area of Mexico, there was an overlapping cycle of crop loan advances. In other words, the new crop loans had to be advanced before the old ones were collected.<sup>16</sup>

Industrias Undias was forced by the government to assume the financing of the ejiditarios, the small farmers who had been given land after the Revolution. It was against the Constitution for an ejiditario to use his land as collateral for a loan; therefore, collection of a bad loan was almost impossible. That was one reason for the poverty of the ejiditarios. No capitalist banker or

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<sup>15</sup> Throughout the years, the Mexican government, and especially Chito's friend, Julian Rodríguez Adame, Secretary of Agriculture (1958-1964) encouraged Chito to advance the farmers their seed money, which was guaranteed by the land banks.

<sup>16</sup> Irving Trust, E. Schneider, 4-63. Doc. 02126.



businessman wanted to risk losing the investment. If an ejiditario could not repay the loan, the creditor was forbidden by law to take his land, which was usually the only possession of any value.

Chito, because of his close friendship with government officials, did agree to finance the ejiditarios, provided the loans were underwritten by the national land banks. Chito had no choice, but he was protected. He had been on the receiving end of favors from the government for the last twenty years, it was a matter of quid pro quo.

United States banks were not disposed to loaning monies directly to Mexican farmers, considering the loan too risky. But they were inclined to loan money to Mexican financial institutions. Therefore, the financing was arranged through Banco Longoria, which borrowed the necessary funds from the Bank of America and then loaned the money to the farmers for seeds, planting, and insecticides. The loans were guaranteed by the farmer's crops, and for the ejiditarios, by the land banks. For several years the arrangement worked very well.

The picture was not as bright for Chito's family life. Alice, his wife of thirty-seven years, died in February of 1963, leaving a tremendous void in the entire Longoria family. Alice had been the peace-keeper in the extended Longoria family. She was also very close to Sara Theriot

de Longoria, the matriarch, who was very much alive and the ultimate arbiter of family squabbles. Alice was the most favored of her daughters-in-law.

Apparently, Alice had a problem with alcohol.<sup>17</sup> She would not have been the first wife to pass the time by drinking. The children were married, and Chito travelled most of the time overseeing I.U.'s operations. She was not particularly interested in accompanying Chito on his trips. She was happy to remain in Nuevo Laredo.

Sara Alice, the eldest daughter, recounts the story of a birthday present she received from her parents while she was at boarding school in the United States. She had been dreaming of owning one of the new type of portable record players that had just been introduced in the United States. Sara Alice had hinted to her parents that this gift for her birthday would make her the happiest girl in the world. On her birthday, she ran to get her mail. A package awaited her. She tore off the wrapping and opened the gift. It was a matching set of emeralds; a ring, a bracelet, earrings, and a beautiful necklace. It was a gift that Chito had presented to Alice several years earlier. This was not exactly an appropriate gift for a young girl in boarding school. Alice, it appeared, had no conception of

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<sup>17</sup> Texas Monthly, February 1987, p. 135.

her daughter's needs. Sara Alice was humiliated and disappointed.

After Alice's death, Chito began spending more time in Mexico City. As Industrias Unidas had grown, more business had to be conducted in the Capital, and it was important to have a permanent representative located at the center of political and economic power.

By 1964, Chito was seeking more money from his United States bankers, declaring outright that he had great influence with the highest government officials in Mexico City. He indicated in a letter to Irving Trust that he would convey a message to Ortiz Mena, Secretary of the Treasury, and to Rodrigo Gómez, the Chairman of Banco de México that Irving Trust was seeing to all of his company's needs.<sup>18</sup>

Bank of America, represented by Henry Drath, wrote to Chito in this year and strongly advised that Industrias Unidas submit all of its books to an independent auditor, preferably one of the "big four" firms of certified public accountants, such as Peat-Marwick or Price-Waterhouse. Bank of America had extended to I.U. an line of credit for

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<sup>18</sup> O.L.L., letter to Zutter of Irving, 5-31-63. Doc.02434. "What you have done for us is known by our government because I have advised Don Rodrigo Gómez and Lic. Antonio Ortiz Mena, who are very intimate friends of mine and also sincere, as they have proven through the years."

three million dollars, two million of which was for the expansion of the milling equipment and one million to Banco Longoria to underwrite loans to the farmers. Chito was indignant at Drath's suggestion. He failed to see why certified audits were necessary after conducting business for years without them. He immediately paid his loans to Bank of America and refused to deal with them for several years.

Irving Trust, with greater diplomacy, also suggested the same auditors, and by the end of 1964, Chito acquiesced. He engaged Price-Waterhouse of Mexico City to carry out the audits and suggest more efficient methods of business and accounting procedures for Industrias Unidas and all its subsidiaries.

Before incorporation of Industrias Unidas was completed, I.U. de Matamoros, the cotton gins run by Chito's brother Shelby encountered problems with the tax authorities of Tamaulipas. For years Shelby had paid neither taxes on the purchase of the cotton from the farmers, nor the taxes due for exporting cotton. According to the account in Excelsior:

In July of 1964, the Revenue Authorities attached the assets of the firm "Longoria Hermanos", one of the most important and strongest companies in the cotton business in Tamaulipas, for a tax debt of more than 1,500,000. Pesos.

Roberto Guerra, head of the Federal Revenue Office in this town located on the border with the U.S.A., took this drastic step in view of the fact that the company, which is managed by Octaviano Longoria, refused systematically to pay the taxes which are owed for the exportation and the sale of cotton. Many were the reminders sent to Longoria Hermanos requiring them to settle their taxes. Nevertheless, by means of subterfuge, Longoria succeeded in carrying on their businesses for a long time.

Now, they will have to pay this money if they want to continue their cotton operations.

The news of the attachment of the assets of this firm exploded like a bomb in Tamaulipas, where the Longorias were regarded as "very powerful".<sup>19</sup>

Indeed, Chito admitted the truth of the Excelsior view, as did Shelby, but privately. Chito had to arrange a settlement with the state authorities as quickly and quietly as possible.<sup>20</sup>

Avoiding taxes appeared to be a family trait and was not a quality unique to Shelby. Chito spent most of his life arranging to pay morditas to politicians in order to avoid taxes of some sort, but he was not always successful. In 1966, in a letter to one of his local attorneys, he described in detail what the governor of Tamaulipas, Praxedis Balboa Gojón, (1963-1969) did to him in 1964. According to Chito, the governor had raised their rural property taxes, closed their cotton business in Matamoros by embargoing their cotton, and encouraged a two-month

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<sup>19</sup> Excelsior, Mexico City, 7-15-64.

<sup>20</sup> Letter to Shelby from O.L.L., 1-11-66.

month strike at the plants of Industrias Unidas in Nuevo Laredo. Chito regretted the money he had paid to the governor's election campaign. It had been wasted, since the governor was hostile to them.<sup>21</sup>

Eventually, the matter was settled without full payment of the taxes, since the new treasurer of the state was a close friend, Francisco Covarrubias. Even the governor thought better of taking on the Longorias and through an intermediary, Sr. Herman Fleishman, inquired how best to settle these tax disputes. Chito, still not happy agreed to settle, for "it is better a bad settlement than a good dispute".<sup>22</sup>

Chito had negotiated for years with the Mexican Secretary of the Treasury, Antonio Ortíz Mena, over the issue of paying taxes on the monies that Industrias Unidas borrowed from the United States. Under Mexican law, a 10% tax is charged on whatever interest a Mexican company pays to the foreign banks. A large percentage of the money borrowed from the United States banks by Industrias Unidas went to finance the farmers and their crops, and this was to accommodate the Mexican government.

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<sup>21</sup> Letter to Lic. Gilberto Martínez Jasso from O.L.L., 2-17-66.

<sup>22</sup> Ibid.

Chito argued that if his company were to pay the tax, it would mean that he would have to charge more interest to the farmers on the money he loaned them. The Treasury, in May of 1964, responded that although they were sympathetic to the problem, and it was not the intent of the Treasury to penalize the debtor, perhaps the United States bankers would cede back to Chito that percentage of the interest he paid them.

Chito, a very close friend of Ortiz Mena, worked out an arrangement not to pay the tax on interest of money borrowed from the foreign banks. This was a great victory for Chito, for it meant a sizable savings for Industrias Unidas. Without the tax, IU was able to compete successfully against international corporations operating in Mexico. The agreement with the Treasury and Ortiz Mena was verbal and Chito requested the Treasury put it in writing. His efforts were in vain, although Ortiz Mena continued to honor his verbal agreement to Chito as long as he remained in that office.

In the meantime, Chito acquired more processing plants and replaced gins that were obsolete. He arranged the purchase of several warehouses and compressors which had been owned by Anderson Clayton. The large US conglomerate appeared to be moving away from cotton production in Mexico.

In 1964 Chito's brothers became dissatisfied with the way Chito was running IU. While he vacationed in Africa, The Brothers decided to take action. On his return, The Brothers confronted him. Federico, the banker, spoke on their behalf. He complained that Chito was expanding and borrowing faster than he could pay back the loans. He wanted time to catch up.

Besides the resented vacation, The Brothers were upset because Chito had become a popular man about town in both Mexico and Texas. He was a much sought after "extra man", and constantly invited to parties. Prior to Alice's death, the Longorias were invited to parties in Texas and a few in Mexico City, as a group. Now, Chito was invited alone almost every weekend. This state of affairs annoyed his brothers and their wives. He was having too good a time, yet he owed too much money to the banks to spend so much time at parties or on vacations.

On one occasion, Chito was invited to escort a lady to a dinner and then to a debutante ball in San Antonio, Texas. Chito's family had been invited to the ball but not to the dinner preceding the dance. He was late arriving at the dance and was occupied with his group. He had little time to speak to his family. He left the dance early to return to his hostess' home to a smaller party. Not long after, his sisters-in-law arrived at the hostess' home and



started pounding on the door, insisting that Chito return with them that night to Nuevo Laredo. The hostess refused to open the door, and the ladies remained outside, shouting to Chito to come with them.<sup>23</sup>

By December, 1964, The Brothers' patience had worn thin. They came as a group to see Chito and told him they were not happy with the way the businesses were being handled, and they wanted to settle some of the management problems. They insisted that Chito pay down IU's debts and have no more expansion for the foreseeable future.

Over the years, The Brothers had worked for a common goal, the success of Industrias Unidas and all the other Longoria holdings. The Brothers, with Chito's repeated assurances, had come to believe that the companies belonged to The Brothers in equal shares, even though the work, intelligence, and leadership qualities were not equally shared.

In this mind set, the four younger brothers had come to believe that excessive borrowings from the United States banks for expansion would jeopardize their financial and social standing in Nuevo Laredo. Imprudent business behavior according to their standards might put their money at risk. They were satisfied with their border environment, and content with the status quo. Chito, the

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<sup>23</sup> Interview J.H. de Longoria, Tape 1, 1984.

entrepreneur, on the other hand, believed that the only way to succeed was through constant expansion. He was the innovator, the risk taker, and the man with the political connections who arranged for Industrias Unidas to be as successful as it was. It was Chito who repeatedly encouraged Federico to enlarge the resources of Banco Longoria. It was Chito who obtained from the Federal Banking Commission the permission to increase the bank's capital, and it was from his personal account that the monies derived.

One of the central concerns of the United States lenders to Industrias Unidas was the shallowness of managerial and leadership skills within the Longoria family businesses. Privately, they agreed none was as qualified as Chito. It was the hope of the banks that Alfredo could eventually be trained to assume executive responsibility.<sup>24</sup> Chito's son Chito jr., did not exhibit any interest in business, and his sons-in-law had been given small businesses that were peripheral to Industrias Unidas and Grupo Longoria. The younger brothers were not involved in the day to day operations of Industrias Unidas. They were more concerned with the conservation of their income than growth.

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<sup>24</sup> Irving Trust, credit reviews, Vol. I & II.

In response to the repeated complaints about the management of Industrias Undias, Chito invited his family, brothers, sisters, wives, husbands, and children, to join him at his home in Nuevo Laredo on December 4, 1964. He read a lengthy prepared text. In part he declared:

"...lately I have been severely criticized, and particularly, referring to my economical aspect and personally. You need not have been afraid because from this moment on I am not the head of the family. I am not here to give any explanations or to ask for them. All my life I have been criticized and I will not accept this in the future. The only ones who have a right to ask me what has been bad is my wife and she has passed away, or my father or my mother, who have a place of absolute preference and whom I will obey and have always obeyed since I was a child....

I believe I have a right to the fortune that I have formed, but this I leave to your judgment, my brothers, to whatever you wish to give me, but I believe that in justice at least I have a right to the following: my home and what is in it. I also need for you to proportion during the next two years, or less, an amount of \$5,000 per month plus my personal expenses and the expenses of those in my family...

I will keep respecting all of you as you have not done with me. I want to get away in a few minutes and I would like to carry with me the good wishes of all of my family as you will always have mine. Where am I going? What am I going to do: In this moment I have not yet determined but time is my best friend. But you will always know where I am and if I could help you at any time I shall...According to my family, I do not dedicate myself to my work, I am just having a good time. This satisfies me because it shows that with my absence the businesses will prove to you that I am no longer necessary...

Above all, I am not willing to keep on working when on your part there has been a lack of trust, understanding and greed. Apparently, the material amounts mean more to you than the

union and the love of the family; as we do not think alike, we cannot keep living together...

I am going to permit myself to make use of one of our planes for my last trip, and may God bless you."<sup>25</sup>

Chito flew immediately to Mexico City and retreated to his penthouse at the Hotel El Presidente. He remained there for several days and Señorita Aurora Rosales, his office manager, looked after him. Soon, Chito's mother Sara arrived with the other brothers in tow.

At first Chito refused to see his brothers. He later recalled: "My brothers were like a nagging wife...When they get into your hair, you know, you say, Look, take everything, I don't give a damn, I'm leaving."<sup>26</sup>

His mother pleaded with him and he finally agreed to see The Brothers at his apartment. When Sara and her sons arrived, they asked Señorita Rosales to leave, but Chito requested that she remain. His mother and brothers asked him to return and run the businesses. They promised that they would not interfere again. Sara announced that she would arrange for The Brothers to sign a paper swearing that they would no longer interfere with Chito's management of the companies.

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<sup>25</sup> Statement translated by O.L.L. for his law suit against his brothers, 1-21-77. Doc. 100306.

<sup>26</sup> O.L.L. deposition, 4-10-78, P. 333.

Señorita Rosales recalled that the family worried that Chito might be in the midst of another of his depressions, so they were diffident. A few minutes into the discussion, Chito rose and moved towards the windows of his apartment. His mother and his brothers gasped, they were sure he was going to jump. He kept walking towards the windows and opened them and returned to his chair. He had so frightened his family that they promised to do anything he wished if he would return to the businesses.

After some hesitation, Chito agreed to return later in 1964, and Sara went home to Nuevo Laredo, happy that she had once again brought peace to her family.

As the amalgamation of Industrias Unidas drew near, Chito wanted to clean up his smaller outstanding loans from the United States banks. Chito applied to the Ford Foundation<sup>27</sup> for a loan of 4 million dollars. As collateral, Chito pledged 170,000 shares of Banco Comercio which were in his name, with a book value in 1965 of 4 million and eighty thousand dollars. He also pledged 100% of the shares of Banco Longoria, also were in Chito's name, which had a book value of 2 million dollars. The total collateral was \$6,080,000.<sup>28</sup> Chito and Industrias Unidas

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<sup>27</sup> Although the Ford Foundation is known for its charitable contributions, it also loans monies like any bank, at current interest rates to increase its capital.

<sup>28</sup> Ford Foundation Finance Committee Meeting, 6-14-65.

had an excellent credit rating with Ford Foundation and the loan committee approved the loan promptly.

Industrias Unidas had approximately \$35 million in lines of credit from United States banks. The lines of credit of IU had been increased through the efforts of Paul Bouffier, who was hired by Chito for the express purpose of finding more money from foreign banks. When Bouffier was hired, IU had about 10 million dollars worth of credit from the US banks.<sup>29</sup> He doubled the lines in a short time, to the horror of The Brothers. Among the lender banks was Irving Trust (6 million), United California Bank (6 million), First National City Bank (4 million), and Marine Midland Trust (4 million).

Federico, Chito's next eldest brother, was outraged that Chito was offering as collateral 100% of what he now thought of as his bank. Federico was also against the incorporation of I.U. into ELSA. He did not trust Chito, nor did he care for Chito to control so much of the business from Mexico City. He considered Chito unstable, (although Federico had already had several bouts of depression, himself) and no longer suitably interested in the businesses.

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<sup>29</sup> Telephone interview with Paul Bouffier, 7-17-89. Bouffier recalled that he would secure new lines of credit of IU and then ELSA by showing the bankers copies of the letters from the Mexican Treasury which guaranteed the farmers loans and waived the foreign bank interest tax.

Although Industrias Unidas was the parent company to the companies subsequently established by Chito, each new company was set up as an independent corporation. Therefore when Chito proposed the establishment of ELSA, the new corporation would include the 14 semi-independent companies that had been subsidiaries of Industrias Unidas. Independent on paper, the other corporations were funded from Chito's personal account at Industrias Unidas de Nuevo Laredo.

The amalgamation of Industrias Unidas etc. was one of Price-Waterhouse's first suggestions. They stated that the tax savings would be well worth the effort. Another recommendation was the establishment of an off-shore bank which would own all the stock of the new corporation, which was eventually named Empresas Longoria, S.A..

The logic behind the ownership of the stock by an off-shore bank was to funnel all the profits into a bank which would be immune to Mexican taxation. The idea was to have the bank loan the operating capital to ELSA. As the loans were repaid to the bank, there would be no profit on the books of ELSA. This maneuver would also avoid sharing the corporate profits with the employees who, under Mexican law, are entitled to a small percentage after profits reach a certain amount. It was a very clever scheme and one

guaranteed to please neither the Mexican government nor the employees.

The off-shore bank was named the Bahamas Continental Bank Limited, and was established on the island of Nassau. Actually, the bank was nothing but a post office box. Its stock was issued in the names of Chito's son in law, Edward Brittingham, his daughter Sara Alice Brittingham, and a niece and nephew. Although this tax ploy was considered by the United States banks to be a "little cute", it was nonetheless legal in Mexico. Doris Copeland, head of Irving Trust's loan committee, noted in a bank memorandum that "...Longoria has been living on borrowed time and has been able to get by with insignificant tax payments because of his influence with the government. Longoria could not always count on having the President of Mexico in his hip pocket and that the new system is entirely legal and fulfills their need for a rational setup."<sup>30</sup> Miss Copeland doubted the government could take much exception to the new setup even if they did not like it, considering Longoria's importance in the Mexican economy.<sup>31</sup>

The proposals of Price Waterhouse were presented to the Longoria brothers, who reluctantly indicated that they

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<sup>30</sup> C. Bartlett Jr, Valley National Bank, Credit Memo, 11-10-65.

<sup>31</sup> Ibid, P. 2.



were in favor of creating ELSA. The stock in ELSA was divided equally between the five brothers. Apparently they did not complain, or perhaps they did not understand, that ownership of the Bahamas Continental Bank Ltd. was in the names of Chito's direct family. With Chito's relatives in control of the off shore bank, they were the ultimate owners of ELSA, since ideally, ELSA would owe all of its working capital and profits to the bank.

Creation of ELSA took the better part of a year, and in June of 1965, ELSA was finally incorporated, to the delight and relief of the US bankers. Privately they considered Industrias Unidas' operating statements to be total chaos.<sup>32</sup> With Price Waterhouse bringing some order to their statements, the banks did not have to rely so much on their faith in Chito and his personal wealth.

Chito was the managing director of ELSA; his brother Alfredo was named his assistant and moved to Mexico City to assume the position. Federico, Shelby, Eduardo, and Alfredo were made directors of ELSA, but initially had little to do with the actual operation of the corporation. Federico was occupied with Banco Longoria.

In the fall of 1965, Chito was invited by John Meacom, an independent oil operator from Texas, to be his guest on a safari to Africa. Chito was also invited to bring along

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<sup>32</sup> Bartlett, Valley National Bank, 11-10-65.

anyone he cared to invite. The Meacoms were planning their safari for Rhodesia, and he invited his good friends Miguel Alemán, Colonel Solano, and Morris and Jeanette Jaffe of San Antonio, Texas. Chito was gone for a month. (See Chapter VII).

On his return, Chito found his brothers bickering and complaining once again. They muttered that he was having too much fun and not watching his business carefully enough to suit them. This time, Chito not only resigned from ELSA, but withdrew his personal operating account from ELSA and put the funds in his private account. He refused again to speak to his brothers.

Chito's personal account at I.U. and later at ELSA contained most of the profits of the corporations. From this account, which was called "O.L.L. personal account", most operating expenses were generated. If monies were needed for expansion in some division, they came from this account. If a relative needed a new house, the money came from the O.L.L. account. No one had permission to use this account except Chito. But without the account, the corporation could not operate for very long.

Once again, his mother travelled to Mexico City with The Brothers and pleaded for the return of Chito and the operating account. Even Jean Zutter of Irving Trust came to Mexico to try and talk some sense into Chito. Zutter

was concerned that without Chito, ELSA would be thrown into chaos because The Brothers were in no position to run it. In December of 1965, The Brothers once again agreed not to complain and ceased their criticism. Chito returned the account to ELSA.

Federico was the most critical of Chito. He ranted and raved that Chito was throwing away the family money on foolish things like building a school for the poor children of Nuevo Laredo. His brother Shelby declared that Chito had lost his mind because he was building a Roman Catholic church in memory of his father on land in an exclusive Longoria housing development called Colonia Longoria.

Federico was so conservative with money that when his mother requested that he give a piece of land in the central part of Nuevo Laredo to his sisters, he lamented that they (The Brothers) could not afford to lose the income from the property. He acceded to his mother's wishes two years later, and then only because pressure was brought to bear.<sup>33</sup>

Price Waterhouse, the creators of ELSA and its official auditors, did not consider Ortiz Mena's verbal assurance that ELSA was not obliged to pay the 10% tax on interest paid to foreign banks sufficient. They suggested that Chito pay a visit to the Secretary of the Treasury and

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<sup>33</sup> A.F.L. Deposition, 1-12-78.

get this agreement in writing. Chito was accompanied by Manuel Galván, the head of Price Waterhouse, to the meeting with Ortiz Mena. Ortiz Mena reaffirmed that ELSA was not liable for the tax and brought the Director of Income Tax, Roberto Hoyo, into the room to confirm this fact. Price Waterhouse and Galván were not happy that this was verbal, but they had no choice but to accept the word of the Secretary.<sup>34</sup>

In 1967 because of Hurricane Ines and insect infestation, cotton production was much smaller creating a loss for ELSA. In Tampico ELSA had expected to gin 80,000 bales but ended by baling only 25,000. In Mexicali and Juarez, the cotton crops were damaged by insect infestation, and those farmers were also forced to default on their loans. ELSA's grand total was almost 100,000 bales short of its projections.

Money loaned to the cotton farmers was uncollectable, which brought their profits down substantially. Chito applied for reimbursement to Julian Rodríguez Adame, Secretary of Agriculture, for the government had guaranteed the farmer's loans. Adame refused to acknowledge the government's responsibility because Chito, some time earlier, had published several personally defamatory articles about the Secretary, when he had refused to issue

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<sup>34</sup> O.L.L. Deposition, 4-10-78, p. 415.

permits for IU to operate in the Mexicali area. In retaliation, Chito announced that ELSA would no longer finance the farmers. He ordered ELSA to cease its farm loans. This stand-off lasted for about 3 months.

Table 6.3 shows the decrease in cotton production, which occurred in the 1969-1970 period.

**Table 6.3: Cotton Production in Mexico**

	<u>1963-67</u>	<u>1968/69</u>	<u>1969/70</u>	<u>1970/71</u>
Area (1,000 acres)	1,859	1,780	1,340	1,129
Yield (lbs./acre)	588	661	627	no data
Production	2,277	2,450	1,750	1,620

Source: U.S.D.A., Business Trends, Vol. V, No. 183;, June, 1970.

A glance at the table above indicates that cotton production was in decline during the 1960's. Chito had confidentially told Irving Trust that there was no longer a sufficient profit to be made in ginning cotton and that profit was in the production of the oils. Therefore, not advancing loans to the farmers was logical.

In February of 1968, Chito met with Ortíz Mena, Rodrigo Gómez, (Director of the Banco de México), Jesús Rogríguez y Rodríguez, (Subsecretary of the Treasury), and José Sáenz Arroyo, (Director of the Banco Agropecuario)<sup>35</sup>.

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<sup>35</sup> Letter, O.L.L. to brother Alfredo, 2-23-68.

Chito had already announced that ELSA would no longer finance farmers, and the above mentioned government officials tried to persuade Chito to continue the financing. Chito declared that unless he had greater cooperation from the government, he had no plans to continue the loans. Ortíz Mena and Gómez assured Chito that the government would guarantee the loans, Adame notwithstanding.

Because the government could not repay ELSA in currency for the defaulted farm loans, Ortíz Mena immediately arranged for Nacional Financiera to cancel 37 million pesos of a loan of 50 million pesos by which ELSA had purchased a large amount of wheat. As a result, ELSA owed only 13 million pesos.<sup>36</sup>

The agreement for future farm loans pledged the government to repay ELSA for any future farm loan defaults, and also allowed ELSA to retain any amount later collected on the delinquent crop loans. Accommodating ELSA, the largest cotton producer in Mexico, the government reasoned, would force the rest of the cotton producers to fall into line and continue their financing as well. At the same time, Chito also arranged with Anderson-Clayton to fix a

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<sup>36</sup> Chito told George Link, his attorney that he had arranged the full 50 million peso loan with NAFIN so that 37 million pesos was charged personally to O.L.L. and only 13 million showed on ELSA's books. The books would look better to the U.S. banks. G.H.L. trial notes, 9-76.

price that they paid the farmers for cotton seed.<sup>37</sup> (Price fixing is not illegal in Mexico.)

On March first of that year 1968, Chito quietly married Jeanette Herrmann Jaffe, in Mexico City. As we will see in Chapter VII, the marriage horrified his family.

In the never-ending search for money, ELSA, through Paul Bouffier, applied to United States banks for more credit. Interest rates in Mexico were too high to use Mexican credit sources. In 1969, dollars were scarce in the United States and they could not accommodate ELSA at a satisfactory interest rate. As a consequence, ELSA borrowed 48 million Deutsche Marks at a lower interest rate than that offered by the United States banks. Chito converted the marks into dollars and paid off all of ELSA's loans to the United States banks. At first, the loans were hedged by taking out insurance policies against any increase in the value of the marks. After a few months, since there was no change in the rate of exchange, and the insurance premiums were very costly, Chito cancelled the policies. Two months later, the marks were revalued by 15%.<sup>38</sup> Through the revaluation, ELSA lost D.M. 14,071,000 (14,161,000 pesos) on the transaction which left ELSA with a net profit increase of only .6% although there had been a

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<sup>37</sup> Letter, O.L.L. to brother Alfredo, 2-23-68, p.3.

<sup>38</sup> O.L.L. deposition, 4-10-78. p423.



7.1% sales increase. Had the company not had the foreign exchange loss, their profit would have increased at least 33%.<sup>39</sup>

In 1968 and 1969, ELSA had lines of credit with a number of United States banks, two Mexican banks, Banco Longoria and Banco de Comercio. The following were the United States bank lines:

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<sup>39</sup> Irving Trust, credit review, 9-1-70, Doc. 02675.

**TABLE 6.4**  
**US BANKS EXTENDING LONG TERM CREDIT TO ELSA**

<u>BANK</u>	<u>SECURED</u>	<u>UNSECURED</u>	<u>TOTAL</u>
United California	4,000,000	2,000,000	6,000,000
Northern Trust	1,500,000	-	1,500,000
Valley National	2,000,000	2,000,000	4,000,000
Morgan Guaranty	2,000,000	1,000,000	3,000,000
First National			
City	4,000,000	-	4,000,000
Irving Trust	4,000,000	2,500,000	6,500,000
Bank of Calif.,			
International	<u>250,000</u>	<u>250,000</u>	<u>500,000</u>
<b>TOTAL</b>	<b>17,750,000</b>	<b>7,750,000</b>	<b>25,500,000</b>

New credit line sources from the United States after 1968 were:

Girard Trust Co.	500,000	1,500,000	2,000,000
Bank of Calif.	500,000	500,000	1,000,000
American Express	500,000	500,000	1,000,000
American Intn'l			
Bank	<u>-</u>	<u>500,000</u>	<u>500,000</u>
	<b>1,500,000</b>	<b>3,000,000</b>	<b>4,500,000</b>

Source: Irving Trust, 11-69.

ELSA also obtained short term lines of credit (30-60-90 days) with Kidder Peabody (\$2,500,000), and with Rosenthal & Rosenthal (\$1,500,000), and those firms agreed to advance those amounts at any time. These rates of borrowings were on an "as offered" basis, and ranged from 8½% to 9½%, with outstanding loans at the end of 1968 of \$7,476,000.<sup>40</sup>

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<sup>40</sup> Ibid, 11-69, Doc. 01939-01940.

Meanwhile, the subdivision of Bosques de las Lomas was in full operation, the lots plotted and the infrastructure in place. More money was borrowed for the construction of an ultra modern oil extraction plant and a pasta plant in an industrial area outside of Mexico City called Tutitlán. The cost of the new plants was projected to cost 7 million dollars.

By 1969, the cotton crops decreased again. The farmers defaulted on their loans to all the cotton producers, ELSA and others. The government, living up to its guarantees, paid off about 6 million pesos worth of bad loans to the producers from the farmers. Because the government could not pay in cash, it paid ELSA in notes for the remaining balance at 20% each per year for five years at 10% interest. ELSA had no trouble discounting and selling the government notes on the Mexican financial market. Yet, ELSA was still short millions of pesos.

In 1970, in the waning days of the Diaz Ordaz Presidency, Chito made an appointment to see his old friend Ortiz Mena. His objective was to obtain more saleable government notes or give ELSA some other financial assistance because of the farmers' defaults. Chito arrived at the Treasury for his appointment and discovered that Ortiz Mena had resigned that morning. With no hope there,

he made an appointment to see Rodrigo Gómez at Banco de México. Chito was waiting at his home before his appointment with Gómez when he turned on the television and heard that Gómez had died at two o'clock that afternoon. Both of his good friends were gone. There was no one left to help.<sup>41</sup>

By 1970, Chito had lost most of his political support through attrition and death. Further, his brothers were outraged by what they considered his frivolous personal behavior. His family was united in their resentment of his new wife Jeanette. His friend Díaz Ordaz was leaving office in a few weeks, and was in no position to be of assistance. Taxes as ever, seemed to be the bane of his existence. The United States bankers were, for the moment, unaware of the precarious financial position of ELSA and its chairman.

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<sup>41</sup> O.L.L. Oral history, Tape 25.