

Forbes

February 1977 "LAZARUS" BONDS

In mid-January, lawyers for the Department of Housing & Urban Development verified a startling discovery: \$67 million worth of New York City Housing Authority bonds are fully guaranteed by Uncle Sam, not New York City's hard-pressed treasury. The bonds came back from the dead like Lazarus. Moody's immediately upped its rating from Caa (very bad) to Aaa (the very best)-which is the sharpest rating change in the bond business' history. Before the discovery, many of the bonds had traded at less than 30 cents on the dollar. Since the discovery, holders of the issue scored a \$15-million paper profit. Responsible for this \$15-million discovery was the Wall Street municipal bond house of Stoever Glass & Co. How did Stoever Glass beat such giants as Merrill Lynch and New York's big banks (not to mention Moody's and Standard & Poor's)?

Deep digging, says President Frederick J. Stoever, "We got interested in Housing Authority bonds because they seemed to have two levels of coverage: the city's guarantee and certain real estate properties. As we looked more closely at those properties, we found that starting in 1968 many of the projects had been converted from New York City to Federal Government programs." Municipal bond legal specialists at Mudge, Rose, Guthrie & Alexander agreed with Stoever Glass, and last month's HUD announcement confirmed it.

Excerpted in part from a 1977 Forbes Magazine article.

Did Stoever Glass make a killing from its legwork? Fred Stoever says no. The firm owned none of the bonds itself and did not purchase any for its own account.

FORBES asked Fred Stoever if he thinks other cities' housing bonds may also have Uncle Sam's backing. "I doubt it," Stoever replied. "This is the first time in the history of the municipal bond business anything like this has happened. I think it is very unlikely to happen again."

A few months later, James F. Musson, manager of our underwriting department, discovered that due to an oversight, an issue of Baa rated Hazlet, New Jersey bonds—although included under State guarantees—was not rated accordingly. As a result, Hazlet bonds jumped three ratings to their true value.

Mr. Musson, whose long and distinguished career began at Lehman Brothers in the 30's, was personally involved with setting up many of the laws and procedures for municipal financing in the state of New Jersey. So he was probably the most likely person to find this needle in the haystack.

As with the New York City Housing Auth. bonds, Stoever Glass elected to take no financial gain for our research.