# THE WONDER WOMAN OF MUNI BONDS

## Meet C. Austin Fitts, the Street's pioneer in municipal 'junk'


DILLON READ'S FITTS: SHE HELPED RAISE BILLIONS FOR NEW YORK'S SUBWAY SYSTEM

JOHN S. ABBOTT

The path Catherine Austin Fitts took to Wall Street began at a Philadelphia bistro. Fitts, then 26, was working as a barmaid at Restaurant LaTerrasse when an influential patron, director of admissions at the nearby Wharton School, urged her to get an MBA. "I was interested in the restaurant business," recalls Fitts. "It just didn't occur to me then that a woman could go to a place like Wall Street."

But go she did, and prevail she has. Fitts, who graduated from Wharton in 1978, last year became the first woman to be promoted to managing director at Dillon, Read & Co. Founded in 1830, Dillon Read once epitomized the Wall Street investment bank as an elitist men's club. And Fitts climbed to the top the hard way, stacking the odds against her success by shunning a fast-track position in mergers and acquisitions for a career in the unglamorous field of municipal finance.

Fitts, now 36, continues to walk the road less taken. Drexel Burnham Lambert Inc. revolutionized corporate finance in recent years by creating a $130 billion market in high-yield, high-risk debt—better known as junk bonds. Fitts is perhaps Wall Street's foremost champion of the municipal equivalent: bonds issued by public utilities, hospitals, transportation agencies, and other municipal institutions without benefit of a rating from Standard & Poor's Corp. or Moody's Investors Service Inc.

**'INCREDIBLE TENACITY.'** The very idea of unrated muni bonds makes many public finance specialists queasy. "These are financings that have a material risk of default right out of the box," says Robert A. Gerard, director of tax-exempt securities at Morgan Stanley & Co. Nevertheless, Gerard, who formerly headed Dillon Read's muni finance department, is far from predicting that his former protégé will fail: "Austin has incredible tenacity and intensity, which are the qualities that separate the top people from the pack in investment banking."

Since college, Fitts has gone by the gender-neutral name of C. Austin. "I hated 'Cathy,' and no one would call me 'Catherine,'" she says. But like many of the women reaching the coveted managing director level at major houses (box), Fitts plays down the Street's sexual politics. "A lot of people are uncomfortable working with a woman the first time," she says. "Do a good job and it's not an issue the second time."

Shy she's not. The first assignment Gerard gave Fitts was to help convince the credit-rating agencies that New York City deserved an upgrade. After a few days on the job, Fitts walked into her boss's office and told him off. "I was procrastinating," admits Gerard, who was late in sending an opinion letter to the agencies. "Austin said that if I didn't write the letter by 10 that night, she'd do it and forge my signature."

As Dillon's senior government banker in New York, Fitts handles the major accounts and helps orchestrate the efforts of some 15 junior staffers. Colleagues describe Fitts as unpretentious, open, and extremely demanding. "She's very particular, very precise about what she wants," says one. "She makes waves, but she gets things done."

**REMARKABLE CLIMB.** Thanks in part to Fitts, Dillon Read has become the fastest-rising municipal bond underwriter. By lead-managing $3.4 billion in muni offerings in 1986, Dillon Read jumped to 10th from 22nd in the *Investment Dealers' Digest* annual rankings. Dillon's rise is all the more remarkable given its modest size: $150 million in capital, 26 muni bankers, and a muni sales force of 26.

Even before she infiltrated the male bastion of investment banking, C. Austin Fitts was a maverick of sorts. Her grandfather had been dean of Wharton, and her late father was chairman of the Surgery Dept. at the University of Pennsylvania. Fitts didn't grow up in a suburban enclave, however, but in a middle-class black neighborhood near Penn. Something of an adolescent hell-raiser, she was rescued from police custody by her father more than once.

She graduated from Penn in 1974 and, undecided on a career, worked at LaTerrasse until she enrolled at Wharton in 1976. After graduating, she took a position at Dillon Read, one of the handful of old-line houses that ruled the Street in the days when investment banking consisted mainly of dispensing advice to ex-school chums who'd gone on to run big corporations. Enervated by its prolonged success, Dillon Read was supplanted as the need to build trading muscle redefined investment banking in the 1960s and 1970s.

By the time Fitts arrived, Dillon had roused itself and was counterpunching, though carefully, against larger rivals. In muni finance, the breakthrough came in 1982 on a deal the rest of the Street initially shunned: raising billions to help the Metropolitan Transportation Authority repair New York City's decrepit subway and commuter railroad systems. Gerard picked Fitts to help him devise a subway bond issue secured only by fares to be collected from future riders.

No agency had ever floated bonds backed by transit fares. Like many radical ideas, this one was born of desperation. The MTA was operating at a deficit, and the city couldn't afford to divert tax revenues to secure new transit bonds. It took 15 months of hard slogging, but Gerard and Fitts successfully argued that the subway system was crucial to the city's economy, and the politicians would somehow find the cash to pay off investors. "If there is a real public need for something, a government will find a cash flow," contends Fitts. "In municipal finance, true creditworthiness should come from that which is essential."

Fitts's moment of truth came when Gerard defected to Morgan in 1983. She lacked the experience to head the department. Yet management was slow to replace Gerard, whose biggest accounts were the MTA and the Dormitory Authority of the State of New York, an agency that helps arrange construction financing for many New York colleges and universities. "I don't think they knew if they could salvage things after Bob left," declares Christopher H. Richmond, executive director of the Dormitory Authority. "The firm just threw Austin out there to see if she could keep our business."

**COMPETITION.** Fitts secured the MTA account by masterminding the debut issue of fare-backed commuter railroad bonds, which proved as difficult a sell as the first subway deal. Meanwhile, she developed a plan outlining a new capital structure for a major Dormitory Authority client, the City University of New York. Richmond, who hadn't requested the study, was stunned. Dillon lead-managed a $535 million CUNY bond issue last summer. "In none of our financings in the last 4½ years has a banker added as much value," says Richmond.

Richmond plans to stick with the structure Fitts created for CUNY's next financing but will throw the assignment open to competitive bidding from other investment banks. Thus, to Fitts's dismay, today's unique financings become tomorrow's routine transactions. Equally frustrating, she is seldom able to take one of her custom-designed structures and generate additional income for Dillon by using it as the basis of financings for other clients.

Nonetheless, Fitts believes she has no choice but to remain a custom designer. "There is no road map anymore in municipal finance," she says. Commercial banks are deepening their inroads, intensifying competition in the muni mainstream. At the same time, new restrictions on the use of tax exemptions and reduced federal assistance to state and local governments are hurting many municipalities. They will need to borrow money, but some won't be able to meet the investment-grade criteria or afford to take the time to get a rating.

Dillon Read recently completed a $45 million unrated offering for a small-town hospital in Mt. Vernon, Ohio, that falls short of the rating agencies' size criteria. Dillon persuaded institutional investors to spend a few days in Mt. Vernon. "They realized this project meant everything to the area and that these were the kind of people who pay their debts," says Fitts. "Our job now," she adds, "is to generate larger deals."

Bear Stearns, Merrill Lynch, Drexel Burnham, and other investment banks share that goal. The volume of unrated municipal issues topped $11 billion in 1986, nearly a sixfold jump since 1982, according to Securities Data Co. Still, "there's a shortage of supply," says William T. Reynolds, portfolio manager of T. Rowe Price Associates Inc.'s Tax-Free High-Yield Fund. The fund Reynolds manages is one of 23 junk bond municipal funds tracked by Lipper Analytical Securities Corp. Total assets of these funds doubled over the past year, to $15 billion.

There's no shortage of divergent opinions on the future of the fledgling market in junk muni bonds. Barring a wave of defaults, the key question is whether investor demand will slump if and when interest rates rise and restore the double-digit yields of yesteryear to investment-grade bond issues. Fitts, anyway, is a believer: "I'm betting there is a tremendous market here."

A Republican, Fitts shows an interest in public policy issues that extends beyond banking. She enjoys acting as a behind-the-scenes adviser to legislators and says she could envision working in state government some day. But her current ambition is to persuade Dillon Read's top brass to deepen the firm's commitment to public finance. Although she's only one of many managing directors maneuvering for advantage, Fitts has one unique edge: "You have no idea the things I hear in the ladies' room here."

*By Anthony Bianco in New York*

MICHAEL MELLA

# INVESTMENT BANKING'S TOP RANK: NO LONGER 'GENTLEMEN ONLY'

John C. Whitehead, former senior partner of Goldman, Sachs & Co., predicted in 1984 that the old-line investment bank would name its first female partner "within 10 years." He needn't have been so cautious. Last fall, Goldman admitted Jeanette W. Loeb to a partnership that also includes 105 men.

JEANETTE W. LOEB

Loeb, who specializes in equipment-related financings, is part of a female vanguard that is just now reaching the key partner/managing director level on Wall Street. By seeming coincidence, two of Goldman's closest rivals, Salomon Brothers and Morgan Stanley & Co., also named their first female managing directors in 1986. Each of the eight biggest investment banks now has at least one woman partner or managing director.

**CHRONIC NEED.** "I don't think it's so unnatural that there haven't been that many women yet who've made partner," says Loeb, 34, who went to Goldman after getting an MBA from Harvard University in 1977. "There haven't been a lot of women coming out of business school until recently."

At least one professor from Loeb's alma mater doesn't buy her argument. "The pipeline to the investment banks was filled years ago and should have produced female partners years ago," contends Samuel L. Hayes III, an investment banking professor at Harvard business school. "The firms have been unwilling to make concessions to the special circumstances of women as employees"—notably the demands of motherhood, adds Hayes. "I think they still have something of the ambience of a gentlemen-only club."

Nonetheless, Hayes predicts, the number of female partners will slowly but steadily increase. The law of supply and demand requires it. The rapid expansion of the big investment banks creates a chronic need for new managing directors, most of whom are promoted from within. And at every house, women are increasingly well-represented in the lower echelons.

Consider the demographics of Goldman Sachs. In 1984, 25% of its professionals were women, and 8.6% of its vice-presidents, the rank just below partner, were women. Female professionals now account for 28% of the total, and women hold 12.5% of the vice-presidential jobs. Loeb is not likely to remain alone at the top for very long.

*By Anthony Bianco in New York*