

MSRB
MUNICIPAL SECURITIES RULEMAKING BOARD

FEB 23 1991

In the Matter of the Arbitration between :
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Claimants, :
:
v. :
:
MICHAEL STEIN, :
:
Respondent. :
:

AWARD

MS90-29
SCO-019

The Undersigned, pursuant to section 31 of MSRB rule G-35, hereby states as follows:

CASE SUMMARY

Claimants allege that, in February, 1988, after doing their taxes for 1987, they were unhappy with the amount of taxes they were paying on interest income since all of their savings were in bank CDs and U.S. savings bonds. Claimants also allege that about this time they heard many commercials on the radio for municipal bonds sold by A.F. Green & Company, Inc., which were said to be exempt from Federal taxes, and safe, because they were AAA rated and insured. Claimants allege that they called A.F. Green & Company, Inc. and spoke to Respondent Michael Stein ("Respondent Stein"). Claimants allege that they told Respondent Stein that they wanted to save for their retirement and, having no experience in municipal bonds, they wanted absolute security. Claimants contend that they were told that they couldn't lose their money if they held the advertised bonds to maturity because they were AAA rated and insured. Claimants also contend that Respondent Stein did not mention or explain that the bonds were callable. Claimants proceeded to purchase \$125,000 face amount of City of Baldwin Park, California, 1984 Single Family Mortgage Revenue Bonds for \$10,338.75, and \$25,000 face amount of Housing Authority of Prince George's County, Maryland, Mortgage Revenue Bonds, Series 1985 (Marlow Overlook Apartments Project) for \$15,749, on February 12, 1988, and February 18, 1988, respectively.

Claimants allege that when they received the confirmation for the Baldwin Park bonds, and saw the "unfamiliar 'non-callable,'" they called Respondent Stein and he told them that non-callable meant that the bonds were paid at maturity along with the interest. Claimants also contend that Respondent Stein did not explain that the bonds were "resale bonds"; they allege that he said that he had "some new bonds which we just

acquired,'" and that they assumed that the bonds were original issues being sold at the offering price. Claimants maintain that even after receiving the bond and seeing the table of compounded amounts, which, they allege, they thought was for interest and not interest and principal, they still did not realize that they had paid too much. Claimants allege that they put the bonds away in a safe place and, in November, 1989, received a notice of redemption for \$85,000 face amount of the Baldwin Park bonds. Claimants allege that they attempted to contact A.F. Green & Company, Inc., but found that it was out of business. Claimants maintain that they sold the \$25,000 face amount of Prince George's County bonds in January, 1990, because they feared that these bonds would also be called.

Respondent Stein contends that he first came into contact with the Claimants in early, 1988, when they called regarding an advertisement run by his former employer, A.F. Green & Company, Inc. He also contends that Claimants said they were interested in a highly rated, long-term, growth-oriented, tax-free bond. Respondent Stein maintains that he explained the features of the bond that was advertised to Claimants as well as others that were given to him on a prepared inventory sheet. He also maintains that the information he provided to Claimants was the same information he gave to his other clients and came right from the firm's inventory sheet. With respect to the Baldwin Park bonds, Respondent Stein contends that the facts before him were as follows: 0%, 12/1/17, AMBAC Insured, AAA rated, registered, and non-callable, and that this is the same disclosure that was put on the confirmation sent to Claimants as well as other clients. Respondent Stein argues that, as a salesman for the firm, he was not responsible for the preparation of confirmations or for the accuracy of the information given to him regarding an issue, and he believed that the information he was given was accurate. He maintains that he himself was surprised when the Baldwin Park bonds were redeemed because he believed them to be redeemable only at maturity, as the firm's inventory sheet and confirmation read.

With regard to the pricing of the bonds at issue, Respondent Stein contends that he was only a registered representative and had nothing to do with the trading or pricing of these or any other bonds of the firm. He contends that the price at which the Baldwin Park bonds were called in comparison to the price paid by Claimants was "just as alarming to me," and that it was not until after the call date that he first saw the actual bond which included the compounding table on its face. Respondent Stein states that several other clients of his have expressed a dissatisfaction with regard to the call date and price, and that he has lost several clients. He also maintains that A. F. Green

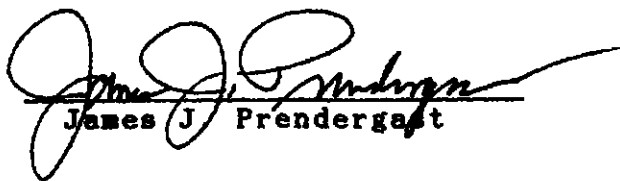
& Company, Inc. is the subject of an NASD investigation and that one of the NASD's primary objectives concerns the pricing of bonds in relation to their correct market levels by the principals of the firm. Respondent Stein contends that he has never had complaints lodged against him until these various call practices and price disparities have come about because of bonds sold at A.F. Green & Company, Inc., and that it is the principals of the firm who should be held responsible for people such as the Claimants. He maintains that he offered the bonds to Claimants in good faith to meet their investment objectives and that he never had any intentions to harm them.

RELIEF REQUESTED

Claimants contend that their damages amount to \$10,914.75, but they seek to recover only \$10,000.

AWARD

The undersigned arbitrator reviewed the controversy between the parties set forth in submissions to the arbitrator signed by Claimants on April 19, 1990 (filed with the MSRB on May 11, 1990) and by Respondent Stein on June 7, 1990. The undersigned, having considered the matter solely upon the pleadings and evidence submitted by the parties, pursuant to section 34 of MSRB rule G-35, has determined, in full and final resolution of the issues submitted for determination, that Respondent Stein shall pay to Claimants the sum of \$9,900. Claimants' \$200 arbitration deposit shall be retained by the MSRB as forum fees.


James J. Prendergast

Dated: February 22, 1991

STATE OF *Pennsylvania* ss.:
COUNTY OF *Philadelphia*

On this *22nd* day of *February*, 199*8*, before me personally
appeared _____ to me known and known to me to be
the individual described in and who executed the foregoing
instrument and he duly acknowledged to me that he executed the
same.

Loretta OHL

NOTARIAL SEAL
LORETTA OHL, Notary Public
City of Philadelphia, Phila. County
My Commission Expires Aug. 17, 1994