

**MSRB**  
MUNICIPAL SECURITIES RULEMAKING BOARD

JUL 1 1991

15.8.23.

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In the Matter of the Arbitration between	:	
	:	
	:	AWARD
Claimant,	:	
	:	
v.	:	
	:	MS90-66
MARION BASS SECURITIES CORP. and	:	SC0-039
CHARLES L. KING a/k/a CASEY KING,	:	
Respondents.	:	

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

**CASE SUMMARY**

On or about July 27, 1986 Claimant purchased for \$81,084.00 through Respondent Charles L. King a/k/a Casey King ("Respondent King"), a registered representative of Respondent Marion Bass Securities Corporation ("Respondent MBSC"), \$200,000 face amount of the Housing Authority of the City of Augusta, Georgia, Multifamily Housing Revenue Bonds, Series 1985 (Federal National Mortgage Association Program/Woodhill Apartments Project), 0%, due 9/1/07 ("the Bonds"). Claimant alleges that he knew very little about municipal bonds and that he only was interested in high quality bonds that were insured or backed by the U.S. Government or an agency thereof and had minimal risk. The Bonds were redeemed on January 15, 1988 and Claimant alleges that at no time did Respondent King disclose to Claimant the possibility of an early call. Claimant also contends that, upon being advised by Claimant of the redemption, Respondent King told Claimant that Respondent King was unaware of the call provision and that the trading desk at Respondent MBSC had failed to advise him of same.

Respondent King contends that Claimant had represented himself to Respondent King as a seasoned investor with several accounts at other brokerage firms and that Claimant had stated a preference for AAA rated and insured or AA rated general obligation tax-free municipal bonds. Respondent King maintains that the Bonds were available to Respondent King in general inventory from Respondent MBSC and were AAA rated and FNMA guaranteed. Respondent King contends that prior to selling the Bonds to Claimant Respondent King asked his manager and the bond trading desk at Respondent MBSC for additional information regarding the Bonds. Respondent King maintains that the following information was related: (A) that the Bonds were purchased in the

secondary market and no prospectus was available; (B) that the Bonds were zero coupon bonds "making them resistant to any calls"; (C) that the Bonds were multi-family vs. single family revenue bonds and "it was implied by my superiors that multi-family bonds had no special call provisions"; (D) that the Bonds had a maturity date of 9/1/07; (E) that the Bonds had no prescribed call provisions; (F) that the Bonds had a mandatory put option @ 9/1/97 with an execution price of par and that this put option was at the bondholder's discretion; and, (G) that the correct quote to clients was the yield to the put, i.e., 9/1/97.

Respondent MBSC contends that the Bonds were sold to Claimant in the secondary market based on all information available at the time. Respondent MBSC argues that the Bonds were redeemed pursuant to the terms of the trust indenture which specified that a pass-through certificate had to be received by the trustee by November 15, 1987, which date was extended to January 15, 1988, or the Bonds would be redeemed. Respondent MBSC contends that when the Bonds were called, it contacted the trustee as well as counsel for the underwriter and the broker/dealer from whom Respondent MBSC had purchased the Bonds in an effort to obtain more information, but such efforts proved fruitless. Respondent MBSC maintains that redemptions of this kind are totally outside the control of Respondent MBSC and that no amount of research would have uncovered such an event. Respondent MBSC also argues that at the time of trade Claimant was a sophisticated investor who had purchased similar bonds before and he understood that an extraordinary call was a possibility.

#### RELIEF REQUESTED

Claimant seeks to recover interest at 8.312%, the Bonds' yield to put, for the seventeen months that he held the Bonds, plus \$164 in principal, for a total of \$9,992.72. In addition, he seeks interest on said amount at the market rate from the date of redemption, his costs of arbitration, and punitive damages as the arbitrator deems appropriate.

#### AWARD

The undersigned arbitrator reviewed the controversy between the parties set forth in submissions to the arbitrator signed by Claimant on September 14, 1990 (filed with the MSRB on November 26, 1990); by Respondent King on December 28, 1990; and, by Respondent MBSC on January 8, 1991 and February 25, 1991. 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, as follows:

Respondent MBSC and Respondent King failed to inform Claimant of the features of the Bonds related to the Federal National Mortgage Association ("FNMA") guaranty and the risks, including possible early redemption, arising from those features. Respondent MBSC and Respondent King shall be jointly and severally liable and shall pay to Claimant: (i) \$9,992.72, representing the difference between the amount Claimant paid for the Bonds and the redemption amount, and lost interest on the Bonds for the period from the date of purchase until the date of redemption, and (ii) simple interest on that sum at the rate of 8.312 percent per annum measured from January 15, 1988 to the date payment is received by Claimant from Respondents. Claimant's request for costs and for punitive damages is denied, and Claimant's \$200 arbitration deposit shall be retained by the MSRB.

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Public Arbitrator

Dated: 27 June 1991

STATE OF *Michigan* ss.:  
COUNTY OF *Wayne*

On this *27th* day of *June*, 19 *91*, 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.

*Lucy C. Sanchez*  
\_\_\_\_\_  
LUCY C. SANCHEZ  
NOTARY PUBLIC - MACOMB COUNTY, MICH.  
MY COMMISSION EXPIRES 6-7-95  
ACTING IN WAYNE

resolution of the issues submitted for determination, as follows:

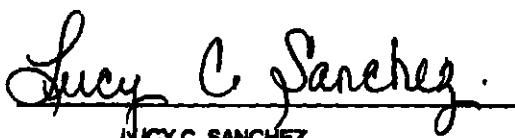
Respondent MBSC and Respondent King failed to inform Claimant of the features of the Bonds related to the Federal National Mortgage Association ("FNMA") guaranty and the risks, including possible early redemption, arising from those features. Respondent MBSC and Respondent King shall be jointly and severally liable and shall pay to Claimant: (i) \$9,992.72, representing the difference between the amount Claimant paid for the Bonds and the redemption amount, and lost interest on the Bonds for the period from the date of purchase until the date of redemption, and (ii) simple interest on that sum at the rate of 8.312 percent per annum measured from January 15, 1988 to the date payment is received by Claimant from Respondents. Claimant's request for costs and for punitive damages is denied, and Claimant's \$200 arbitration deposit shall be retained by the MSRB.

  
Hugh Douglas Camitta

Dated: 27 June 1991

STATE OF *Michigan* ss.:  
COUNTY OF *Wayne*

On this *27th* day of *June*, 19 *91*, before me personally appeared Hugh Douglas Camitta 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.

  
LUCY C. SANCHEZ  
NOTARY PUBLIC - MACOMB COUNTY, MICH.  
MY COMMISSION EXPIRES 6-7-95  
ACTING IN WAYNE