
How a Country Boy Snared a Money Man from the Big City

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Two jets, a yacht, limousines, mansions, a Fifth Avenue office -- by the end of the 1980's, whatever money could buy, Steven Hoffenberg had.

That included, of course, access to influential people. As the chairman of a fast-growing conglomerate called the Towers Financial Corporation, Mr. Hoffenberg had hired a bipartisan entourage that included Ben Barnes, a business ally of former Texas Gov. John Connally, and Thomas B. Evans Jr., a former co-chairman of the Republican National Committee. In Louisiana, regulators got calls on his behalf from attorney Victoria Reggie, daughter of a powerful state judge and future wife of Senator Edward M. Kennedy. A legal wrangle in California was handled by Mickey Kantor, now President Clinton's trade representative.

Indeed, Steve Hoffenberg seemed the epitome of success when he swept into the New Orleans office of Harry Stansbury, the state deputy securities commissioner, in October 1990. He wanted to know why Mr. Stansbury had blocked the local sale of notes issued by Towers, which used the proceeds to buy other companies' unpaid invoices at a discount and then tried to profit by collecting the bills in full.

There was a long answer to that question and a short one. The long one was that Towers had not met the state's disclosure standards. The short answer was that Mr. Hoffenberg had met his nemesis, a man named John Hays.

John Hays is a hard-drinking, chain-smoking, cowboy-booted newspaper publisher in Ruston, La., a college town in the red clay hills near the Arkansas border. A self-taught muckraker, he has made a habit of exposing local flim-flams in his free 25,500-circulation weekly, the Morning Paper. By late 1990, a Shreveport brokerage firm was selling Towers notes to the local gentry, and Mr. Hays had started writing articles raising questions about Towers.

Thus began a remarkable battle between two remarkable men -- a tough big-city financier with a lust for power, and a blunt back-country publisher who loves to raise a ruckus.

Ultimately, Towers sold more than \$15 million of notes in Louisiana -- part of \$415 million sold nationwide -- and John Hays wrote dozens of stories asserting that Towers was hiding its past misdeeds and using dubious accounting.

On Feb. 8, the Securities and Exchange Commission echoed the Morning Paper's stories, filing a civil suit accusing Mr. Hoffenberg and Towers of defrauding nearly 3,000 investors through the use of false and "grossly exaggerated" financial statements. In a report last month to the judge in the case, a court-appointed trustee said that Towers has far too little collateral to cover its obligations and cannot account for scores of millions of dollars it borrowed from the investors. The S.E.C. says it will seek the return of the \$415 million that Towers raised plus substantial fines from Mr. Hoffenberg.

Mr. Hoffenberg, who gained attention early this year with an unsuccessful bid for the New York Post, has officially denied the charges. But he said in an interview last week that he intends "to right the wrong that has been done" to investors by "a lot of foolish people -- and I don't exempt myself."

Meanwhile, the S.E.C. action has left his empire in shambles. On March 26, Towers filed for bankruptcy court protection, and last week, Mr. Hoffenberg was removed from the helm by the court.

The Towers case cost countless hours of S.E.C. staff work, much of them put in by Dorothy Heyl, a senior attorney in the New York office. But even Ms. Heyl agrees that John Hays was a key ingredient in the case. "His contribution was enormous," she said. "The amount of information he provided was unbelievable. He encouraged me. He goaded me. I always took him seriously -- I even got my own subscription to his paper."

Many state regulators credit Mr. Hays with giving them early warning, and ample ammunition, to force Towers to disclose more when it applied to do business in their states. "Certainly, the information he provided to us allowed us to look at this thing quicker than we would have otherwise," said Louisiana's Mr. Stansbury.

Earl Manning, North Carolina's securities investigations supervisor, said Mr. Hays helped him keep Towers out of the Tar Heel market completely. Armed with Morning Paper clippings, Mr. Manning found that Towers had not revealed all its past regulatory problems in its filings. "If we hadn't heard from John, we would have approved those notes and people here would have lost a lot of money," Mr. Manning said.

At first glance, John Hays and Steve Hoffenberg seem more alike than different: Each is a driven entrepreneur. Mr. Hoffenberg, 48, built Towers out of nothing, shaping it into a machine that provided him with money and influence. Mr. Hays, 50, started the Morning Paper in 1976 because he was angry at the local daily newspaper.

Each man, too, becomes an abrasive bully when crossed. Mr. Hoffenberg has staged public tantrums aimed at the media, the S.E.C., even his own lawyers and business associates. Mr. Hays is known as someone who will fight to win any argument, however long and loud it gets.

And each man, in his own sphere, has invented himself -- with Mr. Hoffenberg crafting his Manhattan financier's life out of an unglamorous Brooklyn childhood, and Mr. Hays masking his worldly tolerance and idealism behind the antics of a rednecked "country boy."

But the battle that began in 1990 would ultimately sift out what distinguishes them: their handling of the truth.

Steve Hoffenberg portrays himself in Horatio Alger fashion. A City College dropout, he tells of starting out with just \$2,000, building a small credit business into Towers Financial.

But his actual resume reveals a darker picture. He testified in a civil trial in the mid-80's that he had "a brush with the law" in the 1970's as part of "a group of people involved in a theft."

Last week, he refused to discuss any details of that matter. But court records in Manhattan show that a Steve Hoffenberg, born the same year as the Towers executive, pleaded guilty to attempted second-degree larceny in 1971, in a case involving the theft of a \$15,000 diamond ring. "That is not me," Mr. Hoffenberg said. "That is another person." He would not give his precise date of birth, however, simply denying that it matched the defendant's.

From late 1971 to the end of the decade, Mr. Hoffenberg was known by many small-business owners in New York as "a bust-out artist" -- that is, someone who takes over a business and buys goods on credit to sell for cash, leaving the suppliers unpaid and the business insolvent.

State records show he was a top officer at eight small businesses, several of which wound up in bankruptcy or foreclosure. In a 1980 lawsuit by the original owner of one such business, Westwood Paper and Hardware, a New York State judge termed the behavior of Mr. Hoffenberg and his two partners "shocking to the conscience of the court."

Several former associates say they saw little then to suggest the commanding figure Mr. Hoffenberg would become by late 1990 -- except, perhaps, that he would arrive at those "bust-out" liquidation sales in a chauffeured limousine. 'A Perpetual Student'

Although John Hays spent his teens and 20's in Texas, he felt he was "coming home" when he and his wife, Susan, moved to Ruston nearly 20 years ago. Both his parents had roots in the area, and he had spent his childhood summers with grandparents in Ruston, a town of 13,000 and home to Louisiana Tech University.

Those summers were stable seasons in a kaleidoscopic life. "A perpetual student," Mr. Hays said he pursued a whimsy-driven college education for six years and then dropped out. He worked as a utilities contractor in Texas, where he got interested in politics, once making a quixotic bid for a state legislative seat. He dabbled in the oil and gas business, and saw "most of the cons and flim-flams" of that trade.

So when Mr. Hays, who had no prior journalism experience, started the Morning Paper in 1976, it was perhaps inevitable that stories about financial chicanery would be a staple, tucked in beside the garage-sale maps and the classifieds. In 1977, he reported on a scheme to produce inflated tax write-offs for oil-drilling investors -- and, in the process, became friendly with an S.E.C. investigator based in Fort Worth. Other stories led him to other regulators in other states. By 1980, these "buddies" were gradually becoming a network of regulators who would take his calls and listen to his hunches.

By 1980, Steve Hoffenberg also had put together the pieces of his future. That year, he formed a private company called Professional Business Brokers to own the concentric corporate shells that formed Towers Financial. In 1986, he arranged for Professional Business Brokers to purchase a publicly traded shell company, a transaction that allowed Mr. Hoffenberg to transform Towers into a public company without submitting a formal prospectus to the S.E.C.

It was after Towers went public that Mr. Hoffenberg began to display both the unsubstantiated hyperbole and the affinity for political celebrities that have become his trademarks. In his annual report for 1987, for example, he called his bill-collecting unit "a leader in its field" but provided no details about the size of its business. The same year, he told stockholders in Towers that the company would soon apply for a Nasdaq listing. That never happened.

In late 1987, Mr. Hoffenberg made an unconvincing but widely publicized bid for Pan American World Airways, along with several near-famous "partners" he had hired as advisers, including Richard Nixon's brother Edward. The bid failed but brokers said the publicity boosted his promissory note sales.

In early 1988, he used the assets of an Illinois insurer he had acquired to make another short-lived takeover bid, this time for Emery Air Freight. Again, Mr. Hoffenberg, a workaholic and a loner whose marriage ended in divorce years ago, got little for his efforts but publicity -- and, perhaps, the sense of belonging to Wall Street's glitzy takeover fraternity. Trouble in Illinois

All was not cigars and limousines, however. In 1988, regulators in Illinois seized the two companies Towers owned there, accusing Mr. Hoffenberg of looting the companies to pay for the Emery bid and personal expenses. Although Towers did not disclose these suits for years, the company settled them by promising to pay substantial damages.

Also in 1988, the S.E.C. sued Towers and Mr. Hoffenberg for allegedly selling securities to the general public without first registering with the commission. With high-voltage legal help -- and without denying or admitting any wrongdoing -- Mr. Hoffenberg settled the S.E.C. case, agreeing to offer investors their money back. Very few elected to give up the rich yields his notes were paying.

Between 1987 and June 1990, Towers sold at least \$66 million in notes through brokers who were paid high commissions to market them through private placements limited to wealthy, sophisticated investors. And in July 1990, Towers won an AA-rating on a \$56.5 million bond issue, supposedly backed by health-care industry receivables, the first of \$200 million in such notes that it would eventually sell to small pension funds and other institutional investors.

In 1990, as he ascended into the world of celebrity finance, the closed S.E.C. file on Towers sat in a file drawer in Dorothy Heyl's office in New York, like dry tinder awaiting a spark. Selling to the Locals

By 1990, a Shreveport brokerage firm called the Biedenharn Investment Group was doing a brisk business in the high-yielding notes, and the gentry around Ruston were buzzing about Towers. Someone mentioned the deal to John Hays. "I immediately wondered: If some fellow up in New York has such a good deal," he said, "what would inspire him to come down here to northern Louisiana to make the local people rich?"

He started making calls to state regulators and soon discovered that Towers was selling notes in states where it had not met registration requirements. He found the undisclosed lawsuits in Illinois, and a related case in Michigan. He called people listed as "directors" only to find they considered themselves merely "advisers."

He started writing stories -- stories that would prove enormously helpful to Ms. Heyl at the S.E.C., she said.

Harry Stansbury, the Louisiana regulator, read the articles as well, and in turn queried Towers and its lawyers. Dissatisfied with the answers, Mr. Stansbury directed Towers to stop selling the notes in his state until they were registered.

It was that decision which sent Mr. Hoffenberg to New Orleans to meet with Mr. Stansbury. After being told to provide more details about his legal problems, Mr. Hoffenberg produced an addendum that described what Mr. Hays had uncovered.

The registration order "meant Towers had to start filing disclosure documents -- which I could now get and write about," said Mr. Hays. He continued writing, feeding his stories into his regulatory network into early 1991. "I was just so struck by the size of the thing," he said. "It was growing exponentially, yet had attracted so little attention, that I just had to stay with it."

Then, on March 19, 1991, regulators in Arkansas got a list from Towers of all its noteholders across the country. The list became part of the public record, said Rebecca Berry, deputy securities commissioner, "so I sent it to John." Mr. Hays used that list to prove to regulators in other states that Towers was, indeed, selling notes to their citizens without registering them. State regulators began to compare notes among themselves and with the S.E.C. By 1992, Mr. Hoffenberg's lawyers were fighting regulatory brush fires almost everywhere they turned.

There were internal eruptions as well. At least four executives had quit. Mr. Hoffenberg was scouting for someone to buy the business, boasting that he would "cash out" handsomely, but as autumn came around, business was weak and employees were being laid off. Sales of notes lagged as brokers awaited the company's overdue annual report for the 1992 fiscal year, which ended in June.

And still, John Hays persisted with his attacks. Going Big Time

John Hays had become what Ms. Heyl called "a national clearinghouse" for information about Towers. His files became a rich vein for state and Federal investigators and for lawyers caught up in lawsuits against Mr. Hoffenberg. But the general public outside of Ruston had never heard of Towers. Mr. Hays said he tried to stir up interest among journalists elsewhere but got barely a nibble.

"By the last half of 1992, my readers were getting sick and tired of the whole thing," he recalled. "Even my wife was telling me it was time to let it go." But he couldn't -- "the thing was just too big."

Then, in late January, Mr. Hays watched in astonishment as Steve Hoffenberg surfaced in the national media as the would-be savior of the Post, which was on the brink of shutting its doors. "I was doing handsprings," Mr. Hays recalled. "I knew he was stepping into the spotlight, big-time. It wouldn't just be me looking at him anymore."

Once again, the Hays buddy system paid off. An aide to Mayor David Dinkins called a friend in the North Carolina government to ask about Mr. Hoffenberg. The friend steered the call to Earl Manning, who said he referred the aide to John Hays.

The tidbits began to leak to the city press corps. Suddenly, Mr. Hays was besieged by journalists seeking information about the Post's suitor. The stories snowballed, and by the time the S.E.C. finally filed its lawsuit in February, Mr. Hoffenberg was big news in the Big Apple.

A few weeks ago, Mr. Hoffenberg had his first conversation with Mr. Hays, who said he had never been able to get past the secretary in earlier calls. "He's not a credible person," Mr. Hoffenberg said of his adversary. "He runs a newspaper that is full of lies, he doesn't do due diligence. He just wings everything. I have never heard from anybody that John Hays was somebody we should take seriously. I mean, he gives his newspaper away -- he throws it on people's driveways."

However, the S.E.C. case turns out, it is clear from evidence already made public that Mr. Hoffenberg has played loose with the facts about his business life over the years. In countless annual reports, contracts and court settlements, he has made promises to investors and others that he did not keep.

Confronted with a number of examples in an interview last week, Mr. Hoffenberg disputed key details or blamed others, denying that he was in any way untrustworthy.

In contrast, the curmudgeonly Mr. Hays finds it difficult to tell even the small, sweet falsehoods that lubricate life in a close-knit Southern town. "When I get crossways with somebody, they know it," he said.

But this is not what Mr. Hays himself cited as the principal distinction between him and Steve Hoffenberg. "I'll tell you the main difference," he said, chuckling and gesturing at the makeshift newspaper office so unlike Mr. Hoffenberg's world. "Right now, I'm a lot richer than he is." TRUST TURNS INTO A LAWSUIT

MONROE, La.

MOST of the investors in notes sold by the Towers Financial Corporation, which faces civil fraud charges filed by Federal regulators, were unaware of John Hays's warnings about Towers, published in the Morning Paper.

But why did people here in northern Louisiana, who did read Mr. Hays's paper, nevertheless dismiss his warnings?

The answer is rooted in the specific history of the region and in the attitudes about dynastic wealth and genteel conformity that prevail in any small town. But it also shows the universal risk of trusting too much in the social fabric that holds any community together.

The notes were sold by the Biedenharn Investment Group in Shreveport, whose founders include a scion of Joseph Biedenharn, one of the nation's earliest Coca-Cola bottlers. Among the buyers are Nell Hayes Faulk and her son, R. Trippett Faulk 3d, a cotton planter whose land has been in the Faulk family since 1816.

In a case that has rocked Monroe, the Faulks are among a group of investors who have sued the Biedenharn firm. The Faulks charge that the firm used fraud to sell them \$300,000 in Towers notes that could now be worthless.

Ray Barlow, the lawyer for Biedenharn, said his client would "deny vehemently that it has committed any fraud" in the sale. Some brokers bought the notes themselves, he added, "and they feel that they're victims too."

Mrs. Faulk, a Sunday school teacher in her late 60's, said she had asked her broker about John Hays's stories. "He would just ask me, 'Who are you going to believe? The Biedenharns or some hick, one-horse publisher in Ruston?' " she recalled. "The Biedenharns are lovely people in Monroe," she added.

Her son said he was reassured by the Biedenharn connection. "I figured they have more experience in these matters," he said.

How did he learn that Towers had been sued by regulators? "My sister heard it from John Hays," he said. "She had gone by his office to get me a subscription to the Morning Paper -- as a gag gift for my birthday."

Photos: John Hays, a small-town publisher, waged a two-year crusade against Steven Hoffenberg, top, who now faces S.E.C. fraud charges. (Fred R. Conrad/The New York Times) (pg. 1); Steven Hoffenberg in the Fifth Avenue boardroom of Towers Financial last week; Nell Hayes Faulk with her son-in-law and lawyer, David E. Verlander, left, and son, R. Trippett Faulk 3d. (Photographs by Fred R. Conrad/The New York Times) (pg. 6)