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# THE SEC VS. STEVEN HOFFENBERG: A CASE OF LEANING FORTUNES AT TOWERS FINANCIAL?

**By Allan Sloan** **February 16, 1993**

One of the wiser sayings in the world is, "Never pick a fight with someone who buys ink by the barrel." Yet here is the Securities and Exchange Commission, not known for picking fights with putative press lords, filing a very tough lawsuit against Steven Hoffenberg, the man who since January has been running the New York Post while trying to buy it.

If the SEC charges are to be believed, Hoffenberg and his associates at the Towers Financial Corp. debt collection company made up numbers, and got away with it for years.

Regardless of whether the SEC proves its case, just filing the charges has set off what's likely to become a run of noteholders trying to get their money back, according to court testimony. So you are likely to hear more about Towers in the future.

Towers's lawyer, Ira Sorkin, who was once head of the SEC's New York office, says that Towers will answer the charges in due time. He also says that Towers has never missed an interest or principal payment.

The SEC charges Towers is using borrowed money to pay its interest bills. It's no big trick to pay your interest bills if you can keep borrowing money by selling more notes. It's like having a no-limit overdraft line of credit -- at least until the music stops.

There might also be some embarrassment for New York Gov. Mario M. Cuomo, who has publicly embraced Hoffenberg.

In an interview Thursday, Cuomo said he wasn't vouching for Hoffenberg -- whom he several times called "Hoffenberger" -- but was trying only to save the Post. Cuomo, a lawyer by training and a litigator by temperament who has his hands full trying to run New York, said he hasn't read the SEC's filings.

The SEC charges that Towers, which reported total profit of $13.1 million for the four years ended June 30, 1991, actually lost a total of $136.6 million. In essence, the SEC suit charges, Hoffenberg covered up Towers's losses by cooking the company's books.

The SEC says Towers paid about a penny on the dollar for loans the sellers considered worthless.

The SEC says Towers booked fast profits simply be declaring the loans more valuable, while collecting almost nothing.

For instance, the SEC says, Towers bought $28 million of dead Southwestern Bell Yellow Pages bills for $300,000 in 1988, and recorded a $9 million profit, most of which was never collected.

In fiscal 1990, $50 million of dead bank loans, purchased for less than $500,000, became worth $24 million on Towers's books. In 1991, $10 million of deadbeat Bank of America credit card loans, purchased for $124,000, became worth $4 million.

There's more, but you get the point.

The notes that Towers sold to cover these purchases were for three years or less with interest rates as high as 18 percent. Seen a bank certificate of deposit like that lately? Just to make sure the notes moved, Towers paid brokers as much as 4 percent a year for peddling them.

How could Towers survive if it paid 20 percent or so to borrow money? It claimed, in essence, that it was making 30 percent a year buying bills owed to hospitals.

In the cold light of day, this seems idiotic -- why would a hospital pay Towers 30 percent a year? It would be cheaper to use a Visa card. But grease this story with big yields and fee-hungry brokers, and Towers had little trouble raising more than $400 million.

While Towers was peddling its notes, the SEC and state regulators spent years trying to put a case together to halt or regulate the sales. A key player in this game was John Hays, owner of the Morning Paper in Ruston, La., who found Towers notes being peddled to his readers.

He did a first-rate job of gathering data and badgering regulators by fax and phone to take action. When the Post story surfaced, Hays began badgering us big-city news people, too. Take a bow, John.

Ironically, Hoffenberg's attempts to buy the Post accelerated the SEC's suit, which Hoffenberg has known for months was coming. That may have encouraged Hoffenberg to try to buy the Post. Why not try buying ink by the barrel?

The SEC says it filed its suit earlier than planned because if Hoffenberg bought the Post, millions of Towers noteholders' dollars might vanish into the newspaper and never be seen again.

An additional reason, I suspect, is that closing Towers after Hoffenberg bought the Post would likely kill the paper.

What politician, bureaucrat -- or judge -- wants the Post's blood on his hands?

The moral here? When a deal seems too good to be true, it probably is too good to be true. As they say on Wall Street, "Bears make money, bulls make money, but pigs die broke