Louisiana wasn't the only state where multi-family bond issues were rushed to market during the mid-1980s to finance projects that never were built. It happened all over the country.

Salt Lake City attorney Harold Stephens represented the BoNo Development Corp., as corporate attorney and did his best to look over the shoulders of bond and tax attorneys who put together a $13.5 million multi-family housing bond issue.

Stephens said it looked to him and his client as if the money would go into a construction fund from which funds could be withdrawn to build Pioneer Village Estates Apartments.

As it turned out, the money was put into a guaranteed investment contract, or GIC, locking the money away where it would earn enough interest to pay dividends to bondholders, pay fees to attorneys and moneyhandlers and eventually pay off the face value of the bonds but served no other public purpose.

The bond closing was in 1985, a frantic year in the multi-family housing bond industry. Congress was rapidly closing loopholes in the law and bond attorneys and investment bankers were furiously rushing scores of such bond issues through issuing agencies across the country.

Pioneer Village is just one more project that never got off the ground. Last year BoNo directed Stephens to file suit against tax attorneys, bond attorneys, the trustee bank and others who put together the bond package and handled the proceeds.

One of the players in the BoNo deal shows up in two of the Louisiana projects that also never got built. James J. Keefe, whose Mercantile Capital Finance corporations and Mercantile Credit Corporation were involved in the aborted Pontchartrain Towers and Liberty XII deals, is also named in the BoNo suit. Keefe told the Advocate that his companies' participation was straightforward and honest. Another person involved in four other bond-financed Louisiana projects that were never built was Ira McGown, also named as a defendant in Stephens' suit. Reporters could not locate McGown for comment.

In a less-direct connection, First National Bank of Shreveport — now part of Premier Bank — was trustee for the Utah bond proceeds. Louisiana National Bank, also now Premier, was bond trustee for the unbuilt Louisiana projects. Premier, as successor to FNB, is also a defendant in Stephens' suit.
There are other similarities. In the BoNo issue, alternate security or credit enhancement — a written promise from a financial institution to guarantee repayment of the bonds — was required of the developer, but not before the bonds were closed, just like in the four Baton Rouge deals.

"It would have been nice to have (alternate security) in place in the form of firm mortgage commitments before closing of the bonds," Stephens said. "But that apparently didn't cause any grief to these gentlemen who went about closing the bonds. They didn't care one way or another. There were tremendous fees to be earned. When you look at these projects, they didn't give a damn if there was any alternate financing up front or not. The developer was the one who was hung up to dry."

Stephens said organizers of the bond deals made a lot of money because they understood the law and could take advantage of its loopholes. The deals also depended on the cooperation of developers. In the case of BoNo, Stephens said neither he nor his client realized the bond proceeds would not be made available.

"There have been substantial abuses," the attorney said. "Institutions like Mercantile Capital Corp. have earned enormous fees." Mercantile earned $276,250 in fees in the two LPFA issues for New Orleans developer William Schenker.

In the BoNo case, Mercantile Capital Corp. was to invest the bond proceeds in a GIC through Mercantile Capital Finance Corp. No. 35. The payments from the GIC were to be administered by another company to BoNo for construction of the apartments, he said.

In the case of Pontchartrain Towers and Liberty XII, Mercantile Capital played a similar role using the Keefe-created companies of Mercantile Capital Finance Corps. Nos. 7 and 8. Stephens said all the Mercantile Capital Finance corporations were capitalized with only $500 apiece. For its share in the two Louisiana deals, Keefe's two companies, MCFC numbers 7 and 8 received $276,250.
“I think eventually all these players are going to be called to task on these things,” Stephens said. “As IRS comes in and declares these taxable, you will see more incentive for the Securities and Exchange Commission to get to work on them. “I think it’s possible, if you do these deals right, to issue bonds where there is a good, viable public reason, to build housing for people who can’t afford it otherwise. The wonderful thing would be to use the bonds for what they were designed to be used for,” Stephens said. “The housing projects would increase the value of the community and provide housing. But to issue them on the strength that the bonds will be invested and corporate America ends up earning additional arbitrage at the cost of the taxpayer, I suppose there’s a great lesson. If you do these deals, see that the money is used instead of going into the pockets of the financial entities.”