THE WONDER WOMAN OF MUNI BONDS

Meet C. Austin Fitts, the Street's pioneer in municipal 'junk'

The path Catherine Austin Fitts took to Wall Street began at a Philadelphia bistro, Fitts, then 26, was working as a barmaid at Restaurant LaTerrasse when an influential patron, director of admissions at the nearby Wharton School, urged her to get an MBA. "I was interested in the restaurant business," recalls Fitts. "It just didn't occur to me then that a woman could go to a place like Wall Street."

But go she did, and prevail she has. Fitts, who graduated from Wharton in 1978, last year became the first woman to be promoted to managing director at Dillon, Read & Co. Founded in 1830, Dillon Read once epitomized the Wall Street investment bank as an elitist men's club. And Fitts climbed to the top the hard way, stacking the odds against her success by shunning a fast-track position in mergers and acquisitions for a career in the unglamorous field of municipal finance.

Fitts, now 36, continues to walk the road less taken. Drexel Burnham Lambert Inc. revolutionized corporate finance in recent years by creating a $130 billion market in high-yield, high-risk debt—better known as junk bonds. Fitts is perhaps Wall Street's foremost champion of the municipal equivalent: bonds issued by public utilities, hospitals, transportation agencies, and other municipal institutions without benefit of a rating from Standard & Poor's Corp. or Moody's Investors Service Inc.

INCREDIBLE TENACITY. The very idea of unrated muni bonds makes many public finance specialists queasy. "These are financings that have a material risk of default right out of the box," says Robert A. Gerard, director of tax-exempt securities at Morgan Stanley & Co. Nevertheless, Gerard, who formerly headed Dillon Read's muni finance department, is far from predicting that his former protege will fail: "Austin has incredible tenacity and intensity, which are the qualities that separate the top people from the pack in investment banking."

Since college, Fitts has gone by the gender-neutral name of C. Austin. "I hated 'Cathy,' and no one would call me 'Catherine,'" she says. But like many of the women reaching the coveted managing director level at major houses (box), Fitts plays down the Street's sexual politics. "A lot of people are uncomfortable working with a woman the first time,"

she says. "Do a good job and it's not an issue the second time."

Shy she's not. The first assignment Gerard gave Fitts was to help convince the credit-rating agencies that New York City deserved an upgrade. After a few days on the job, Fitts walked into her boss's office and told him off. "I was procrastinating," admits Gerard, who was late in sending an opinion letter to the agencies. "Austin said that if I didn't write the letter by 10 that night, she'd do it and forge my signature."

As Dillon's senior government banker in New York, Fitts handles the major accounts and helps orchestrate the efforts of some 15 junior staffers. Colleagues describe Fitts as unpretentious, open, and extremely demanding. "She's very particular, very precise about what she wants," says one. "She makes waves, but she gets things done."

REMARKABLE CLIMB. Thanks in part to Fitts, Dillon Read has become the fastest-rising municipal bond underwriter. By lead-managing $3.4 billion in muni offerings in 1986, Dillon Read jumped to 10th from 22nd in the Investment Dealers' Digest annual rankings. Dillon's rise is all the more remarkable given its modest size: $150 million in capital, 26 muni bankers, and a muni sales force of 26.

Even before she infiltrated the male bastion of investment banking, C. Austin Fitts was a maverick of sorts. Her grandfather had been dean of Wharton, and her late father was chairman of the Surgery Dept. at the University of Pennsylvania. Fitts didn't grow up in a suburban enclave, however, but in a middle-class black neighborhood near Penn. Something of an adolescent hell-raiser, she was rescued from police custody by her father more than once.

She graduated from Penn in 1974 and, undecided on a career, worked at LaTerrasse until she enrolled at Wharton in 1976. After graduating, she took a position at Dillon Read, one of the handful of old-line houses that ruled the Street in the days when investment banking consisted mainly of dispensing advice to ex-school chums who'd gone on to run big corporations. Enervated by its prolonged success, Dillon Read was supplanted as the need to build trading muscle redefined investment banking in the 1960s and 1970s.

By the time Fitts arrived, Dillon had roused itself and was counterpunching, though carefully, against larger rivals. In muni finance, the breakthrough came in 1982 on a deal the rest of the Street initially shunned: raising billions to help the Metropolitan Transportation Authority repair New York City's decrepit subway and commuter railroad systems. Ge-
INVESTMENT BANKING'S TOP RANK: NO LONGER 'GENTLEMEN ONLY'

John C. Whitehead, former senior partner of Goldman, Sachs & Co., predicted in 1984 that the old-line investment bank would name its first female partner "within years." He needn't have been so cautious. Last fall, Goldman admitted Jeanette W. Loeb to a partnership that also includes 105 men.

Loeb, who specializes in equipment-related financings, is part of a female vanguard that is just now reaching the key partner/managing director level on Wall Street. By seeming coincidence, two of Goldman's closest rivals, Salomon Brothers and Morgan Stanley & Co., also named their first female managing directors in 1986. Each of the eight biggest investment banks now has at least one woman partner or managing director.

CHRONIC NEED. "I don't think it's so unnatural that there haven't been that many women yet who've made partner," says Loeb, 34, who went to Goldman after getting an MBA from Harvard University in 1977. "There haven't been a lot of women coming out of business school until recently."

At least one professor from Loeb's alma mater doesn't buy her argument. "The pipeline to the investment banks was filled years ago and should have produced female partners years ago," contends Samuel L. Hayes III, an investment banking professor at Harvard business school. "The firms have been unwilling to make concessions to the special circumstances of women as employees"—notably the demands of motherhood, adds Hayes. "I think they still have something of the ambience of a gentlemen-only club."

Nonetheless, Hayes predicts, the number of female partners will slowly but steadily increase. The law of supply and demand requires it. The rapid expansion of the big investment banks creates a chronic need for new managing directors, most of whom are promoted from within. And at every house, women are increasingly well-represented in the lower echelons.

Consider the demographics of Goldman Sachs. In 1984, 25% of its professionals were women, and 8.6% of its vice-presidents, the rank just below partner, were women. Female professionals now account for 28% of the total, and women hold 12.5% of the vice-presidential jobs. Loeb is likely to remain alone at the top for very long.

By Anthony Bianco in New York

FINANCE

Securities Corp. Total assets of these funds doubled over the past year, to $15 billion.

There's no shortage of divergent opinions on the future of the fledgling market in junk muni bonds. Barring a wave of defaults, the key question is whether investor demand will slump if and when interest rates rise and restore the double-digit yields of yesteryear to investment-grade bond issues. Fitts, anyway, is a believer: "I'm betting there is a tremendous market here."

A Republican, Fitts shows an interest in public policy issues that extends beyond banking. She enjoys acting as a behind-the-scenes adviser to legislators and says she could envision working in state government some day. But her current ambition is to persuade Dillon Read's top brass to deepen the firm's commitment to public finance. Although she's only one of many managing directors maneuvering for advantage, Fitts has one unique edge: "You have no idea the things I hear in the ladies' room here."

By Anthony Bianco in New York