

BAPTIST FOUNDATION OF ARIZONA, INC.

[An Arizona Non-Profit Corporation]

**A CASE WHERE THE PONZI SCHEME
WAS IN THE CHURCH**

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**With Special Assistance from
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When Attorney Clifton Jessup was appointed Liquidating Trustee of the Baptist Foundation of Arizona (BFA) Liquidation Trust in January of 2001, he was placed at the mast amidst a sea of endless promissory notes, deeds of trust, memos, letters, and appraisals.

But even worse, over 11,000 victims, many of whom were elderly members of the Southern Baptist church, were now looking to he and his team to help them to salvage their investment out of what had become a nightmare situation.

In 1999, less than two years prior to Jessup's appointment, the Arizona Corporation revealed that the Baptist Foundation of Arizona had been running a "complex Ponzi scheme" based on the sale of illegal securities. The Foundation had borrowed an estimated \$585 million from these 11,000 faithful Southern Baptist members using elaborate but specious real estate schemes. They had lost almost everything.

Members of the largest Protestant religious organization in America had been scammed into the largest religious fraud in American history.

The malfeasors were many, but at the head of the operation was Bill Crotts, a Southern Baptist minister's son who succeeded his father as head of the BFA in 1982. He had seen his father work for over two decades to bring the organization out of financial turmoil. To his detriment, he adopted an "any means necessary" attitude to bringing and continuing the Foundation's prominence. Crotts used his knowledge of the inner workings of BFA and the concept of "stewardship" in the Southern Baptist church to create a system of giving that he hoped would elevate the Foundation to success.

By the late 1980's, Crotts' team included Thomas Grabinski, who was hired as a staff lawyer (and ultimately became Crotts' co-defendant in the criminal trial *State of Arizona vs. Crotts & Grabinski*). The balance sheets began improving each year thanks to the increase in

giving from the churches and the accounting manipulations, labeled “swirl transactions”, taking place unnoticed. A swirl transaction involved funneling money from BFA through numerous affiliated for-profit organizations back to BFA as the purported purchase price for assets.

For a while, these activities created an illusion of success. Crotts was seen as a hero and a visionary among the Southern Baptist Church. Investors found reason to trust his judgment even though they had seen no proof of results. Many of these investors were elder members of the Southern Baptist Church, who were placing their life savings and retirement funds in the hands of Crotts and his team. Crotts, in response, was using their money to keep the Foundation afloat.

In addition to funding operational efforts, the funds were also being exchanged between parties to create "transactions" in the BFA books, which would help their bottom line and further gain the trust of investors. One accomplice in this effort was Tom Church, who received over \$10 million from BFA in exchange for aiding in these efforts. Crotts, Grabinski, and Don Deardoff (by then the bookkeeper for BFA) then created the ALO, which they founded to replicate the Tom Church scheme without requiring the payoff to complete the transactions.

Despite the failings of their real estate ventures, the heads at BFA had used these alternate means of "revenue" to keep the Foundation afloat for over a decade. No one had a clue that BFA was sinking in a whirlpool of debt.

By the early-to-mid 90's, their elusive schemes began to unravel. BFA was approaching \$100 million in debt, and was warding off investigation by the Arizona Attorney General's office, the state banking department, and the Arizona Real Estate Department. Further, the schemes had now come to the attention of BFA employees who were speaking out to the

churches and auditors. If either of them had begun to investigate these suspicions, the corruption taking place would have been revealed much sooner, and fewer investors would have suffered.

Tragically, the suspicious investors and employees were ignored, and, from 1996-1999, another \$300 million was loaned to the BFA by members of the Southern Baptist Church.

By the time the Arizona Attorney General's Office had approached the leadership of BFA to about the alleged improprieties, the total losses had reached \$585 million. In August of 1999, BFA received an official "cease and desist" warning. The board of directors, seemingly unaware of the scandal, froze all investor assets immediately to prevent any further damages.

That same year, BFA was forced to file bankruptcy in November of 1999 in the United States Bankruptcy Court for the District of Arizona, Case No. 99-13275-EF-RTB.

The BFA investors were finally alerted that they had been victimized. Over \$500 million of their investments which they believed was helping to build churches, and were being handled safely by the dutiful leaders of the Foundation, had been lost. For many of the elderly victims whose average age was 70 years, these losses resulted in poverty, forced a return to work, left them unable to cope with illness, or even led to their untimely death.

In the Chapter 11 bankruptcy case, a plan of reorganization was confirmed by the Bankruptcy Court in December of 2000. The Plan substantively consolidated almost 100 BFA-related entities including ALO, and created the BFA Liquidation Trust.

In January of 2001, Jessup, a prominent Dallas bankruptcy attorney, assumed the role of the BFA Liquidating Trustee after being appointed by the Court. A five person BFA Liquidating Trust Board was also appointed, the majority of whom were BFA investors. He and the team were joined by state regulators, bankruptcy officials, and class-action lawyers who were determined to regain as much of the victims' lost investments as possible.

The recovery effort involved two activities. The first activity was the sale of all real estate and assets now within the BFA Liquidation Trust. Jessup hired a team of attorneys and other professionals to accomplish the sale of each asset. The team worked from 2001 to 2008 to sell the entire estate, pulling in an estimated \$262,720,000 for the properties in the BFA Liquidation Trust.

The other co-equal phase involved litigation against the parties that had either consciously participated or unconsciously aided in the efforts of Crotts and his team. After intense litigation, Arthur Andersen, the accounting firm responsible for auditing BFA, settled for \$217 million. Others involved, including Jalma Hunsinger of ALO and Bill Crotts' own parents and sister, were placed on probation and required to pay specified amounts towards the estate.

By 2008, after nearly eight years of litigation and real estate sales, Trustee Jessup and the BFA Liquidating Trust returned approximately 72 cents on the dollar to the majority of the victims of the BFA scandal, after bringing in more than \$450 million.

After a thrown-out trial and a three-year delay, the criminal prosecution of the BFA officials conducted by the Arizona Attorney General's office began in September of 2005. Many of the major players in the scandal pled guilty and took reduced sentences by agreeing to testify against Crotts. As a result, Bill Crotts and Thomas Grabinski stood alone as co-defendants in the trial. While each of them failed to accept the reality of their wrongdoing, in July 2006 the jury found them guilty of three counts of fraud and one count of racketeering. Both were ordered to pay the victims \$159 million in restitution. Bill Crotts will serve eight years in prison, while Grabinski will serve six.

After completing the liquidation of all assets, concluding all litigation against responsible persons and distributing all funds to investors pursuant to the Plan, Jessup filed his final report

with the Court summarizing the activities of the Trust for seven years and seeking discharge of his duties as Trustee.

On July 22, 2008, the Bankruptcy Court accepted Attorney Jessup's motion to close the case.

After years of asset liquidation and litigation, Jessup and the team were able to deliver a measure of justice to the families of the victims who suffered in the BFA scandal. But for all who participated, it will remain an unforgettable tale of corruption, ignored “red flag” warnings, and ill-fated trust in a church organization.

Sources:

Sterling, Terry Greene. “Trial of Faith: A true story of Phoenix Southern Baptists, sins, secrets, and dynamite”. *Phoenix Magazine* April 2007: 180-203.

Reports and pleadings filed in the Baptist Foundation of Arizona case.