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Cornerstone Ministries betrayed them by straying from mission, investors say

By CHRISTOPHER QUINN The Atlanta Journal-Constitution Tuesday, June 23, 2009

Andy Watkins of Flowery Branch thought the \$150,000 in retirement money he sank into Cornerstone Ministries Investment's bonds was "building old folks homes and churches and helping churches out."

Instead, his money was going to fund risky second mortgages, investments in low-income housing, retirement homes and housing developments.

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Watkins, 70, who had invested for 20 years, found out about the company's change in strategy in an examiner's report released in March as part of Cornerstone's bankruptcy proceedings.

Cornerstone filed for Chapter 11 protection in 2008 and is beginning to liquidate assets. Meanwhile, the state has launched an investigation into the company.

Watkins, a faithful Presbyterian, feels betrayed by a company that started in his denomination but changed into something he didn't recognize.

An attorney for one of the ministers who started and ran Cornerstone said the firm was just another victim of the worldwide real estate and credit meltdown.

The company's roots are in the Presbyterian Church in America, which like other denominations needed a way to finance new church buildings and decided to form an organization to sell bonds.

After the denomination closed the program in 1996, the ministers who ran it, the Rev. Cecil Brooks and the Rev. John Ottinger, took the organization public and called it Cornerstone.

The examiner's report says they raised money through bond sales and loans, and they lent the money to churches from various denominations. The company morphed into financing general developments under "a tangled web of non-profit and for-profit corporations and limited liability companies," where the ministers made "substantial income over and above the salaries disclosed in the ... filings with the U.S. Securities and Exchange Commission," the report says.

In one instance, the two made more than \$6 million each by selling one corporation's holdings to another.

John A. Thomson Jr., Ottinger's attorney, said the report is full of "incorrect" conclusions "based on only half the truth or taking certain facts out of the context of Cornerstone's investment transactions."

Thomson noted in a written response to The Atlanta Journal-Constitution that Ottinger and his family lost \$1.4 million in Cornerstone investments.

"Jack Ottinger greatly and personally regrets the losses that all of Cornerstone's investors, including he and his family, have suffered as a result of the collapse of the real estate markets and resulting collapse of Cornerstone's portfolio," he wrote.

Ottinger came out of his 2006 retirement to try to get the firm back on track, Thomson said.

Brooks did not return calls. His former attorney, J. Douglas Stewart of Gainesville, said Brooks is gravely ill in a Florida hospital.

Some investors say the bankruptcy has a double sting. They lost money, and they feel taken advantage of by fellow church members.

Bob Wildrick of Blairsville knew Brooks and Ottinger, as well as the broker who sold him the bonds, from church.

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"It just makes you mad and makes you sad that they would take advantage of everybody," Wildrick said.

Watkins said, "I had one of my kinfolk, and she invested \$50,000 in them about two weeks before they filed bankruptcy, and they didn't even tell her it was coming."

Court documents show the company knew it had \$128 million in "significant credit risks" months before filing for bankruptcy.

More than 3,600 investors held \$142 million in bonds.

The examiner's report by Marietta attorney Pat Huddleston characterizes Brooks and Ottinger as "self-dealing" in their business transactions while they touted the company's spiritual mission.

It says company letterhead in 2000 read, "Using God's money for God's Kingdom."

Huddleston wrote, "It is difficult to conclude that Cornerstone had any interest in financing churches between 1999 and 2006."

Huddleston defended his report by phone, saying it is based on sworn testimony and company documents.

Thomson said Ottinger's ability to speak out is limited because of the bankruptcy proceedings, but more information will come out that will vindicate him.

Bob Terry, director of the Georgia Secretary of State's Securities Division, said it is investigating Cornerstone. Investigators can recommend the office review it and the secretary can levy fines in cases of wrongdoing. If the facts warrant it, the secretary can also refer the case to court to seek restitution, fines or criminal prosecution.

He is unable to say when the investigation might conclude.

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