

The people of Union Point, Georgia, trusted one of their own. When he turned out to be a swindler, they crashed and burned with him

TOWN FOR SALE

BY STEPHEN GANDEL
PHOTOGRAPHS BY MARG ASKIN

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BEN STEWART

Scandal and suicide
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NOT EVERYBODY WANTED TO BE IN TECH STOCKS in the mid-1990s. When Lee Sweetapple of Greensboro, Ga., a small town east of Atlanta, was looking to invest some of the money he had made in real estate, he didn't call Charles Schwab. Instead, in 1996, the year after the Netscape initial public offering launched the largest speculative frenzy in history, Sweetapple put the first of what would eventually be \$740,000 into bonds issued by Stewart Finance of nearby Union Point (pop. 1,669). Says Sweetapple, 70: "A lot of people don't trust the stock market. I don't."

By contrast, there seemed to be every reason to trust Stewart Finance. The bonds Sweetapple bought yielded 11%—hardly extravagant compared with what people were starting to make in stocks. Stewart Finance

made its money by selling bonds and lending the proceeds to people who had bad or no credit. Naturally, a lot of these borrowers would default every year. But as company officials explained, enough of them paid the astronomical interest rates and fees that Stewart Finance charged to generate steady profits. If he got nervous, the company assured Sweetapple, he could get his money back whenever he wanted. In the meantime, a dividend check for \$6,800 appeared in his mailbox every month.

Probably the biggest reason Sweetapple felt safe with Stewart Finance was that he had known the company's chief and founder, John Ben Stewart Jr., for all of Stewart's 46 years. "I knew Ben's father and I knew Ben. His father owned a bank. Ben's father was a good man," Sweetapple says.

Ben Stewart turned out to be not such a good man. According to the Federal Trade Commission, the Securities and Exchange Commission and state securities regulators in Georgia, Stewart Finance swindled both the people who borrowed from it and those who invested in it. When the business collapsed in early 2003, about 800 investors had been separated from \$34 million.

People like Sweetapple

could absorb the blow, but others were ruined. Angela Deering, 40, an event planner, and her husband Scott, 41, who runs a small home-building company, invested everything they had—about \$300,000—in Stewart Finance just weeks before it blew up. They had hoped to build a house and start a family. Now they've had to move in

THE INVESTOR
Angela Deering

"I AM VINDICTIVE. I DON'T MEAN FOR BEN TO KILL HIMSELF BUT SOMEBODY HAD TO PAY."

with cousins. Hollis Yearwood, 67, sold his gas station and put about \$150,000 into Stewart Finance. He also bought a few cows as a hobby. Now he depends on them for a living and worries about losing his small farm. Charlie and Mae Piland, ages 72 and 68, put \$90,000 into Stewart Finance and used the dividends to buy a car they can no longer afford. They are

now living on about \$10,000 left from a small inheritance and their \$1,200 monthly Social Security check. Once the inheritance is gone, they'll have only about \$13 a day to live on after

they pay their bills. "We're going to be in a pickle," Mae says.

The entire town of Union Point, a good part of which Ben Stewart owned, is on the brink. Dozens lost their jobs when Stewart Finance closed. Shop owners say activity has slowed to almost nothing. Nearly all of the buildings downtown had to be auctioned off to pay Stewart's debts. One sweltering day this past August, an auctioneer set up shop in what used to be Union Point's main grocery store. "This is an exciting day for Union Point,"

INTEREST RATE (A)	INTEREST ADJUSTMENT (B)
7.75	3 MONTH
8.25	6 MONTH
8.75	1 YEAR
9.00	18 MONTH
9.25	2 YEAR

A SAFE BET?
Ben Stewart lured investors with ads in local newspapers.



he said. Up for sale, along with the buildings, were farm equipment, antique clocks, guns, a portrait of John Elway by LeRoy Neiman, Cleveland Indians jerseys and assorted other junk that Stewart had allegedly acquired with company funds. Grand total: \$880,323.

The sale of Union Point is a footnote to the bursting of one of the other bubbles of the 1990s, the "subprime" lending boom. The business of extending loans to poor people at exorbitant rates has existed at the shady margins of the banking industry

forever; but in the general financial madness of the 1990s, institutions and small investors alike closed their eyes to the risks. As with every bubble, the subprime frenzy could not have happened without promoters who convinced investors that profits were waiting for those who saw that the rules had changed and that common sense could now safely be ignored. In Union Point, that role was played by a man everybody thought they knew. "No one could believe Ben would do this to his friends," says Barbara Col-

ONE TOWN

lier, whose husband worked for Stewart Finance. The Colliers were also investors who lost about \$368,000.

THE DONALD TRUMP OF GEORGIA

Nestled among the hills and pines of eastern Georgia, Union Point has a history of riding booms that eventually crash. The railroad station that made this town is long gone. The Chipman Union sock factory, which once employed 400 workers, closed in the 1990s. Union Point's chief hope for prosperity shifted to a small but rapidly growing company run by the town's mayor, Ben Stewart.

The Stewarts had long been the family this town came to for money. A.J. Stewart, Ben's grandfather, helped found The Farmers Bank in Union Point in 1911. Ben's father, John, became president of the bank and was also mayor for 11 years. Genial but shy, Ben followed in his footsteps, going to work at the bank and then becoming mayor himself in 1981 at the age of 31.

In 1984 he launched Stewart Finance, which made short-term loans, most for less than \$1,000. It's hard to make money on loans that size unless you can charge a lot in interest, but in Georgia, as in most other states, you can. State law permits small-loan lenders to charge no more than 18% in annual interest, but by tacking on various extras—such as credit life insurance, which pays off the loan if the borrower dies—they can legally boost the effective rate to as high as 60%.

The people who borrowed from Stewart Finance were mostly the poor, the black and the elderly. A lot of them loved—and still love—Ben Stewart. "He was a good person, especially to the black people of Union Point," says Hattie Moss, 78, who borrowed from Stewart Finance.

Vernon Jackson, 58, who owns a nursing home and a liquor store just outside town, borrowed regularly. Jackson says, "If he could help you, then he would. It's a disaster since he's been gone, I tell you that. He was better to me than I was to myself."



At first, Stewart Finance was just a headquarters in Union Point and a few offices nearby. Beginning in 1996, Stewart Finance took out ads in local papers seeking investors. The pitch was simple: Buy a piece of a growing business run by a pillar of the community. To those who took the bait, the company sold bonds paying dividends of as much as 11%. (The bonds were of a type called subordinated debentures. One of the risks inherent in these is that they are not linked to any collateral. If the issuer goes broke, the bondholder is not guaranteed any repayment.)

Stewart Finance's investors were not the only ones chasing returns in subprime lending at the time. The business was in vogue on Wall Street, as credit-card companies and others claimed to have figured out how to distinguish between poor people who were good credit risks and those who were not (see the box).

David Vannort, a retired Deloitte & Touche auditor who specialized in subprime lenders, says, "People would look at the rates these bonds were paying and say, 'Oh that's great,' [but] if any of these

investors had read the prospectus and understood what they were reading, there's no way they would have put their money in these companies."

In its 1999 prospectus, for instance, Stewart Finance said that the percentage of its outstanding loans that were at least 90 days past due had been rising every year since 1994 and now stood at 12.5%. The company also said it had seen operating losses for each of

the previous two years and that "continued increases in the number of bankruptcies among our customer base may have a materially adverse effect on our ability to pay interest and dividends and repay the principal balance of our securities."

And if investors weren't looking that closely at the company, they weren't scrutinizing Stewart himself very thoroughly either. There was talk around Union Point that his father had fired him from the bank. When asked about it under oath in a 2003 deposition, Stewart denied it and said he had quit over a fight with his stepmother.

Lee Sweetapple was one of many who heard the talk and brushed it aside. "There is so much gossip around these old towns, so I was used to discounting what I heard," says Sweetapple. He was also reassured that Stewart had gotten friends and family to invest in Stewart

Finance. But Sweetapple never asked Stewart about what happened at the bank and never asked for a prospectus.

In the fall of 1999, Stewart threw a cocktail party for his investors. The company had raised \$20 million from them and had grown to 42 offices spread throughout Georgia, Illinois, Louisiana and Missouri. Stewart stood near the door, beaming and shaking hands. He owned nine buildings on

THE OTHER BUBBLE

Wall Street made no sense of companies that lent to poor people. Bad idea.

STEWART FINANCE lent money to people with less than 620 credit ratings, called subprime lending, and it's an enormous business with about \$400 billion in loans outstanding. It encompasses everything from

high-for-paycheck loans to second mortgages and auto loans. Subprime lenders expect about 15% of their loans to default, compared with less than 1% for borrowers with good credit. Lenders in the subprime market try

Union Point's main street, Sibley Avenue. He also had 18 rental houses around town, as well as condos in Hilton Head, S.C. and Highlands, N.C., and property on Amelia Island in Florida. He took friends on trips to Las Vegas and to the Super Bowl and invited them to his hunting lodge. He would later buy and talk of reopening the old sock mill. "He was the Donald Trump of Georgia," says Carey Williams Jr., a longtime friend and the editor of local newspaper the *Herald Journal*.

THE UNRAVELING

By the time of the party, however, Stewart Finance was already in trouble. In 1999, Stewart's lawyers advised him that because he was now doing business across state lines, he would have to register any new bond offering with the Securities and Exchange Commission. The SEC told Stewart that he would have to buy back all of his existing debentures before selling more. Instead, Stewart continued to borrow, first giving investors his personal IOU and then selling unregistered bonds under a variety of different company names.

At about the same time, a commercial lender called Finova, which had lent Stewart Finance \$16.5 million, was stumbling. Finova had grown rapidly by lending millions to companies like Stewart Finance, as well as to high-tech start-ups. In early 2000, Finova began reporting hundreds of millions in bad loans. In March 2001 it filed for

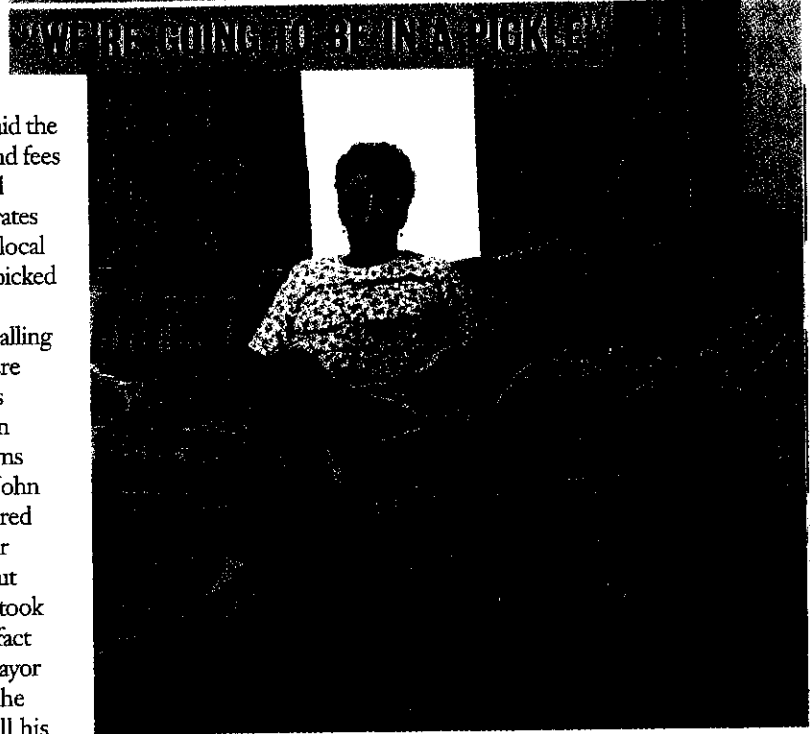
bankruptcy, and later it demanded that Stewart Finance repay what it owed. Unable to come up with the money, Stewart Finance began selling off some of its branches.

Investors heard nothing of the company's problems, however, until the Atlanta Legal Aid Society sued in July 2002 on

behalf of elderly borrowers who said Stewart Finance had required them to buy insurance policies and auto-club memberships along with their loans. Legal Aid said the extra premiums and fees effectively cranked some borrowers' rates as high as 95%. A local television station picked up the story, and investors started calling Stewart. Some were suspicious. Others believed him when he said his problems were temporary. John Milliken, 67, a retired Bell Labs engineer who invested about \$350,000, says, "I took some faith in the fact that he was the mayor of the town and he had lived there all his

life. He wasn't likely to just disappear or run off with the money."

But the game was up. In February 2003, Stewart Finance filed for bankruptcy. In May the SEC sued Stewart Finance over the unregistered bonds. In September the Federal Trade Commission filed suit, alleging Stewart Finance had charged its borrowers as much as \$25 million in illegal interest. Also in September, the Georgia Secretary of State sued, alleging various kinds of fraud.



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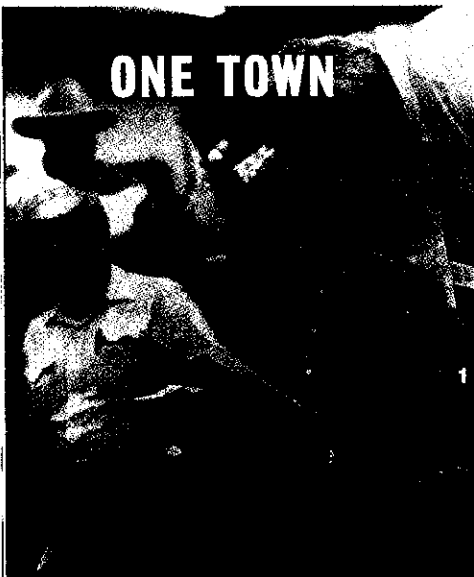
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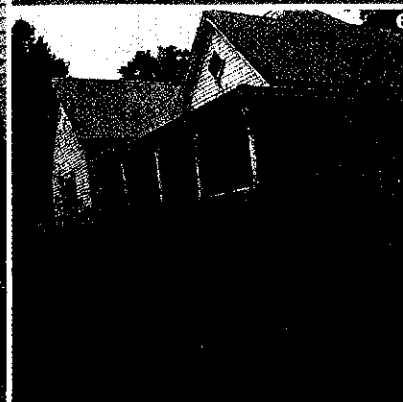
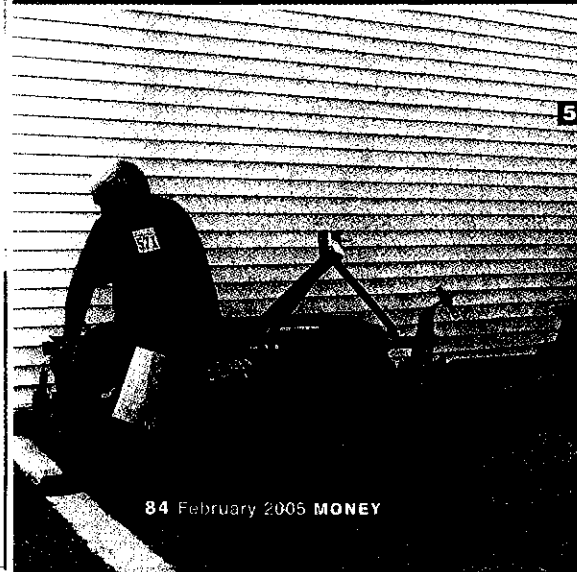
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No one understood until it was far too late that poor people just can't afford to pay 27% interest, says Puhk Ziegler analyst Richard Bove, who has been covering financial companies for 25 years. "It was a complete disaster."

ONE TOWN



THE AFTERMATH
 The town of Union Point, Ga., is a small, rural community with a population of about 1,000 people. It is known for its historic mill, which was founded in 1880. The mill was a major source of employment for the town, and it was a source of pride for the community. In 1999, the mill was sold to a private company, and the town was left with a large debt. The mill was a source of employment for the town, and it was a source of pride for the community. In 1999, the mill was sold to a private company, and the town was left with a large debt.



One morning last May, as the local district attorney was set to charge Stewart with looting the company, Stewart drove to a house he owned and shot himself. In the *Herald Journal*, Carey Williams wrote, "This is a sad ending to one of the most tragic events to ever happen in Greene County."

FRIENDS OF BEN

Where did the money go? Stewart's creditors, and his creditors' lawyers and accountants, are still trying to figure that out. It seems to have been a combination of an ill-advised expansion and theft. Ben Stewart apparently blew a lot of other people's money on his homes, his country club memberships, his investments, his real estate deals and his trips to Vegas. Bankruptcy trustee S. Gregory Hays says that Stewart Finance subordinated debenture holders can expect to recover only a few pennies for every dollar.

Harder to answer is whether Ben Stewart was basically an honest man who took a wrong turn or if he had been a crook all along. Stewart's second wife and widow Janice says, "He never meant for any of this to happen."

Angela Deering feels differently. Her family has known the Stewarts for generations. When things first started to go wrong for Ben, she believed in him. Now, she says, "I am vindictive. I didn't mean for Ben to kill himself, but somebody had to pay."

Many of the other victims are also kicking themselves. "I should have asked, 'Is he cheating these people he is lending to?'" says Lee Sweetapple. "But I didn't. I just sat back and collected the interest. If I had checked, we all would have been better off."

Few hold out any hope for recovering their money—or for a revival of Union Point. After Stewart's death, a real estate developer talked of turning the town into a destination for antiques shoppers, but then pulled out. Sweetapple bought part of the old sock mill, but he has no plans to reopen it and put the town back to work. Instead, he's thinking of turning the mill into a storage facility. **S**

FEEDBACK: sgandel@moneymail.com