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Lure of easy real-estate money sinks couple

North Georgia mountain area went bust after realty boom

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The Atlanta Journal-Constitution

6:59 a.m. Saturday, April 17, 2010

When Theresa Ballard and her husband moved from Florida to the mountains of North Georgia, they had millions of dollars in savings and a golden retirement planned.

But that all blew away like last year's leaves after the Ballards got swept up in the 21st century version of gold rush fever: building and selling vacation homes.

These days, a single two-bedroom cabin in Ellijay is all that remains of a real estate empire the Ballards once thought would be worth about $30 million. Now bankrupt, her husband, Doug, has returned to work in Florida.

"Nothing's forever, and when it's all said and done, material things don't mean a thing. Right now I'd be satisfied with hair," said Theresa Ballard, 55, who is still struggling to recover from an ordeal so stressful that she lost much of her hair.

What happened to the Ballards as well as Appalachian Community Bank — the now-defunct Ellijay bank that financed many of their dreams — tells a tale of the modern-day gold fever that swept through North Georgia's mountains over the last decade.

Georgia's mountain towns from Ellijay to Hiawassee joined the real estate boom that sent land and cabin prices soaring, provided hundreds of jobs, made many people wealthy seemingly overnight, and possibly lured some bankers into bending the rules to cash in.

But two years after the boom went bust, a deep chill is going through Georgia's mountain communities. Locals are scrambling for jobs; many investors are bankrupt or licking their wounds.

And banks that were making easy profits lending to real estate developers are defunct or struggling to survive. Appalachian and two other mountain banks have failed in the past few months, sometimes amid news of federal probes into alleged improper lending or self-dealing by bank officials.

'It got a little corrupt'

"You've got a lot of community banks that wanted to capitalize on the economic boom we had up here," said David Hopkins, who runs the Mountains Voice, an online real estate advertising business in Marble Hill. "It got a little corrupt."

Hopkins began blogging about questionable real estate deals involving Appalachian bank after noticing that some bank officers were marketing foreclosed properties they had acquired from the bank.

Such sales would be legal if bank officers properly disclosed them and paid fair market prices, but could violate banking regulations if they gave themselves favorable discounts or didn't properly disclose their role as buyers.

Appalachian CEO Tracy Newton and Executives Adam Teague and Rusty Beamon were suspended in November for possible violations of bank policy related to foreclosed properties, according to bank officials. The trio resigned in December.

Appalachian failed on March 19, along with century-old Bank of Hiawassee near the North Carolina border. They were preceded by Cornelia's Community Bank & Trust, which was seized in late January. The Federal Deposit Insurance Corp. estimates that the three bank failures will cost its deposit insurance fund nearly $1 billion.

FBI investigators carted away documents after Community's failure, and one former executive said "fraud and bad loans" sank the 110-year-old bank, local newspapers reported.

Likewise, the FBI and FDIC also are investigating Appalachian's former executives' possibly improper acquisitions of foreclosed properties, according to some loan customers and others.

More bank failures are likely to follow, industry experts say, because of continued heavy losses on real estate loans, especially to developers of second-home and resort properties. At least eight other banks in the region are seriously troubled, based on a measure of financial strength known as the "Texas ratio."

"That region isn't coming back yet and maybe hasn't bottomed yet," said Walt Moeling, an Atlanta banking lawyer with Bryan Cave Powell Goldstein. "Second home sales require buyers with means. ... It's a tough market."

A boom begins

Ballard, the retired transplant from Florida, learned that the hard way.

While her husband was running the family's propane distribution business in Naples in the 1990s, the real estate agent had become heavily involved in Florida's booming real estate business. She would put 10 percent down on homes in new developments while they were still on the drawing board, then flip them perhaps a year later, sometimes for $100,000-plus profits. She sometimes owned up to 20 properties at a time.

Flush with such profits and the sale of the propane business, Ballard and her husband were still in their 40s when they retired to Ellijay in 2000. They had been charmed by the town and the surrounding mountains while visiting friends there.

But within months, Ballard was itching for something to do.

"I started buying land," she said.

It was a heady time for that business, said Mark Chastain, who owns a land surveying company in Ellijay and is chairman of the Gilmer County Commission. The second-home market really took off around 2002, Chastain said, when easy credit and the rising values of buyers' homes in Atlanta and Florida made second homes affordable to more people.

"What was always a dream became a reality," said Chastain. "Twenty-five-year-olds with a few years' work experience were buying $400,000 homes."

As a result, throughout the mountain communities, farmers, home builders, plumbers and recent transplants were becoming millionaires seemingly overnight.

'Drop seemed impossible'

By 2005, mountain land that had been practically worthless was rapidly doubling and quadrupling in value. To serve the new part-time residents, developers were flattening hills next to highways to put up Wal-Marts, Starbucks and Longhorn restaurants.

Ballard's real estate operations expanded quickly. She and a partner from Florida bought an old family farm of more than 400 acres, plunking down $2.2 million, mostly borrowed from Appalachian Community Bank.

"We thought about buying, selling, flipping land," she said. But instead, they decided to develop the property themselves as Bear's Paw, a subdivision of vacation cabins. "We built a couple of model homes and started selling land," she said.

Ballard had made a big operational shift from her days in Florida, where she only needed to pay cash deposits to secure her deals. In Ellijay, she paid 25 percent down, but borrowed the rest from local banks, including Appalachian.

"Until Ellijay, I never owed a dime to the bank. We paid cash," she said. "To me, it was like no one can take your real estate. ... When there's banks involved, it doesn't work that way."

By 2007, the Ballards owed about $7 million to banks. They owned scores of properties ranging from dozens of finished cabins and a furniture store to 240 acres where they planned to build 1,600 homes and a commercial development. The projects at that point were potentially worth up to $30 million when fully developed, she said.

By this time, land surveyor Chastain was working 70 hours a week, but he was months behind on his jobs, even though he had beefed up his staff to 26 employees. He also knew it couldn't last forever. "If business dropped 50 percent, I'd be OK," he figured. "During the boom, a 50 percent business drop seemed impossible."

Instead, Chastain's work orders eventually dropped about 75 percent in the meltdown of the financial and real estate markets in 2007 and 2008. He now has three full-time employees.

Loans, debts pile up

During the boom, the three banks that would later fail had ramped up lending to home builders and real estate developers more than tenfold, mushrooming from $49 million in 2000 to $716 million by the end of 2008.

It was a risky strategy masked by the sustained demand for housing. The most serious problems didn’t crop up until 2008, when the pool of nonperforming loans — those the banks had given up hope of collecting — soared from $16.5 million to $114 million. By the end of 2009, nonperforming loans hit $380 million.

Ballard said she saw the first signs of trouble in 2007 when she wanted to renew two one-year loans totaling $1 million. Her lender, Blairsville-based United Community Bank, said it was seeing a slowdown and “was starting to give me a little bit of a runaround,” she said.

Appalachian Community Bank, which had financed some of her biggest projects, offered to step in. One of Appalachian’s top officers, Ballard recalled, told her: “We’re with you through the good and the bad.”

Over the next year, Ballard moved more business to Appalachian. But as the loans came up for renewal, the bank demanded she “cross-collateralize” all the deals with her other business and personal properties. Previously she had avoided such guarantees by putting 25 percent down on each project.

The change meant that if just one project failed, the bank could foreclose on all her properties to pay back the loan.

‘A big shell game’

By late 2008, “things really started to slow,” said Ballard. “We weren’t selling anything.”

As it became increasingly clear that she couldn’t sell enough properties or pay back all the loans, she met with Appalachian’s top officers to negotiate a workout. At a meeting in early 2009, Ballard said Appalachian’s then CEO, Tracy Newton, told her to pick out what properties she thought she could keep paying for and to let the bank take the rest.

“I said that was very fair. We have to pick what we can salvage,” she said.

But more than three months passed before she could get the bank to talk to her again, she said. In the end, Ballard said nothing came of the proposed settlement.

The Ballards filed for bankruptcy, and Appalachian foreclosed on their entire real estate empire, save one 1,600-square-foot cabin.

“It’s made me very humble,” she said. “We’ll start over and see how it goes.”

It was only later, she said, that she heard rumors that some of Appalachian’s officers had acquired foreclosed properties at sometimes steep discounts — including the furniture store and a warehouse that had been hers.

The property had previously appraised for $785,000, she said. But Hopkins, the real estate marketer-turned amateur investigator, said he discovered that a shell company tied to Tracy Newton and Rusty Beamon had bought the property from the bank for $119,500.

“It was a big shell game,” said Hopkins, who said he has turned over evidence of similar deals involving various bank officials to investigators from the FBI and FDIC.

Moeling, the banking lawyer, said federal officials have been investigating “irregularities in the foreclosure area” at Appalachian for several months, but that the transactions were relatively small and didn’t cause the bank’s failure.

“They didn’t cause the problems ... but they certainly didn’t help,” he said. “The real cost to the bank was at the critical time it no longer had a CEO [or] a senior lending officer.”

AJC staff writer Paul Donsky contributed to this report.

How we got the story

After three banks failed recently in Georgia mountain communities, the AJC decided to look at how the boom and bust of the vacation home market hit the Ellijay area and Appalachian Community Bank, an Ellijay bank that failed last month. We also looked into reports of possible abuses by some former officers at the bank. We interviewed developers and real estate investors who borrowed from the bank to finance projects, professionals who worked with developers, and residents of some of the failed projects. We also visited developments in Ellijay and examined property and corporate records of some of the foreclosed property transactions involving Appalachian banks’ former executives.
