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HISTORICAL COMMISSION, SBC

**Court Enjoins Bond Firm  
On Securities Violations**

**NASHVILLE (BP)**--A federal court issued a temporary injunction against Guaranty Bond and Securities Corp., here, ordering them to cease transactions until their net capital meets federal requirements, and finding the company in violation of seven counts of federal securities regulations.

Guaranty, the largest church bond firm in the South, almost immediately closed its offices, and a spokesman for the firm indicated it would remain closed until "something can be worked out" on the method the firm has been using to compute its net capital.

Guaranty is headed by H. J. Huey, president, a prominent Baptist layman. His brother, Brooks Thomas Huey, is secretary-treasurer of Guaranty.

The firm currently has contracts on bond programs for about 90 to 100 churches. Huey estimated that about 40 to 60 per cent of the churches are affiliated with the Southern Baptist Convention.

Two weeks before a hearing in federal district court here, the Securities and Exchange Commission office in Atlanta filed with the court here an 11-page list of charges against Guaranty.

The seven counts charged failure to have net capital equal to one-twentieth of its aggregate indebtedness, failure to keep books and records in accordance to SEC rules, failure to disclose to customers commissions received by Guaranty according to SEC rules, and failure to obtain written permission from customers for certain transactions.

Another charge claimed the use of mail and interstate commerce to sell securities by "means of manipulative, deceptive and other fraudulent devices and contrivances" such as full and complete disclosures of fees and commissions, thus obtaining "secret profits."

The SEC also charged that the funds from the sale of bonds were to be used only for the purpose stated in the bond issue, while actually Guaranty as custodian reinvested the funds in other church bonds.

During the hearing, the attorney for the defendants, and Huey, as a witness, admitted to many of the violations, and said in their defense that Guaranty began a crash program to comply with the regulations once they learned of the SEC's complaint.

"We are not renegades," said Frank S. King Jr., attorney for the defendants. He added that except for the SEC interpretation of the method of computing Guaranty's net capital, "this suit would not have been necessary in that the defendant has a reputation of being cooperative and the charges contained in the bill of complaint could have been cured if the same had first been called to defendant's attention."

In his summation argument, King told the judge that if the court interpreted the net capital computation rule using the same method employed by the SEC, "then this business will close down and 80 or more churches will be hurt."

Judge Leland Clure Morton responded that he had no choice but to "find they have violated each one of these items" in the complaint. "There is no question of the facts," he said. His ruling upheld the SEC charges.

The attorney pointed out that in the 11 years of operation as the largest church bond firm in the South, there had never been a default on a Guaranty bond.

Judge Morton responded by saying: "That just shows that the market has not been that soft. If a really hard depression had hit, it would have blown sky high."

The next day, the judge handed down his decision in a 10-page preliminary injunction, and Guaranty temporarily closed its offices.

Huey said after the ruling that he was not in a position to make any statements for publication, and would not indicate how long Guaranty would be closed, or whether the decision would be appealed to a higher court.

The key to continued operation by Guaranty, according to testimony by Huey in the hearing and arguments by his attorney, is the method by which the net capital of the firm is computed.

The Securities and Exchange Act and SEC regulations require that firms dealing in securities must have net capital exceeding either one-twentieth of their aggregate indebtedness, or \$5,000.

Walter C. Johnson of Atlanta, a securities investigator for the SEC, testified in the hearing that he inspected books and records at Guaranty in May, September and December of 1970, and that in May the net capital of Guaranty according to SEC calculations was a deficit of \$183,113.

Johnson testified that the major reason for the deficit was the company's practice of what he called "ship free bonds"--that is, sending bonds to customers who have not yet paid for them. Huey later testified that this practice was discontinued after a letter was received from the SEC pointing this out.

Johnson also testified that according to a ruling by SEC attorneys Guaranty also should have deducted "unrealized losses on open contractual commitments" which would have caused the May net capital to become a deficit of \$3.4 million.

Both Huey and King disagreed with this interpretation of the method for computing net capital.

An affidavit submitted by Johnson stated that Guaranty was holding bonds worth \$16.6 million as of Sept. 30, 1970, with \$8.9 million of this reinvested in other church bonds.

During the hearing, Judge Morton questioned both Johnson and Huey about Guaranty's method of operation in which it guarantees to sell all of the bonds issued by a church that the church is unable to sell in a local drive.

They explained that after the local drive, the church turns over its funds and all unsold bonds to Guaranty as custodian, with the understanding that Guaranty has power to sell and reinvest the bonds. The bonds, however, are often sold to other churches which have accounts with Guaranty. Thus when a church has a credit balance in its account at Guaranty its bonds will be sold on a reinvestment basis to a church with a debit balance.

It was pointed out that under this method, construction programs which take about 14 months or more to complete could be financed using funds which were supplied by another church bond sale but were not being used at the time.

Judge Morton questioned the ethics of Guaranty charging a commission for each transaction, saying this was "taking a cut off both ends," without proper disclosure to the customers of the commissions charged. He also asked if they planned to make any refunds.

He found Guaranty guilty of failing to follow SEC regulations which require disclosure of the dollar amount in fees and commissions for each transaction to the customers.

A public accountant retained by Guaranty testified that the amount of the fee could not be determined until the bond was again resold to another customer, since the fee was based on the difference between the coupon rate on the bond and the reinvestment earned by Guaranty. Johnson testified that the rate credited to the church was usually five per cent, while the rate yield on the bonds were considerably more--up to 8 1/4 per cent, with Guaranty keeping the difference.

On the witness stand, Huey said that the company admits that they were "very embarrassed that we did not properly disclose it as we should." Huey pointed out that Guaranty was making every effort possible to comply with all SEC requirements.

Huey, 43, has been president of Guaranty Bond and Securities Corp., and its parent corporation, Guaranty Bond Co., for the past four years. He also heads a subsidiary construction and architectural company, Cumberland Industries and an insurance firm, Huey and Huey.

A member of the board of directors of the Southern Baptist Foundation, Huey is active in Baptist work on the local and national level. His father, the late Henry J. Huey, was for many years executive secretary of the Tennessee Baptist Foundation.

Huey is also the president of an organization called NACIFO--National Association of Church and Institutional Financing Organizations, Inc., which was organized several years ago to set up a code of ethics which Guaranty and about 30 other church bond firms pledge to "conduct our business in accordance with the principles of the Golden rule...so that each transaction, if fully disclosed, will bring credit to our company and to all firms engaged in the industry...."

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Library In Israel Memorializes  
Missionary Couple's Late Son

1/7/71

ASHKELON, ISRAEL (BP)-- A library has been dedicated in an Israeli village in memory of Bron Baker, son of veteran Southern Baptist missionaries Dwight L. and Emma Baker of Haifa.

Young Baker died from injuries suffered in an automobile accident in Missouri on Dec. 30, 1969. At the time the 22-year-old Baker was a senior in pre-medical studies at William Jewell College, Liberty, Mo.

Baptists, Catholics and Muslims attended the dedication service in Kababir, a village of about 2,000 Muslims, Catholics, Jews and others located on the slopes of Mount Carmel.

Before he left Israel for study in the United States, Bron Baker had been a member of the visitation committee of the Haifa Baptist congregation and had regularly visited in homes in Kababir.

"Bron often expressed a desire to draw these people together," said Ibrahim Sim'an a Baptist Arab who is library director. "He can still visit in their homes through books."

Baker spoke Arabic, Hebrew and English; therefore the books will be in these languages. Presently, 500 volumes are available for use in the library reading room. After they are catalogued, they may be borrowed by library workers.

Sim'an explained that he wants to make the library "a window on world literature," and that it will provide fiction and nonfiction classics from many countries, as well as reference works.

Representing the people of Kababir, Wajdi Tabari, a prominent Muslim lawyer, said the library "is another ground of opportunity for Baptists in Israel and is a fitting memorial to the life of a true believer in the Lord Jesus Christ."

Dwight L. Baker spoke for his family, expressing gratitude for the memorial library to his fellow Baptists and to the people of Kababir, "who had been the objects of Bron's love." He encouraged them to use the library to its fullest extent.

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The main address during the dedication service was by SBC Missionary Milton Murphey, who was on furlough in the U.S. at the time of young Baker's death and who took part in the funeral service in Missouri. He described the funeral and told of events in Baker's life which showed his love for Arabs and Jews alike in Israel.

Sim'an, secretary of the Christian Service Training Center in Haifa, leads Sunday School, worship services, field trips and team sports for Christians in the area. He said there are 45 Christian families in Kababir but no Christian school or place of worship. Therefore, the people are interested in the projected program of the library, he said.

The library is expected to outgrow its present rented hall and move to permanent quarters which will include facilities for lectures, courses in Bible and language study, and recreational activities for youth.

Adults of the village have already requested a course in Hebrew, Sim'an said. Many of the men are construction workers who are hampered because they cannot read blueprints in Hebrew, he explained.

Projected language courses will include reading selections from current translations of the Bible, Sim'an added.

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Baptist VIEWpoll  
Martin B. Bradley, Director

Baptist Leaders Favor  
Church Information Service

1/7/71

NASHVILLE (BP)--A confidential, high-speed service to provide churches with objective information about prospective pastors is favored by the majority of a representative poll of Southern Baptist pastors and Sunday School teachers, a nationwide survey disclosed here.

The Baptist VIEWpoll panel members were asked this question: "Would you favor a confidential, high-speed service to provide churches objective information about prospective pastors?"

"Yes" was the response of 58.3 per cent of the pastors and 64.7 per cent of the Sunday School teachers.

In contrast, almost one-third (32.1 per cent) of the pastors on the panel and 29.1 per cent of the teachers expressed disapproval of such a service. The remaining 9.6 per cent of the pastors and 6.2 per cent of the Sunday School teachers had "no opinion" on the matter.

Opposition to a church information service is greatest among those pastors serving in open country churches and in churches with less than 200 members, the survey disclosed.

Also, in the findings for pastors, there appears to be some relationship between religious and political conservatism and opposition to a church information service.

Panel members were also asked: "If this service were provided, who should make it available?" The largest proportion of the pastors (39.4 per cent) and teachers (29.7 per cent) chose the "state convention" over an "SBC agency" or a "private company." About 28 per cent of the teachers did choose "SBC agency."

The findings for the current poll are based upon a 92 per cent response from the Baptist VIEWpoll panel, composed of approximately 600 pastors and Sunday School teachers selected to represent a cross section of persons holding those leadership positions in the Southern Baptist Convention.

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