The State
COLUMBIA • SOUTH CAROLINA

SUNDAY BUSINESS

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S.C. Economy Watch

THIS WEEK

WHAT S.C. LAWYERS EARN

Lawyers rank among the highest-paid professionals in South Carolina, but their pay was lower than the national average in 2001.

State	Number lawyers*	Avg. salary
1. Calif.	58.3	$104,900
2. D.C.	22.6	$102,780
3. Utah	3.2	$102,340
Others in the middle		
17. S.C.	5.1	$86,670
22. N.C.	8.5	$84,650
26. Georgia	12.0	$82,380
Bottom three		
49. S.D.	0.7	$59,240
50. N.D.	0.6	$58,840
51. Wyo.	0.7	$57,710
U.S. avg.	**490**	**$69,030**

* Thousands of lawyers

SOURCE: U.S. Bureau of Labor Statistics

Roughly 330 students who survived three years of chasing paper will graduate next month from USC's law school.

If they're like last year's collection of newly minted lawyers, they'll start work at an average annual salary of $52,000, according to law dean John E. Montgomery's message to prospective students on the Web.

That's nearly double the annual salary of the average S.C. resident with a full-time job — regardless of the job type or level of experience.

And their income will keep rising. The average lawyer in South Carolina earned $86,670 during 2001, according to the U.S. Bureau of Labor Statistics survey. (If you're keeping up with pay by the hour, as lawyers love to do, it's $41.67 per hour.)

Only chief executive officers and a variety of medical-related occupations have higher average salaries in South Carolina.

If those graduates stay in the state and pass the bar exam (a three-day test given in July and February), they will join more than 5,000 lawyers in the state. (There's also an additional 500 or so judges and magistrates in South Carolina, although not all magistrates are lawyers.)

It adds up to one lawyer for every 385 full-time workers in South Carolina. Nationally, there's one lawyer for every 300 working Americans.

Washington, D.C., has the biggest concentration of lawyers by far, about one per 14 full-time workers. New York was tops among states, at one lawyer per 158 workers. Indiana was last, with one lawyer per 622 workers.

As is the case in many occupations, South Carolina's lawyers earn less than the national average. The average lawyer nationwide earned $91,920 during 2001 — or $42.67 an hour.

The average pay for an S.C. lawyer ranked 17th nationally. It was nearly $20,000 a year less than places it pays the most to be a lawyer — in California and Washington, D.C.

Wyoming was home to the lowest-paid lawyers, at $57,710 a year. North Dakota and South Dakota were the other two states where lawyers averaged less than $60,000 a year.

COMING MONDAY in the Columbia Business Journal: How it's easy in Columbia to find a lawyer.

— *Chris Roberts*

HomeGold's luster fades after millions in losses

CHRISTOPHER ALUKA BERRY/SPECIAL TO THE STATE

Columbia-based HomeGold Financial Inc. filed for bankruptcy protection, the latest of many subprime lenders to do so.

$280 million in debt and key assets gone, company looks to survive bankruptcy

By R. KEVIN DIETRICH and CHRIS ROBERTS
Staff Writers

HomeGold Financial Inc. thrived on people who couldn't pay their bills.

Today, it can't pay its bills.

The Columbia company, one of the nation's 15 largest "sub-prime" lenders, filed for bankruptcy protection last week.

Since the 1990s, bankruptcy has claimed nearly three-fifths of the publicly traded companies that made high-interest loans to homeowners with marginal credit ratings.

Most of those companies saw their profits pinched by rising foreclosure rates and lower interest rates.

"This has happened with a lot of subprime lenders," Columbia bankruptcy attorney Gene Trotter said. "A lot of them end up in liquidation if they can't come up with a viable plan" to reorganize their debt.

But HomeGold's story is different. Its demise could hurt thousands of S.C. residents who invested millions through one of the company's subsidiaries.

And HomeGold's story is complicated by its recent whirlwind of management. In an effort to survive, HomeGold ceded control to a chief executive officer who was paid millions of dollars while the company continued to lose tens of millions.

Then, HomeGold loaned its CEO the money that he used to buy the company's major assets and leave.

Between 2000 and 2002, six chief financial officers, two chief lawyers and the company's outside accounting firm came and went.

Today, HomeGold is reeling from:

■ Instability through financial losses and a tumbling stock price.

The company has lost at least $200 million since 1998, when its financial slide began, according to its filings with the federal Securities and Exchange Commission. Three-fourths of the losses came after 2000, when Ronald J. Sheppard took over as chief executive officer.

HomeGold's stock is virtually worthless. At its 1996 peak, one share cost $20. On Friday, $20 would have bought 3,333 shares.

HomeGold's March 31 bankruptcy filing listed more than $280

SEE **HOMEGOLD** PAGE **F3**

Carolina Investors held community's life savings

By JOE GUY COLLIER
Staff Writer

PICKENS — Mellie Whitlock, a 90-year-old Pickens County retiree, has lost faith in Carolina Investors Inc. She fears she may have lost her money, too.

Whitlock, a former shop owner who still ballroom dances once a week, purchased more than $500,000 worth of notes and bonds from the company.

But Carolina Investors closed its offices two weeks ago. Its parent firm, HomeGold Financial Inc., has filed for Chapter 11 bankruptcy protection.

Whitlock said she's not sure what to think. Carolina Investors, which started in Pickens County, has been a part of the community for 40 years.

"I know the people in there personally," Whitlock said. "I thought they were my friends."

About 8,000 investors, many of them from Pickens, Anderson and Greenville counties, have more than $275 million in accounts with Carolina Investors.

The company sold investment certificates that promised annual returns of 6 percent to 8 percent.

Several investors said they knew the money wasn't insured but the company's close community ties made them feel safe.

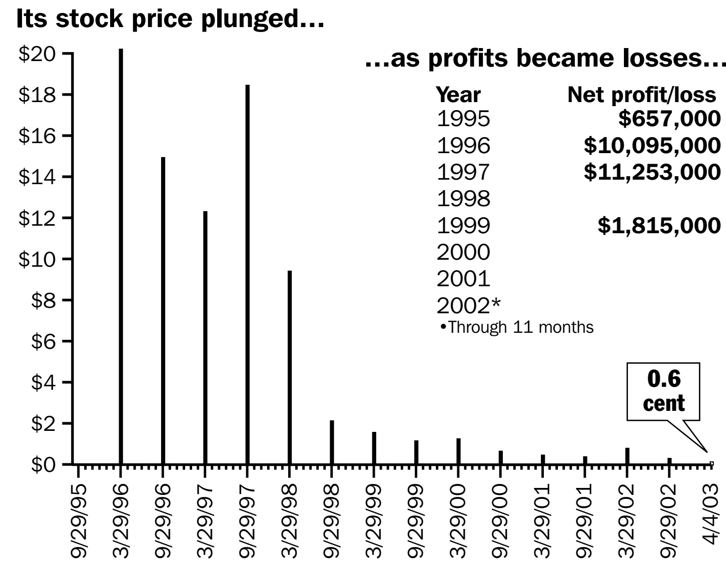
Carolina Investors' main branch was located in a stately brick building in downtown Pickens. The company threw summer barbecues at the nearby Easley Armory. Last Christmas, it sent investors Winn Dixie gift certificates.

Pickens residents now are referring to Carolina Investors as their Enron, referring to the scan-

SEE **INVESTORS** PAGE **F3**

HOW HOMEGOLD TURNED TO DUST

Its stock price plunged…



…as profits became losses…

Year	Net profit/loss
1995	**$657,000**
1996	**$10,095,000**
1997	**$11,253,000**
1998	
1999	**$1,815,000**
2000	
2001	
2002*	

•Through 11 months

…but the new boss prospered.

$208,731: What John M. Sterling earned in 1999, his last full year as CEO.

$1,358,758: What Ronald J. Sheppard earned in 2001, his first full year as CEO.

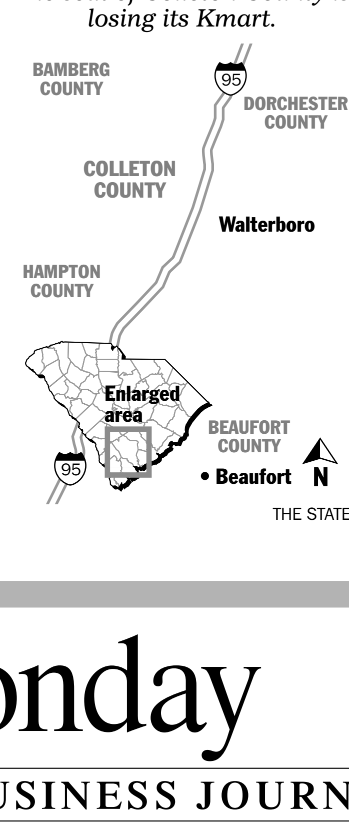
SOURCE: Securities and Exchange Commission filings

STEVEN A. LONG/THE STATE

Small town sheds few tears over Kmart's closing

WALTERBORO

The seat of Colleton County is losing its Kmart.



THE STATE

By CLARE RAMSEY
Staff Writer

WALTERBORO — Bargain hunters have picked over much of the merchandise at the Kmart here, but what's left in the store is for sale — even the shelves themselves.

The Lowcountry store is locking its doors for good next week. It is one of 326 nationwide the beleaguered retailer is closing in its efforts to climb out of the red.

The chain's Columbia stores were spared, but Kmarts in Aiken and Spartanburg are also shutting down this month. Six other S.C. stores closed last year in a prior round of closings.

In Walterboro, Kmart's departure after more than 20 years would seem like a big blow to a town of about 6,000.

While there are regrets over the loss of about 80 jobs, though, the buzz from city leaders and residents about what may replace the store has all but drowned out murmurs about the Big K's closing.

Those who are marking Kmart's passing are doing so in search of bargains, like the $4 shirts and discounted lawn fertilizer Louise Dufour, 49, packed up to take home to Beaufort earlier this week.

"I can't wait to go home and figure out how much I saved," she said.

To others, the Kmart's closing is a non-event.

"It doesn't really matter because we've got Wal-Mart here," long-time resident Laurens Hall

SEE **KMART** PAGE **F4**

CHRISTOPHER ALUKA BERRY/SPECIAL TO THE STATE

Jessica Price and her daughter, Madison, 2, leave the Walterboro Kmart after shopping for bargains.

Monday

COLUMBIA BUSINESS JOURNAL

Groucho's restaurants are popping up all over the Midlands and as far away as Charleston and Charlotte. Read how franchising is allowing the small company to spread its wings.

How HomeGold landed in bankruptcy court

HOMEGOLD FROM PAGE **F1**

million in debt, almost all owed to its Carolina Investors Inc. subsidiary.

■ Lawsuits that question how the company dealt with its mortgage customers.

Several lawsuits claimed the company engaged in unfair lending practices that preyed on poor people. HomeGold has denied accusations in court documents, but in November it agreed to pay $10 million to settle a lawsuit in North Carolina. Lawsuits are pending in other states.

■ Further scrutiny at home.

The company is the target of two lawsuits by S.C. residents who put millions into Carolina Investors Inc., the HomeGold subsidiary that was a key source of its capital.

The state attorney general's office said it will look at the business practices of both HomeGold and Carolina Investors, whose lawyer said it will file for bankruptcy protection this week.

Most of the key players — including Sheppard, HomeGold's current management and Carolina Investors Chairman Earle Morris Jr. — declined interview requests by The State last week. The story of HomeGold's fall can be told through the company's SEC filings, press releases and interviews with former employees and managers.

HOW IT STARTED

HomeGold's beginnings are with Emergent Group Inc., a Greenville company in the transportation business.

New management took over and moved into the loan business in 1991 by purchasing Carolina Investors Inc.

Started in Pickens County in 1963, Carolina Investors made loans using money from bonds and notes it sold to South Carolina investors.

By 1994 Emergent had sold or closed all its non-financial businesses. A year later, it opened the HomeGold loan subsidiary specializing in "non-prime" mortgages — home equity loans to people with marginal credit ratings. The target market was property owners who had bad credit and needed money for credit card debts, college loans or house repairs. It used telemarketers and direct mailings to find customers.

The company made money by charging higher-than-usual interest rates, which people with marginal credit histories must pay. The risk is that those borrowers are more likely to default.

HomeGold's business grew dramatically as federal lending restrictions were eased, giving more people access to loans. HomeGold's parent, Emergent, earned a combined $21 million in 1996 and 1997, and its work force grew to more than 1,000 employees nationwide.

State residents, meanwhile, continued to put millions of dollars into Carolina Investors Inc., because it paid a better return than a bank's certificate of deposit. Carolina Investors sent the profits back to HomeGold, which used it to make more loans.

BAD TIMES ARRIVE

In 1998, the troubles began. Emergent's stock price plunged 96 percent and the company lost $58 million.

The key problem was falling interest rates, which cut into earnings. Meanwhile, the company's loan volume dropped 40 percent between 1997 and 1998.

Emergent fired 28 percent of its work force, quit the auto loan business and changed its name to HomeGold Financial Inc.

HomeGold seemed to stabilize in 1999, turning a $1.8 million profit.

But the company remained in deep financial straits, with loan volume falling that year to one-fifth of its 1997 levels.

As the profits shrank, HomeGold found it harder to pay what it owed Carolina Investors.

"If HomeGold's performance could be improved, it would mean more money would get back to Carolina Investors," said Jan Sirota, a former member of the company's board of directors.

CHANGE AT THE TOP

HomeGold turned to Ronald J. Sheppard, who controlled a Lexington-based company called HomeSense Financial Corp.

Both companies were in similar lines of work but Sheppard's privately held company was doing well, earning $5.5 million from 1995 to 1999.

HomeGold officials believed the company could recover by teaming with Sheppard, said Sirota, a Florida investment banker who helped engineer the merger and remained on the company's board until 2001.

"HomeGold was looking for a white knight, and they thought it was Ronnie Sheppard," he said.

HomeGold, with $188 million in total assets, had plenty of workers and large credit lines available. HomeSense, with $53 million in assets, was selling nearly as many loans and figured to sell more if it added HomeGold's resources.In the Jan. 31, 2000, press release announcing the merger, Sheppard said: "Our joint efforts can contribute to the rebuilding of HomeGold and a very prosperous future."

REVOLVING DOOR

HomeGold has had six chief financial officers in three years:

Sept. 29, 2000 — Larry Gosness replaces Kevin J. Mast.

Nov. 30, 2000 — Rhonda B. Johnson replaces Gosness. She resigns March 26, 2001.

May 8, 2001 — HomeGold president Forrest E. Ferrell takes over until Kevin G. Martin takes the job. He resigns Aug. 29, 2002.

Aug. 29, 2002 — Karen A. Miller is named chief financial officer, a job she still holds.

It was prosperous — for Sheppard.

In exchange for his company, HomeGold gave Sheppard:

■ 40 percent of HomeGold's common stock. His 6.1 million shares were worth $7.2 million on Feb. 29, 2000, the day the merger was completed. He also received options to buy another 825,000 shares of stock.

■ The job of chief executive officer at an annual pay of $250,000 plus 2 percent of profits.

■ Control of the board of directors. He picked four of seven board members.

■ Loans of $5.7 million. Sheppard owed $1.7 million to his company and wanted to borrow $4 million more. To close the deal, HomeGold lent the money at 7.5 percent — backed by the stock it gave to Sheppard.

■ A way to pay off the loan. HomeGold created a new stock category for Sheppard. The 11 million shares of preferred stock provided no voting power, but they guaranteed Sheppard $880,000 in annual dividends through 2004, when the dividends would rise to $1.1 million.

John M. Sterling Jr., one of HomeGold's founders and a board member until last month, said there was nothing out of the ordinary in the 2000 deal that brought Sheppard into the company or the subsequent sale of HomeGold's core assets to Sheppard in 2002.

"I don't think there was anything unusual with either deal," he said, declining further comment.

LOSSES DEEPEN

Despite the jump-start, HomeGold lost $30 million in 2000.

Sheppard was paid $629,541 that year — triple what Sterling received in 1999, when he cut his pay in half.

With Sheppard running the board, his pay rose while losses mounted.

Between January and June 2001, HomeGold lost $17.3 million. On June 6, Sheppard's base salary rose to $600,000. The company's board of directors said he deserved it because, among other things, the company's mortgage volume nearly tripled in 18 months.

By the end of 2001, HomeGold lost $73.4 million.

The losses were so deep that Elliott Davis, the state's largest accounting company and HomeGold's external auditor, waved a red flag called "ongoing concern." Elliott Davis in April 2002 said it had "substantial doubt" whether HomeGold could stay alive, according to SEC filings.

Company officials disputed Elliott Davis' findings. After the two quarreled over several issues — including HomeGold's survival chances — Elliott Davis withdrew its services.

LENDING PRACTICES

During this time, some of the company's business practices were landing HomeGold in court.

Several former employees interviewed for this story said HomeGold didn't keep its customers' best interests in mind. They said HomeGold's practices included:

■ Charging high fees to customers.

"We would try for as much in origination fees as we could get," said Shanna Webb, a former loan officer who said she left HomeGold after 7½ months because of her concerns about the company. "We'd throw a big number out there and see if they'd bite."

Jim Williams, another former HomeGold loan officer, said company officials ordered anyone with less than stellar credit — lower than an "A" rating — to be charged as much as possible.

"If the customer was a 'B' or lower, they were probably getting overcharged $3,000-$4,000 on a $100,000 loan," he said.

■ Targeting the less-educated.

"We wanted the dumbest customers we could find," Webb said.

She said some people who turned to the company for debt consolidation loans often ended up worse off than when they started.

People looking for a loan to consolidate a few thousand dollars of debt often were talked into refinancing their homes, she said.

"After we were done with them, they had a much higher interest rate on their mortgage and maybe only a couple hundred dollars in their pockets as a result of the refinancing," she said. "And they would have lost the equity in their home."

Williams says he thinks two-third of the loans HomeGold made during the 18 months he was with the company were "unscrupulous."

Webb, who moved from Lexington to California after quitting HomeGold in 2000, said she feels bad about what she did there.

"There wasn't one loan that I did where I felt like I really helped anybody," she said.

Similar claims were made against HomeGold and other lenders in North Carolina. HomeGold agreed in November to settle a series of lawsuits for $10 million without admitting that it did anything wrong.

Also last year, HomeGold paid $5,000 to settle 10 complaints that it called residents on Kentucky's "do not call" list for telemarketers. The company didn't admit to guilt, said Brian Wright of the Kentucky attorney general's office, but it agreed to pay $25,000 per violation from then on.

THE END GAME

As HomeGold continued to hemorrhage money during 2002, money kept coming into its Carolina Investors subsidiary. With the stock market falling and banks offering insured deposits at 4 percent or less, Carolina Investors advertised returns of 8 percent.

One company official said he was worried HomeGold didn't have the money to pay back investors.

Chief financial officer Kevin Martin resigned in late August 2002, after a little more than a year on the job. In a letter to board members, he said HomeGold's poor financial condition meant it shouldn't take any more money from Carolina Investors.

Martin, who now works for another Columbia-area mortgage company, declined to comment further.

Robert Philpott, who was then a board member, called Martin's letter "a friendly opinion, and it was taken into consideration."

He said HomeGold's officers thought the losses could be turned around, so it kept using revenues from Carolina Investors.

"We thought there was hope," said Philpott, who resigned from the board earlier this year.

The company concluded another way to turn the tide of red ink was to sell its retail mortgage division, according to SEC filings. That division — which generated most of HomeGold's business — was worth between $135 million and $170 million, according to outside appraisers hired by the company.

In August 2002, the company said it had a buyer. The deal fell apart, however.

Another buyer emerged — Sheppard.

He created Emmco, a company that bought most of HomeGold's mortgage business. He paid $135,000 cash down and promised half of Emmco's profits, up to $170 million, SEC filings show.

At the same time, HomeGold gave Sheppard a five-year, $8.4 million loan to buy HomeGold's $3.4 million office in Lexington.

The sale, which closed Dec. 31, didn't leave much left for HomeGold and the 100-plus workers who remained.

HomeGold kept five retail mortgage branches, a small wholesale loan division, and plans to invest in a payday lending company called FlexCheck.

HomeGold also kept Carolina Investors.

On March 24, Carolina Investors didn't open its office in Pickens County. A day later, Carolina Investors chairman Earle Morris Jr., a former state comptroller general, stood outside the office and told several hundred people: "Nobody's lost anything."

Four business days later, HomeGold filed for bankruptcy.

At the top of its creditor list is Carolina Investors, which is owned $275 million and said it expects to file for bankruptcy protection this week. Since the bankruptcy, HomeGold and its subsidiary have been criticized by S.C. lawmakers and are the target of two Upstate lawsuits filed by angry investors.

Customers of Carolina Investors will be unsecured creditors in the bankruptcy filings. That gives them "very little leverage in cases like this," said Steven Mann, a USC finance professor.

"These folks, at best, will get a fraction of their investment back."

Contact Dietrich at kdietrich@thestate.com or at (803) 771-8339.

HOMEGOLD AND CAROLINA INVESTORS: KEY EVENTS

1991: Greenville-based Emergent Group Inc. goes into the loan business after buying companies that include Carolina Investors Inc., a small mortgage company opened in 1963.

1995: The company made $250 million in loans, quadrupling its business in three years.

March 1996: Its stock hits all-time high of $20 a share.

January 1998: Earle M. Morris retires as state comptroller, named Carolina Investors chairman.

Summer 1998: Emergent changes its name to HomeGold Financial Inc. and lays off hundreds of workers when it sells its small-business loan division.

Dec. 31, 1998: Stock closes at 50 cents a share, down 96 percent during the year.

Jan. 31, 2000: HomeGold says it will buy HomseSense Financial Corp., a privately held company based in Lexington owned mostly by Ronald J. Sheppard.

February 2000: Nasdaq drops HomeGold stock to over-the-counter status, saying the deal created a "change of control" in the company.

May 9, 2000: With merger complete, HomeGold moves to Lexington and quits the wholesale lending business to focus on home mortgages.

Dec. 31, 2000: HomeGold closes year with $29.8 million loss but says it expects to turn operating profit in second half of 2001.

Dec. 31, 2001: HomeGold closes year with $73.6 million loss.

April 2002: Accounting firm Elliott Davis says it's not sure HomeGold can remain a "going concern." HomeGold hires another external auditor after Elliott "declines to stand as auditors."

May 2002: HomeGold says it's considering a sale of its retail mortgage unit, which provides the bulk of its revenue.

Sept. 3, 2002: HomeGold says it has a bid for its retail mortgage unit. The company doesn't say Sheppard is the proposed buyer.

Dec. 31, 2002: Sheppard's company completes purchase. He quits HomeGold's board.

Feb. 25: Three months after saying it would "vigorously contest" a North Carolina class-action lawsuit that claimed it and other lending companies used unfair tactics, HomeGold agrees to pay $10 million to settle the suit.

March 31: HomeGold Financial and its main subsidiary seek bankruptcy protection, saying it can't make payments to its Carolina Investors Inc. subsidiary.

Recovering money expected to be tough

By KEN KNELLY
Staff Writer

Those trying to help Carolina Investors' account holders get their money back have their work cut out for them.

The Pickens County company is owed an estimated $275 million by its parent, HomeGold Financial of Columbia, which is seeking federal bankruptcy protection.

Carolina Investors is expected to follow suit this week, an attorney for the company said.

While the company's creditors line up for payment, more than 8,000 investors worry their money is lost. Most live in the Upstate where Carolina Investors is based.

Sue Gaddy, a Greenville attorney, has filed one of two lawsuits against the companies on behalf of investors. It seeks class-action status, the return of funds plus other damages.

Will investors get back every penny?

"That's very doubtful," said Gaddy, who invested $10,000 with the company.

"I would not be undertaking this case if I didn't have confidence (in some return). No one knows what the outcome will be. Only God knows. We're going to take every step."

HomeGold continues to collect money from borrowers, Gaddy said, so there is a flow of funds. How much will become clear as the court and bankruptcy cases move forward.

Meanwhile, authorities are investigating the Carolina Investors transactions along with parent HomeGold. Compliance with civil securities statutes and criminal codes may be under review.

Officials declined to outline specifics.

"Nothing is ruled out," said Trey Walker, a spokesman for the S.C. attorney general's office.

The accounts were marketed to South Carolina residents, as Carolina Investors was regulated under state securities laws rather than federal ones.

Companies can choose state regulation under certain circumstances. Advantages can include fewer filings and less stringent oversight.

Contact Knelly at kknelly@thestate.com or at (803) 771-8427.

INVESTORS

FROM PAGE **F1**

dal-ridden Houston firm. They place much of the fault on HomeGold, a Columbia-based mortgage firm that bought Carolina Investors in 1991.

W.T. Garren, a lifelong Pickens County resident, said the situation is worse than Enron because the impact is concentrated so heavily in one area. The county, with its mix of industrial plants and farms, has 110,000 residents.

Garren

Garren, 74, invested almost $50,000, his entire life savings, in Carolina Investors. A retired textile worker who lives in Easley, Garren was going to use the money if he needed to move to a retirement home.

"I don't know what I'm going to do," Garren said. "If I could get half of my money back, I would be tickled to death."

Delores Donehue, a 72-year-old Greenville retiree, is skeptical she'll get back much of her money. Donehue, also a former textile worker, invested about $42,000.

Donehue and others are holding on to the eagle-emblazoned certificates issued by Carolina Investors in hopes they still have value.

"All we've got is a piece of paper," she said.

Whitlock has stacks of Carolina Investors certificates. More than 35 years ago, she started making investments with a few hundred dollars. Her investments grew with time and interest.

Whitlock said a top executive at Carolina Investors called her last weekend to tell her some of the certificates would be honored. The executive also told her account holders soon would receive a letter of explanation, she said.

"Nothing, nothing," Whitlock said as she checked her mail Friday. "He told me I'd get something by the middle of the week."

Officials with Carolina Investors could not be reached for comment.

Whitlock was planning to use the interest from the investments to pay for her care if she needed to move to a retirement home.

Whitlock said she has other investments. Some retirees were counting on Carolina Investors as their only source of retirement income, she said.

Carolina Investors should pay off those account holders first, she said.

"Leave me last," Whitlock said. "I want my money but I would wait to be last."

Reach Collier at (803) 771-8307 or jcollier@thestate.com.