

First Liberty probe ramps up as it shifts gears

Secretary of state's office calls witnesses as new filings reveal grim accounting of alleged politically connected Ponzi scheme.



Signage on the interior door to the former First Liberty Building & Loan office in Newnan. First Liberty shut its doors in late June. The company made loans and sold interests in those loans to investors. Insiders at the politically connected lender have been ordered to give depositions. ARVIN TEMKAR/AJC



Secretary of State Brad Raffensperger's office began summoning witnesses last week, including founder Brant Frost IV.



And his son, Brant Frost V, for testimony as the state's review picks up speed. FILE

BY GREG BLUESTEIN AND J. SCOTT TRUBEY GBLUESTEIN@AJC.COM
SCOTT.TRUBEY@AJC.COM

The state investigation into the collapse of First Liberty Building & Loan is shifting into a new phase as insiders at the politically connected lender have been ordered to give depositions in the coming days.

The Newnan lender, which touted its ability to say yes to borrowers when the big banks said no, shut its doors in late June. It's accused in a lawsuit by federal regulators of operating a nine-figure Ponzi scheme.

Now, as the scope of the collapse comes into sharper view, state investigators are intensifying their own civil inquiry. Secretary of State Brad Raffensperger's office began summoning witnesses last week, including founder Brant Frost IV and his son, for testimony as the state's review picks up speed.

First Liberty wasn't a bank. The company made loans and sold interests in those loans to investors. It advertised them as safe investments offering hefty returns.

On paper, the loans to develop businesses and remodel homes were all part of First Liberty's mission as a family-rooted firm that cast itself as a conservative alternative to big banks. The books tell a different story.

In October, a court-appointed receiver tasked with recouping money for jilted investors revealed in a filing that of the roughly 60 loan participations it had in its possession, not a single borrower was current.

Raffensperger's office declined to comment on the pending investigation. His probe aims to add details to the receiver's October report, which laid out what remained after First Liberty's collapse. The Securities and Exchange Commission contends First Liberty was a \$140 million Ponzi scheme.

It was not a pretty inventory. As of October, only \$1.6 million in cash had been secured. And the borrowers behind on those loans are pushing back, setting up a costly fight to recoup funds.

Some caught up in the collapse were big-dollar investors who wrote checks in the hundreds of thousands, convinced they were backing a growing, values-driven lender. Others were everyday retirees who entrusted a few thousand dollars.

Along with Frost and his son, Brant Frost V, Raffensperger's investigators have subpoenaed several of their former staffers and allies. They are set to testify within the next two weeks, according to state officials.

A widening probe

S. Gregory Hays, the court-appointed receiver, wrote in a quarterly report that he's preparing for a lengthy battle to recover money for investors.

Hays found that more than \$300,000 in political and charitable contributions connected to First Liberty and the Frost family have already been voluntarily returned.

But that's only a fraction of the nearly \$1.5 million in donations tied to the family and its companies that largely flowed to Republican candidates, party organizations and conservative causes, according to an Atlanta Journal-Constitution analysis.

Frost IV has apologized and urged victims to cooperate with the receiver's efforts to recover funds. His son, Brant Frost V, isn't named in the SEC complaint, but the secretary of state's office and the State Ethics Commission are looking into his involvement.

The Georgia Republican Assembly PAC, which Brant Frost V led, is accused of 50 violations by the ethics commission, which says the group illegally influenced elections with more than \$220,000 in unreported expenditures. The violations, along with similar claims against the Georgia Republican Assembly, were the focus of a hearing last week.

And Raffensperger's office is seeking documents tied to a new lending firm Frost V sought to incorporate just before First Liberty's collapse. Raffensperger has cited the probe to press state lawmakers for expanded powers to crack down on financial fraud.

Frost V has declined repeated requests for comment, including after he was elected to a Coweta County GOP post in August. Records show he recently became a licensed insurance agent and launched a new firm under the name "E.B. Frost."

'Slim to none'

Hays cautioned in the report that recovering money for victims will "be an expensive and protracted process which will take many months and may require protracted litigation." But he said authorities are committed to pursuing repayment and clawing back funds where possible.

"Investors should be assured that the Receiver intends to enforce each loan to the fullest extent possible and default interest is accruing."

That puts alleged victims in a tricky place. Richard Hortman of Carrollton was drawn to First Liberty in part because of its conservative bona fides and its heavy promotion in right-leaning media.

He invested a total of \$275,000 in First Liberty notes in April and May of this year, not long before the lender shut down. He made his first \$200,000 investment in April following a meeting with Frost V.

Hortman increased his investment after a subsequent meeting with Frost IV, who promised him larger returns if he committed more money.

“Frost was really good at what he did. He was so convincing,” Hortman said of the elder Frost. “I never had an inkling he wasn’t on the up and up.”

Hortman said he gets periodic updates from the court-appointed receiver on the hunt for First Liberty assets, but he said he has little hope of recouping his losses.

“The reality of me ever recovering a dime out of that is slim to none.”