
Bad Business: The Davenport Fiasco

by Tom Dybdahl

On July 13, 1981, a Beverly Hills developer named Donald J. Davenport filed for protection under the bankruptcy laws of the United States Bankruptcy Court for the Central District of California in Los Angeles. Along with his petition, as exhibit A, was a list of his ten largest unsecured creditors, to whom he owed \$5.3 million.

Because of the large sums of money involved, the case would no doubt have created something of a stir under any circumstances. But because Davenport was a Seventh-day Adventist, and many of his creditors were members, officers, or organizations of the Seventh-day Adventist Church, his action caused more than a few tremors. In the offices of local conferences and unions across the country, and at the General Conference headquarters, the response was seismic.

Union conference treasurers and presidents, along with selected local conference officials, were summoned to Washington for an emergency meeting. In quick succession

the church hired an outside law firm, an auditing company, and some communications consultants.* Meanwhile, articles about Davenport's bankruptcy filing appeared in the *Los Angeles Times*, *The Washington Post*, and the *Memphis Commercial Appeal*. Rumors of millions of lost dollars, a Securities and Exchange Commission investigation, and possible criminal charges began to circulate widely. Scouts from CBS News began contacting people who might know something about the situation.

Amid all the speculation, two things were clear: that the legal case would go on for months, or perhaps years, so that the full truth, if it ever came out, would be a long time emerging. And that the church's extensive involvement with Davenport had raised difficult questions that would have to be answered if church leadership was to retain the full confidence of the members.

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*Church spokesman James Chase said that the amount of money being paid the communications consultants was "not for publication." It is known, however, that for services of the type that Hill & Knowlton are providing to the General Conference, the minimum fee is \$6,000 per month, and the firm must be retained for a minimum of 12 months. Expenses are extra.

To understand the story, it is important to start at the beginning. The problem in this case is that it is difficult to pinpoint a beginning. Davenport himself was born in Bakersfield, California, in 1913. His father was an Adventist doctor who had been a pioneer missionary to China. Young Donald decided to follow in his dad's footsteps, and in 1940 he graduated with an M.D. degree from the College of Medical Evangelists in Loma Linda.

Early in his career as a general surgeon, Davenport developed a little sideline — building post offices. "I was tired of standing in line for packages," he told the *Wall Street Journal* in 1968, "so I asked the fellow why they didn't build a bigger building. He said, 'Why don't you?' and I said I couldn't, it was the government's. He said I could — so I did."

In 1946, Davenport began to build post offices and then lease them back to the government. Gradually this business grew, and in 1963 he retired from medical practice to devote his full time to it. By 1965, he had built some 37 post offices in California, Arizona, and Nevada.

Because Davenport was an active member of the Seventh-day Adventist Church, it was only natural that he would seek loans* from his fellow members. He was a hard man to

refuse. Not only personable and charismatic, he was persistent as well. Here was a wealthy doctor and businessman who didn't mind spending money on his friends — even to the point of bringing some fine perfume by the house for the missus. He promised big returns, and paid off.

As church members gave Davenport their funds, and reaped excellent rewards, they shared the good news with friends. More and more Adventists loaned him money. Soon his creditor list included not only laymen, but many ministers and organizational leaders as well. He became well known in church circles, and served on the executive committee of the Southern California Conference from 1961 to 1965.

The doctor continued to prosper through the 1960s, and by 1968 he reported his holdings at "around 70" U.S. post offices, and "conservatively" valued his estate at between \$6 and \$7 million. "Some people collect stamps," he said. "I collect post offices."

As more church leaders became involved with Davenport, they began to look into the possibility of loaning church funds to him. At that time, the investment monies under local conference and union control were primarily association** funds, usually revocable trusts and annuities, and the list of approved investments for these funds was rather short. But after repeated requests from a number of conference officials, the North American Division Committee on Administration (NADCA) voted at its spring meeting on April 2, 1968, that Association funds could be invested in U.S. government post office facilities. The action did not mention Davenport, but one observer recalled that "we didn't know anybody else who was building them."

The NADCA action also listed specific guidelines for these investments. The first was that they be limited to those facilities secured by recorded first mortgages. (In some states, including California, these are called first trust deeds.) It also required that loans be secured from the time the funds were released by the investing organizations,

*One issue that may become important in the legal wrangling is the difference between a lender and an investor. A lender is involved in an enterprise in a limited way, and entitled only to his loan plus the agreed upon interest. An investor, however, has equity in the enterprise. If it prospers, he will likely do better than the lenders; but if it fails, he may lose everything. When it comes to dividing the assets in a bankruptcy case, investors must get in line behind the lenders, and by the time they get to the front there is often nothing left.

Because of this, all church spokespeople have been advised to use the word "loan," not "investment," when discussing the church's involvement with Davenport. Attorney Jerry Wiley suggested that some of the arrangements that Davenport made with church organizations and members were so legally unorthodox that many who consider themselves to be lenders may actually be investors, and thus have difficulty getting any of their money back.

This article makes no attempt to distinguish between who was a lender and who was an investor. The terms here are used interchangeably, without reference to their legal distinction.

**The association is the legal arm of a conference or union, which transacts the business for the organization.

be limited to a maximum of 25 years, and be limited to a maximum of 95 percent of the recognized appraised value of the property at the time the loan was made.

And so church monies began to flow into Davenport's business. His influence had spread far beyond California, and unions and conferences across the country began to loan him their funds. Then he expanded into building telephone company and bank facilities as well, and his supporters in the church did not want to miss further investment possibilities. They pleaded their case once again, and at the NADCA meeting on November 1, 1973, the approved list was amended to include investments in these endeavors.

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At the same time, the guidelines were tightened. A title search or title insurance was required, and the amount of the loan was cut back to a maximum of 75 percent of the recognized appraised value of the property. It was also spelled out that “second mortgages or trust deeds may not be used as securities for these loans.”

Meanwhile, Davenport's marriage had come apart. In 1972, he and his wife were divorced, and he was disfellowshipped from the Long Beach Seventh-day Adventist Church. But this unfortunate episode did not seem to hurt his financial standing with the church, as individual members and organizations continued to loan him their cash. He later remarried, and after a time was accepted back into the Garden Grove Seventh-day Adventist Church on profession of faith.

About this time, the church's extensive involvement with a single businessman began to attract some attention. But because information about church loans (and finances in general) was not readily available, few people knew what was going on. Further, a considerable number who did know had made personal loans to Davenport, and thus had no interest whatsoever in asking potentially embarrassing questions.

One of the first church members to look into the Davenport-Adventist connection was John Jim Adam, a lawyer and stockbroker in Memphis, Tennessee. Adam was an active layman, and for a time headed the Businessmen's Foundation of the Kentucky-Tennessee Conference, a group of business people that put together loan money to help build churches in “dark counties.” In working with the conference, he learned about their loans to Davenport, and the more he heard, the more concerned he became. So he did some checking into the matter, and concluded that Davenport's business practices put the conference at some risk.

He asked his conference president for a list of conference loans, but his request was refused. Adam began to speak with other conference treasurers and leaders about their involvement with Davenport. But his questions and pleas were dismissed, and several officials speculated that he was simply jealous of the doctor and wanted to get some of the church's business for himself.*

Adam was not one to give up easily, however. He kept voicing his fears about Davenport, and in a letter to the treasurer of the Kentucky-Tennessee Conference, dated November 21, 1978, he said he has been warning them for about five years. Then he added: “You have ignored my admonitions for the last time. We are all about ready to reap the whirlwind.” John Adam was almost three years ahead of his time.

Other voices were being raised as well. Walter Rea, pastor of Davenport's old home

*Adam denies this. In his defense, he pointed out that his primary business is selling stocks and bonds, which local conferences are not permitted to invest in. He said he “did not solicit or need the church's business.”

church in Long Beach, had been a member of the Southern California Conference Committee from 1968 to 1970, and became interested in the conference's investments. When he saw that Davenport had a substantial amount of the organization's money, he asked the doctor for a balance sheet, but received nothing. He asked the conference treasurer, who was his friend, for some more information about Davenport's finances, but none was forthcoming. So he did a little investigation of his own, and found that some of the notes held by the conference were not properly secured.

In June, 1977, he wrote a very straightforward letter to Robert Pierson, General Conference president, questioning the wisdom of the loans to Davenport. He received a reply, but that was about all that happened.

About the same time, Jerry Wiley, an Adventist attorney and currently an associate dean at the University of Southern California law school, looked into the doctor's business affairs for three clients who were having difficulty recovering their money. He came up with a rather startling analysis: Davenport's empire was an elaborate scheme, which would work only as long as there was cash from new investors coming in to cover the payments to old investors. He shared his findings with Neal Wilson, then president of the North American Division. Wilson expressed considerable doubt that anything was wrong, but he promised to take up the matter with Kenneth Emmerson, the General Conference treasurer, and Cree Sandefur, Pacific Union Conference president. But again, nothing seemed to change.

Then came Sydney Allen, a former teacher and missionary. Though he had been disfellowshipped by the Loma Linda University Church in 1976, following his divorce, Allen was a very active attendee, and even published a little paper with church news which he called *The Remnant*. In 1978, he obtained some financial statements from Davenport's divorce settlement in 1972, including a partial list of creditors who were church members. The list included many prominent names, such as Robert Pierson, W. J. Hackett, Cree Sandefur, Faith For Today speaker William A. Fagal, a smattering of General

Conference officials, and several conference presidents and treasurers.

Allen's main concern was not the stability of Davenport's business ventures, but the issue of conflict of interest. "Here," he said, "is a great conflict between the private purse and fiduciary responsibility." With his voice and pen, he began to ask some embarrassing questions about *l'affair Davenport*, as he called it. He also wrote an open letter to Wilson, who was by then General Conference president, suggesting that the whole matter be investigated and the findings made public.

The pressure was building, and Davenport could not ignore it much longer. On April 19, 1979, Davenport sued John Adam and his employer, A. G. Edwards & Sons, Inc., charging that Adam had interfered with his business and defamed his character. He asked for \$1 million actual damages and \$3 million punitive damages. He followed that up on May 15 with a similar suit against Sydney Allen for \$2,550,000.

The General Conference Treasury also increased its pressure on denominational organizations.* On April 10, Emmerson wrote

*As far back as September 1967, the General Conference treasury became concerned, leading Emmerson to ask Robert Osborn, an assistant treasurer, to investigate church investments with Davenport. During the years following, in numerous treasurers' councils, trust services advisory meetings, and in minutes and letters sent to conference and union leaders, the treasury insisted that church organizations follow established guidelines. Unfortunately, although at least one union began withdrawing its investments, many others simply ignored the guidelines. Emmerson's letter of April 5, 1979, to W. J. Blacker, Loma Linda University vice president for financial affairs, reflects a decade of treasury's continuing concern with Davenport. Noting that he had recently heard that Davenport was approaching Loma Linda regarding an investment "scheme," Emmerson wrote: "To put it mildly, I was alarmed, concerned and almost angered over the thought that anyone at Loma Linda University would even entertain such an approach. I shall not write at length, Jack; but I should state that it would be *totally unacceptable* to the General Conference and to some of us as Loma Linda University Board members if the University were to have *any* connections or dealings whatsoever with Dr. Davenport. The program he suggests has legal and moral implications that may not be clear to some, but they are very clear to a few of us." Interestingly, Loma Linda University President V. Norskov Olsen was a friend — and creditor — of Davenport.

to Elder Harold Calkins, the president of the Southern California Conference, regarding Davenport. He told Calkins he was “entirely sympathetic” to what Walter Rea had written regarding the doctor. He also mentioned that Loma Linda University was thinking of getting involved with Davenport, and that he had warned officials there that if they proceeded it would “very seriously affect the financial backing of the General Conference to Loma Linda University.”

Emmerson said that he would soon be going to a treasurers’ meeting in Portland, Oregon, and that he had the “Dr. Davenport investment problem” on the agenda. At the meeting, he said, “we are going to strongly urge — in fact we are going to do everything in our power to make it imperative — that the brethren begin to liquidate any connec-

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Despite Emmerson’s urgings, the matter did not end there. On August 10, 1979, a letter was sent out to all the union conference presidents and treasurers, as well as the heads and chief financial officers of General Conference institutions, signed by Wilson, C. E. Bradford, General Conference vice president for North America, Emmerson, and M. E. Kemmerer, General Conference undertreasurer. The letter stated that investigations were being made into Davenport’s relationship with the church, and that the General Conference had been asked to make full disclosure of the extent of the church’s involvement. But the quartet reported that “as we have looked at this matter, we do not feel this is prudent or necessary at this time.”

The letter went on to say, however, that

although the General Conference did not “wish to overreact even at this date,” since “our stewardship integrity and leadership ethics are being questioned,” it would like some information. There followed 16 questions, asking not only for details on the amounts of monies the different units had loaned Davenport, and the security he had offered, but also about investments by individual officers or committee members who made decisions on investments, whether any of these people encouraged others to invest with the doctor, and whether any officers, board or committee members had received “any particular favors — trips, use of vacation facilities, higher interest, etc.” A reply was requested by September 17, 1979.

Meanwhile, Davenport’s lawsuits were meandering through the courts. John Adam hired a lawyer to defend him, but he also got a powerful assist from an old friend named John Felts, a printer in Ooltewah, Tennessee. On his own, Felts hired a private investigator to look into some of the mortgages that the Georgia-Cumberland Conference held as security on its loans to Davenport. In a document dated October 7, 1979, the investigator reported that several of the properties for which the conference claimed first mortgages happened not to be owned by Donald J. Davenport.

Felts and a pastor at the Collegedale Church, Jere Webb, went to the conference president, Des Cummings, to discuss the matter. But Cummings, who had personal funds with Davenport, argued that the mortgages were valid security, and refused to take any action.

The information uncovered by Felts strengthened Adam’s case, and on March 11, 1980, Adam and Davenport made an out-of-court settlement. Davenport agreed to drop the suit, and Adam in turn agreed to refrain from “any unlawful or improper conduct,” without any admission that “he has in the past engaged in such conduct.”

About the same time, Davenport offered to drop his lawsuit against Sydney Allen if Allen would promise never to mention Davenport’s name, either orally or in print, or if he ever did mention Davenport’s name, to pay him \$1,000 for each person who heard

Allen say it or read it after he had written it. Allen was amused, but not enough to accept. Acting primarily as his own lawyer, he went through extensive discovery proceedings. Lack of funds forced him to suspend publication of *The Remnant*. Then on July 1, 1981, Davenport dropped his suit against Allen.

By this time, however, Davenport's sun was ready to set. The publicity and the allegations about his business affairs had created considerable attention. Instead of money coming in, a growing number of people wanted their money back. Interest rates had zoomed over the past couple of years, and Davenport was borrowing money at 18 percent interest to pay the interest on his 15 percent loans. A tight money market made it difficult to find new investors, even when he offered 22 percent interest. His financial situation deteriorated rapidly, and on July 13, 1981, he filed for bankruptcy under chapter 11 of the federal bankruptcy laws.

The initial document filed by Davenport proved quite revealing. In addition to the 27 banks and six insurance companies, his creditors included 10 local conferences, five union conferences, one division,* and at least eight other church-affiliated institutions. Of the 200 or so individuals on the list, at least 40 were present or former Adventist officials, and many others were ministers and teachers.

The first petition gave dollar figures only for the 10 largest unsecured creditors. Included on this list was the Layman Foundation of Madison College, to which Davenport was indebted \$240,000, and the North Pacific Union Conference Association, to which he owed \$100,000.

The figures on the list were soon called into question, however. One named creditor was Dr. Clarence Lindgren of Eugene, Oregon, a former classmate of Davenport's at Loma Linda. The court document said he

*The filing listed five union conference associations, but last year two of those involved — the Central Union and the Northern Union — were merged to form the Mid-America Union. Although the Inter-American Division is listed in the document, the division did not invest its own moneys but was given moneys already invested in Davenport.

was owed \$100,000. He told the *Los Angeles Times* that when interest was figured in, Davenport actually owed him about \$230,000. The *Walla Walla Union-Bulletin* reported that the North Pacific Union Conference had as much as \$1.9 million invested with Davenport, and there was speculation that considerably more than \$100,000 of that money was unsecured. The recently released "Investments Summary" (see box) shows that the North Pacific Union's losses are much more serious, amounting to over \$7.7 million in unpaid principal and accrued interest.

Since Davenport lived in Beverly Hills, rumors about his involvement with the Pacific Union Conference and former president Sandefur were rife. Consequently, the *Pacific Union Recorder* discussed the matter at some length (see below), reporting that the union had loaned Davenport \$1.5 million on security from five properties.** The *Recorder* said that of the five, "four were secured initially by trust deeds to real property, though subsequent investigation shows that some security may be impaired. Our file shows that we did not receive a trust deed on the fifth property." In addition, interest was delinquent for several months — a total of about \$120,000.

Other reports indicated that the Upper Columbia Conference had invested more than \$1.4 million with Davenport, and the Georgia-Cumberland Conference more than \$3 million. There were as yet no official accounts of the total church involvement, however. General Conference spokesman James Chase said simply, "If I knew the amount, I'd tell you." He did state that the *Times* had misquoted Bradford when the newspaper attributed to him an estimate of \$46 million for Davenport's total debts. But before he stopped speaking to the press, Davenport's lawyer, Robert Shutan, estimated that creditors claims may go as high as \$40 million, and Ernie Ching, a lawyer representing more than 30 of Davenport's creditors, suggested a similar figure. On September 10, Chase released figures (see box) that placed the total church investment in Davenport

**These were not trust funds, however, but moneys from the union's income funds.

port at \$17,873,424, with accrued interest at \$3,137,313, making a grand total of \$21,010,737 in possible losses.

While some people had been crying “bankruptcy” for years, Davenport’s actual filing caught many by surprise. How, they wondered, could the former post office king have reached such a sorry state? They recalled ruefully his regular interest payments in the past; the reports that he could always be counted on. But then information began to surface that suggested Davenport’s financial foundation had been crumbling for some time.

A re-examination of some financial documents submitted in Davenport’s 1972 divorce case indicated that he may have had cash flow problems even then. He had borrowed heavily against his properties, and a study by the *Times* showed that of the 55 postal facilities he reported owning at the time, 19 were mortgaged for amounts greater than their fair market value. (Liabilities are sometimes overvalued in divorce proceedings, however, as a way of lowering the settlement.)

In the same year, 1972, Davenport borrowed \$45,000 from the Potomac Conference Association, and gave as security a first trust deed on the postal substation in La Sierra, California. But Davenport did not reveal that this property was not his. Rather, it had been owned by La Sierra College (later Loma Linda University) since 1920, and he merely leased the land from them. Then in 1976, he gave another first trust deed for the same property to the Collegedale Credit Union as security for a loan of \$95,714.

Throughout the 1970s, this practice was apparently repeated. The private investigator hired by John Felts in 1979 had discovered that at least five properties for which the Georgia-Cumberland Conference reportedly held first mortgages were owned by people or organizations other than Davenport. Two of the first trust deeds held by the Pacific Union as security for \$1.5 million in loans to Davenport were found upon investigation to be “impaired.”

A few observers suggested that Davenport’s business — at least the way he had run

it — was never particularly sound. While leasing post offices to the government provides a steady and reliable return, such leases are not a good investment for speculators. They are generally long term, so the return may end up being relatively low, particularly when interest rates rise quickly. In order for this kind of business to be especially profitable, according to Jerry Wiley, three conditions must be met: 1) Many of the post offices must be in areas where property values are rising rapidly, and the lease term must be nearly up, so that a high rent can be negotiated. 2) The money market must be very loose, so that interest rates remain low. 3) There must be a ceiling on the interest rate paid to investors. By the late 1970s, none of these conditions had been obtained, and Davenport’s fortune was in a steep decline.

Indeed, throughout the last decade, his assets diminished and his debts increased. He had reported owning “around 70” post offices in 1968, but the 1972 divorce papers show his holdings to be 55 postal facilities and 11 telephone company buildings. By August, 1980, however, in a deposition for another court case, he listed his holdings as “probably 9 or 10 buildings.”

In recent years, not only was it difficult to attract new money, but people began to ask for their money back. They found it increasingly difficult to reach the doctor, and even tougher to get their cash. One pastor in southern California asked for all his funds in early 1980, but the deadlines kept passing, and he has yet to receive a penny. Ching reported that of his 30 or so clients, only one had received anything on his principal in the previous six months, though many had asked for their money. (Most were paid interest for a part of this time, however.) Davenport was clearly caught in a squeeze, and the only question was when he would go broke.

As information about the sorry state of Davenport’s finances and his questionable business practices began to emerge, the question arose as to why the church — and so many of its members — were yoked together with him. While he usually gave church or-

ganizations some kind of security on their loans to him, members received nothing more than notes. Several lenders reported that they knew of no case where individuals received any security for their loans.

In addition, Davenport was known for not providing a financial statement of his holdings. As early as 1970, the General Conference treasury, Walter Rea and others had asked for one in vain. When Davenport solicited a loan from the church-related Hewitt Research Institute in 1978, the president contacted Wiley, who then asked Davenport for his balance sheet. In his reply letter, Davenport said that he never gave one out, and added that the investment was no longer available.

When people would press him for financial information, he responded in various ways. According to Ching, some of his clients were shown two or three deeds or post office contracts, with many-figured sums, and this

would calm their fears. In another case, as reported by the *Times*, Davenport wrote: "The security is predominantly against my estate. My wife and I sign the note and the estate is worth several million dollars. I don't think more details than that are necessary at this time."

Finally, a significant number of the loans made to Davenport by church units violated the clear guidelines that had been adopted by the North American Division. Both the Pacific Union and the North Pacific Union had at least one loan that was completely unsecured. Other security, such as the first trust deed given to Potomac Conference for its loan, was on property that Davenport did not own, and a simple title search, as required by the guidelines, would have revealed the problem.

There seem to be several reasons why Davenport, with all these strikes against him, was able to attract so much church money.

INVESTMENTS SUMMARY			
Accrued Interest and Principal Due			
June 30, 1981			
	Accrued Interest	Principal Unpaid	Total
<i>COLUMBIA UNION</i>			
Union Association	\$ 35,315	\$ 334,611	\$ 369,926
Potomac Association	5,400	45,000	50,400
Total	40,715	379,611	420,326
<i>MID-AMERICA UNION</i>			
Union Conference	195,484	493,251	688,735
Northern Union Conference	211,900	560,000	771,900
Kansas Conference Association	97,148	1,102,000	1,199,148
South Dakota Conference Association	65,992	425,000	490,992
Christian Record	8,551	99,144	107,695
Total	579,075	2,679,395	3,258,470
<i>NORTH PACIFIC UNION</i>			
Union Association	1,334,727	6,403,823	7,738,550
Montana Association	1,368	233,591	234,959
Upper Columbia Mission Society	189,929	1,450,328	1,640,257
Western Oregon Association	52,941	420,077	473,018
Total	1,578,965	8,507,819	10,086,784
<i>PACIFIC UNION</i>			
Union Association	120,449	1,528,094	1,648,543
<i>SOUTHERN UNION</i>			
Carolina Association	120,352	520,506	640,858
Florida Conference Association	58,468	555,000	613,468
Georgia-Cumberland Association	609,658	3,122,999	3,732,657
Kentucky-Tennessee Association	20,217	160,000	180,217
Total	808,695	4,358,505	5,167,200
<i>SOUTHWESTERN UNION</i>			
Southwest Estate Service (Portion)	9,414	420,000	429,414
GRAND TOTALS	3,137,313	17,873,424	21,010,737

Perhaps the most important was that he was a fellow Adventist, who was clearly a wealthy and powerful man. His deep and close relationship with the church constituted a kind of implied endorsement. In the close-knit world of Adventism, it was easy for members to reason that “my minister (or conference or union) wouldn’t be involved if it weren’t safe and proper.” So they turned over their funds with few qualms.

Another attraction was Davenport’s high interest rates. Back in the 1960s, when rates hovered around five percent, he routinely paid 10 to 12 percent on a loan, and sometimes as much as 15 percent. Church spokesman Chase suggested that conference investment committees favored Davenport because they wanted “to increase their return and thus help the church.” Others, who did not wish to be named, argued that greed played a role as well.

There is no doubt that Davenport’s personal contacts and friendships within the church helped him weather some storms. When John Adam, Walter Rea, Sydney Allen and others were questioning the propriety of the Adventist entanglement with Davenport, he had strong defenders. Even when church auditors turned up some improper loans, and reported them to their superiors, it made little difference.* The general feeling was that Dr. Davenport is a good man, and a good businessman, he’s always paid off in the past, and everything will be just fine.

In retrospect, several investors expressed the fear that they were going to look a bit silly, having loaned money with no security. In the context of the church, however, with so many other members and institutions involved, to have done so is certainly understandable, if not defensible. And the bankruptcy petition showed that at least three banks also gave unsecured lines of credit to

*The *Walla Walla Union-Bulletin* reported that back in 1976 an audit report on the North Pacific Union Conference Association singled out at least one loan to Davenport as “not in harmony with the applicable investment policy of the denomination.” This was supposedly cleared up, but an audit report earlier this year again revealed investments — unnamed this time — that violated General Conference guidelines. A member of the auditing company later confirmed to the *Union-Bulletin* that the warning referred to Davenport loans.

Davenport, in amounts far exceeding any individual lenders.

It is more difficult to explain the conflict of interest in the Davenport affair. Many of the people who had made personal loans to Davenport were on the boards and committees that made decisions regarding church funds. On the face of things, these individuals were violating the conflict-of-interest guidelines in the North American Division Working Policy. (Some of them were involved prior to the development of the guidelines in 1972, but did not choose to call in their funds when the policy went into effect.)

That policy is exceedingly clear. Under the section titled “Conflict of Interest,” it is stated that church officers and employees should “deal with all persons doing business with the organization on a basis that is for the best interest of the organization without favor or preference to third parties or personal considerations.” There follow eight descriptions of situations which “have the potentiality of being in conflict and therefore *are to be avoided*” (italics supplied).

Situation number six is this: “Lending money to or borrowing money from any third person who is a supplier of goods or services or a trustor or who is in any fiduciary relationship to the denominational organization or is otherwise regularly involved in business transactions with the denominational organization.” There can be no doubt that Davenport was “regularly involved in business transactions” with the church.

Rumors of more flagrant conflicts of interest were widespread as well. Almost everyone interviewed for this article said that individual lenders received higher rates of return on their funds than did church organizations, and several stated that influential and powerful people in the church received better returns than ordinary mortals. And in his last, difficult days, Davenport had apparently paid off some favored creditors. His trustee, Irving Schulmeyer, reported in an application to the judge that “preferences have been made in substantial sums” by Davenport in the 90 days prior to his filing for bankruptcy.

Davenport, in turn, was not loath to use his church connections to the fullest. In his suit against Adam, his attorney stated that the individuals and conferences of the church “provided a source of lending which cannot be replaced through other conventional lending sources.” On one occasion, Davenport took a letter of recommendation that had been written on his behalf by a union conference president to the membership committee of a country club to which he was seeking admission. He put the same letter with his own cover letter, to a bank where he was seeking a loan, saying that if the bank would do business with him he would channel

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church funds into their vaults. And in at least one case, he made good on his promise.

Many church members — including ministers and officials — did not simply loan Davenport money, they encouraged others to support him.* One pastor was urged by his union conference financial advisors to invest with the doctor, and they even put some of their funds with his to make a reasonably large amount. “I couldn’t have gotten in without help from the church,” he said.

Late last year, this minister heard rumors that Davenport’s finances might be in trouble, so he called several conference and union treasurers that he knew to investigate the situation. “None of them gave me a clear answer,” he recalled. He felt a bit uneasy, so he wrote Davenport and asked for the interest on his loan. Within a few weeks, Davenport sent him \$2,000, which was close to the

*Ernie Ching reported that when several of his clients had trouble collecting their money from Davenport, they asked church leaders who knew him to intercede with the doctor on their behalf.

amount he had requested. He stopped worrying.

Then in mid-July, a friend called to say that Davenport had just filed for bankruptcy. So the minister rang one of the treasurers he had spoken with earlier, and said “Why didn’t you tell me Davenport was in trouble?” Again, the answer was vague. “My impression was that they hadn’t wanted to start a panic,” the pastor said, “but at least they could have given me a better understanding of the situation.”

The whole incident left the pastor considerably poorer. Since he had never stayed too long in one place, he had never owned a home. His investment, which included other family funds, was intended to be the down payment on a house. “Now,” he says, “chances are I’ll never own a home.” Another pastor who is likely to lose his money said: “I can’t say I’ll go hungry, but I won’t be able to have the kind of retirement that I had been hoping for.”

At this point, of course, no one knows how much money the creditors will be able to collect. Some of Davenport’s friends have adopted a “wait and see” attitude, and suggested that the doctor will reorganize his affairs and pay off his debts. Ching reports that the doctor has, in fact, called some of his creditors and assured them that they will be paid, that he needs only a little time. But many observers are more skeptical, and suggest that collections will be few and far between.

If Davenport cannot pay his creditors, the individual lenders will simply lose their money. But the situation with the church funds is more complicated. Since most of the loans were from revocable trust funds, legally they may need to be made up from other monies.** When asked whether any losses would be compensated for by other church funds, Chase replied: “I can’t answer that. I wish I could.”

**Under normal circumstances, if trustees do not properly exercise their fiduciary responsibilities, and do not invest the funds as a “prudent man” would, they are liable for losses. A prudent man would probably not make unsecured loans. But some trust agreements themselves may reduce the responsibility of the trustees. So legally, at least, the issue is clouded at this time.

One obvious fear among church leaders is that, as a result of the Davenport fiasco, some people may lose confidence in the financial arm of the church. Chase felt that the affair would affect giving “to an unforeseeable degree,” depending on several factors, including the “solidity of the faith and commitment of members,” the amount of the losses, what the church does to prevent a repeat, and “how openly and forthrightly the news is told to our people.” Bradford echoed this theme: “We are facing a credibility crisis. We’ll have to prove to the people that we’ve done our best.”

Consequently, three brief reports have been released by General Conference officials. The first mentioned the problem and reported that the General Conference had hired outside help; the second called some news stories on the subject “premature”; the third gave a listing of outstanding loans from church units to the doctor. While these items gave an overview of the current status of the case, they covered only what would have appeared during the bankruptcy proceedings.

Some other printed reports did not enhance the church’s credibility, either. One of the worst mistakes came in a pastoral letter to the members of the Potomac Conference from the president, Ron Wisbey. After describing the situation, he wrote: “As far as Potomac is involved, it is a relatively small amount (\$45,000) and is totally secured, recorded, and liquid to the point that we already have a buyer for the mortgage.”

The amount was correct, but the first trust deed which Potomac had held since 1972 was on property that Davenport did not own, but rather was owned by Loma Linda University (see above p. 56). A California lawyer reaffirmed its ownership, and said that “legally and practically, Potomac’s statement is totally false.” Since a simple title search would have shown that the trust deed was faulty, he added that “there was no excuse for them not to have known about the problem.”

The longest article was in the *Pacific Union Recorder*, under the heading “We’re glad you asked.” It began with a potpourri of some of the nastiest rumors, combined into one ex-

tended query.

Rumor has it that the Church has lost millions, and the figures are so large that I cannot even imagine that amount of money. Conversation in our town is that the Church’s retirement fund is in question, that this Dr. Davenport has granted special favors to our leaders like building a retirement home for Cree Sandefur in Texas (who is this Dr. Davenport, anyway?), that the Union Revolving Fund is involved, that trusts written within the Union are unprotected, that conflict of interest is widespread among Conference leaders in our field, that the Pacific Union has lost millions and that consequently evangelism funds for the next three years are gone. Please say it isn’t so.

It wasn’t so, of course. But the phrasing made clear from the outset that the primary purpose of the question and answer was not to reveal information but to reassure the constituency. These terrible rumors were denied one by one, and the report then closed with a ringing assertion: “How we rejoice in an organization which provides security against human error in the pursuance of the divine injunction, ‘Occupy till I come.’”

Nevertheless, the article was quite forthcoming, and did report on the union’s \$1.5 million investment, the problems with past interest, and the impairment of some of the security.

A lingering question, of course, is “could something like this happen again?” It is almost certain that the church will respond with some tightening of the guidelines here, some procedural modifications there, and at least a few personnel changes. Adventist leaders will argue that such a fiasco will not recur.

But the reason it is difficult to accept a definitive “never again” is that the whole Davenport episode should not have happened the first time. If the union and local conferences had followed the guidelines spelled out by NADCA for loaning association funds, any money given to Davenport would have been properly secured with title searches, recorded first trust deeds, etc.

Likewise, if the conflict of interest standards had been adhered to, many Adventist leaders would not have loaned Davenport money, or would have withdrawn their funds after 1972, when these guidelines were developed. In the uncertain world of finance, it is possible for investors to lose their money even under the best of circumstances. But if the rules had been followed regarding loans to Davenport, the church would not be in this embarrassing and painful situation.

There are several reasons why — in violation of the guidelines — leaders often invested their own money, and the church's money, with Davenport. He had a good track record, he was a fellow believer, and he paid top dollar, at least to influential individuals. A good many people, often personal friends of Davenport, simply felt that in this case the rules could be ignored.

The situation appears to be different with respect to the General Conference. As early as 1968, the treasury department began discouraging investments with Davenport, and in April 1979 Emmerson and Osborn were strongly urging church organizations to shun any connection with Davenport. The department's actions, particularly the Emmerson letters to W. J. Blacker and Harold Calkins (see pp. 53-54), make the General Conference leadership look blameless. Still, however, there is reason, in light of claims it has recently made in court, to ask whether the General Conference was unable to do anything about the Davenport matter except give warnings. In the legal case involving the Pacific Press Publishing Association and the Equal Employment Opportunity Commission, the church had argued that it was of the "hierarchical variety," with "orders of ministers," and a "first minister at the top." In the press' reply brief, this had been explained to mean that "a 'hierarchical' church is one in which final decisions are made at the top of the organizational ladder, in contrast to a 'congregational' church organization in which every local group, like the Baptists and Unitarians, is free to go its own way." This reasoning was then used to justify the

action of the General Conference Committee when it reached all the way down to declare that two women employees of the press were "at variance" with the church and therefore should be fired.

If such is in fact the church's organizational structure, it is difficult to believe that the General Conference was as impotent as it wishes to appear. Indeed, from Emmerson's letter it is clear that the threat to withdraw General Conference support from Loma Linda University made any traffic with Davenport suddenly unattractive. It would be interesting to know if such tactics were ever considered in dealing with other uncooperative units, or what role Davenport's friends — and creditors — in the General Conference might have played.

If there was really nothing the General Conference could do but plead with the union brethren, to whom are the union leaders accountable? The answer should be "their constituents," but given the secrecy* with which church financial matters are generally handled, most laymen know little about them. And those who try to find out, such as John Adam and Walter Rea, often meet a stone wall. Or if the General Conference could not actually enforce its guidelines, could it not have ordered an audit and then informed the appropriate constituency of the problems and conflicts of interest, a strategy which would likely have resulted in some changes? And finally, if the General Conference is powerless in such matters, it does not inspire confidence that better rules and procedures will prevent any repeats. For despite all the negative publicity and the General Conference pressure, church organizations were reportedly loaning Davenport money as recently as March 1981.

*A basic question is why information on conference and union association financial holdings is generally secret in the first place. Secrecy, even for the best reasons, tends to breed suspicion and hide incompetence. It also generates more secrecy. No one that I talked to who is employed by the church (with the exception of official spokespersons) wanted to speak for attribution, even about matters of public record.