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## Bankruptcy in a House of Worship

### *A Public Relations Case Study*

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It's a story as old as time: A matter of the heart becomes a matter of revenge, power, and money for a scorned lover. Regardless of the reason, when an organization is pushed into bankruptcy, it requires an attention to detail, creativity, and compassion for how scary the term "bankruptcy" is for most people.

#### **BACKGROUND**

(NOTE: The names of the church and individuals have been changed to protect the client's privacy.) Tabernacle House of Worship's challenges began when Bishop Johnson's wife (and widow of the founding pastor of Tabernacle) began a lengthy and bitter divorce. Mrs. Johnson left Tabernacle with her soon-to-be ex-husband's rival (and her new lover), Bishop Williams. Together, they waged a series of

negative campaigns against Tabernacle, initiated litigation, and recruited away Tabernacle's congregants to Bishop Williams' new church, Southwest Sanctified Church.

Tabernacle was a non-profit corporation that owned and operated facilities at three congregations — two in California (Inglewood and Palmdale), and one in Brooklyn, NY. This article focuses on the affected California operations.

The Inglewood congregation had about 700 members and operated in several buildings it owned, located on significant parts of three separate blocks. These included a three-story, 15,000-plus square-foot main building that housed offices and an auditorium (Main Building); a 10,000-plus square-foot building that housed a 1,000-person chapel and offices (Auxiliary Building); a 7,500-plus square-foot church and closed school (Pinto Building); and adjoining parking lots offering 500-plus car capacity. These properties were appraised as having an "as-is" value of \$5,425,000, and were encumbered by two deeds of trust totaling \$1,875,000 — a first trust deed of \$1,190,000 and a second trust deed of \$685,000.

The Palmdale congregation consisted of 75 members who met in an office

space that could only accommodate 50 people. Many potential new members were being turned away each Sunday. The Palmdale property consisted of a medical office building that Tabernacle had purchased and was converting into a church. Tabernacle estimated that once the conversion was completed, its Palmdale membership would grow quickly to approximately 400 members. The building had a fair market value of \$1,900,000 and liens totaling \$1,333,000.

In addition, the church owed \$525,000 to unsecured creditors, including \$300,000 to senior members of the church's Board of Trustees, who had lent money to keep the lights on. A construction company was owed \$90,000. Over the years, membership at Tabernacle declined by approximately 22%. Because tithing by members was the primary source of Tabernacle's income, it began experiencing financial hardship.

Also, a fire damaged the Pinto Building, which meant losing \$12,000 per month rental income. Because the insurance company delayed payment and objected to Tabernacle's claim for loss of income, Tabernacle was forced to retain a private adjuster, who was only partially successful. Tabernacle

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began to fall behind on its obligations. Although it held properties with significant equity, it was having difficulty meeting its obligations, including mortgage payments.

In response, Tabernacle undertook vigorous cost-cutting measures to maintain operations. In addition, Trustees voted to sell the Pinto Building, which had an "as-is" approximate fair market value of \$2.2 million.

Notwithstanding these efforts, Tabernacle fell further behind on its obligations, and in late 2006, the holder of the Inglewood second trust deed started foreclosure proceedings. For over a year, the lender delayed its foreclosure sale while Tabernacle attempted to obtain a new loan to refinance and pay off the existing loan.

In April 2008, Tabernacle learned to its shock that the second trust deed had been sold and its new owner was Bishop Williams' church, Southwest. Southwest stated its intent to proceed with a foreclosure sale of the Inglewood properties within two weeks unless Tabernacle surrendered the Inglewood properties to Southwest under a deed-in-lieu of foreclosure. Tabernacle never seriously considered this demand because it would give away \$3,500,000 of equity to Bishop Williams and inevitably lead to the demise of the Tabernacle congregation.

Tabernacle retained Weintraub & Selth, APC to file Chapter 11 to stay the foreclosure sale, preserve its substantial equity in the Inglewood properties and reorganize its financial affairs. Tabernacle's initial goal was to sell the Pinto Building in bankruptcy for a sufficient amount to satisfy the foreclosing second trust deed holder in full, reduce and restructure the first trust deed on the remaining Inglewood property,

cure all defaults on the Palmdale deeds of trust and pay unsecured claims in full.

### **PUBLIC RELATIONS ISSUES AND STRATEGY**

People are frightened by the unknown and misunderstood. Because the term "bankruptcy" paints a grim image with little hope for a positive outcome, you must reassure, persuade, and inform your audiences.

The filing of a bankruptcy petition by Tabernacle caused significant worry among church members, most of whom did not know that there had been a pending foreclosure on the Inglewood properties for more than a year. Tabernacle needed its congregants to remain active and continue to make tithings so it could pay its obligations on a going-forward basis while the bankruptcy case was pending. Rumors were rampant that Tabernacle would close or be acquired by Southwest.

Meanwhile, the Palmdale congregation worried that Inglewood's financial problems would negatively impact their healthy, growing church.

Besides writing a letter explaining the bankruptcy process to church members, counsel agreed that a more personal touch would calm the congregation. So we crafted remarks to deliver from the pulpit the next Sunday morning. We also answered questions and mingled afterwards to further reassure the members. The gist of the remarks was to explain why the bankruptcy was necessary to stop the loss of the Inglewood properties and to assure congregants the outcome would be good if everyone pitched in.

Here are some selections from those remarks along with the public relations rationale. Notice how each section contains reassuring language:

"The church has assets worth over 6 million dollars, and a creditor who is owed less than \$700,000 tried to seize all of your real estate and take them from your congregation. Bishop Johnson and your Trustees didn't let that happen. Our firm stepped in, and together we stopped them dead in their tracks."

(When setting up the issue, distill the bottom line. Don't get into too many details because you run the risk of overwhelming and confusing your audience.)

"I know bankruptcy can be a scary concept for some people. Many of you may know a person or a business who has filed a bankruptcy case, or maybe you did so yourself, and you know there is nothing scary about it. It's a process. It's one [that] takes a bit of time, but it's one that with your help and support we are going to get through and come out stronger than ever."

(Remember when you were afraid of a monster living in your room? Your parent would calmly look under the bed and in your closet and discuss what might be causing the spooky sounds. Reassuring, right? By directly addressing the fact bankruptcy can be scary, you defuse tension by allowing those who were scared to not feel guilty. This disarms the bankruptcy boogeyman and reminds people it's just a process — not a scary monster lurking in the shadows.)

"So let me tell you what is happening. The bankruptcy case stops all of the creditors. There's not going to be a foreclosure on any of the assets. Your church services and missionary programs will continue and remain completely unchanged. Your kids will come to Sunday school, and Bishop Johnson and his staff will continue all of their good works. None of that changes."

(This answers the question, "So how does this affect me?" Our brains (whether we like it or not) are always scanning for how information being given to us is relevant. By letting the members know what to expect and anticipating questions you know will be raised, you soothe nerves.)

"In the meantime, what can you do and what do you need to do to ensure success? I'd like to speak about that for a bit with reference to my religious background and experience. I'm Jewish and for several years, after being a congregant, I was asked to serve on the Board of Directors of my synagogue. That was an eye-opening experience. Before I was involved in running the synagogue, I assumed the synagogue ran itself.

"The first I learned it didn't was when our synagogue ran into a financial crisis and the Rabbi, for the first time, came out one Saturday morning and addressed the congregation, much like Bishop Johnson did a few weeks ago, and laid it on the line — we were the only source of income and if we didn't raise some money, the services and programs provided to the congregation would have to be cut.

"I remember being stunned. Stunned that what I had assumed would always be, was in danger of being lost. Stunned that what I loved and cherished — my community — was threatened. And stunned that one day it might all disappear and the people I loved seeing every Saturday, that I prayed with and learned so much with might simply be gone from my life. And why? Because none of us realized that we, the very people that made up our religious community, were its only means of support, and it needed us.

"That's the beautiful thing about a religious community and one of the

things that distinguishes it from other organizations. It really is about the people. Tabernacle House of Worship is all about you. You are the pillars that hold this church up."

(By giving insight into the speaker, you become not only relatable, but more credible. Without telling members how they should feel, you gently guide them. Your descriptive language allows the listeners to easily insert themselves into the moment and reflect on how it relates to them.)

"And here is where you come in. It's critical that you support your community financially. To keep the doors open, the lights on, the insurance and taxes paid, the teachers and staff working and the other expenses associated with running Tabernacle House of Worship, we need about \$90,000 per month. That may sound like a lot, but for a community this vibrant, affluent and of this size, it's not. My belief is on average if each person contributes around \$300 per month, we've made it. I know for some of you \$300 per month is a lot of money. And I know for others it's not and you already give more. Wherever you're at, if you can do a bit more for your church, now is the time to do it. Do it for yourself, your community and your church."

(After establishing the issue, dispelling common fears, and building credibility, it's time for the call to action. By understanding money is a touchy subject for many people, prepare for potential objections by framing "the ask" in a gracious, motivational way.)

### HOW THE STORY ENDED

Over the next year, the attorneys attended several more services. As the members saw church life was continuing as before, they became less worried. The attorneys conducted regular

calls and meetings with church Trustees so leadership was invested in the bankruptcy process and understood what was happening in court.

The Tabernacle bankruptcy case remained open for almost two years as the church's attorneys fought off efforts by Southwest's attorneys to be allowed to foreclose on the Inglewood properties. Although the original plan to sell the Pinto building wasn't feasible due to the declining real estate market in 2008-2009, eventually Tabernacle negotiated a sale of its Main Building and Auxiliary Building to another church for \$4 million — sufficient to pay off all debt on the Inglewood properties, all unsecured debt, and cure all loan defaults on the Palmdale property. The bankruptcy case was dismissed with all claims paid. Tabernacle now owned the Pinto building and Inglewood parking lots free and clear of debt, and temporarily rented new space in Inglewood for its services.

