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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

IN THE MATTER OF DETERMINING
whether there has been a violation
of the Securities Act of Washington by:

Pacific Coast Investment Co. and Raymundo
Salgado

Respondents.

Order Number S-06-121-06-CO01

CONSENT ORDER REVOKING SECURITIES
REGISTRATION AND DENYING SECURITIES
RE-REGISTRATION, REVOKING BROKER-
DEALER REGISTRATION AND DENYING
BROKER-DEALER RE-REGISTRATION AND
REVOKING SECURITIES EXEMPTIONS

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INTRODUCTION

On June 26, 2006, the Securities Division, Department of Financial Institutions, State of Washington ("Securities Division), issued Statement of Charges S-06-121-06-TO01 against Respondents Pacific Coast Investment Co. ("PCIC") and Raymundo Salgado ("Salgado"). On November 9, 2006, the Securities Division issued Amended Statement of Charges S-06-121-06-TO02 against Respondents PCIC and Salgado. Pursuant to the Securities Act of Washington, RCW 21.20, the Securities Division and Respondent PCIC do hereby enter into this CONSENT ORDER in settlement of the matters alleged herein. Respondent PCIC neither admits nor denies the Findings of Fact and Conclusions of Law stated below.

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FINDINGS OF FACT

RESPONDENTS AND THEIR REGISTRATION STATUS

1. Pacific Coast Investment Co. ("PCIC") is a Washington corporation with its principal place of business at 401 Columbia Avenue, Suite 410, Seattle, WA 98104.

CONSENT ORDER

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 2. PCIC had been registered pursuant to RCW 21.20.210 and WAC 460-33A to sell mortgage paper
2 securities as that term is defined in WAC 460-33A-015(4). The registration, number 70011404, was
3 scheduled to expire on June 30, 2006.

4 3. PCIC had been registered as a broker-dealer under RCW 21.20.040 with registration number
5 10003976, which was scheduled to expire on June 30, 2006.

6 4. Raymundo Salgado (“Salgado”) is currently a Director, CEO, President and Secretary at PCIC.
7 Mr. Salgado is presently the sole corporate officer of PCIC. Mr. Salgado had been registered as a
8 securities salesperson with registration number 20008043, which was scheduled to expire on June 30, 2006.

9 5. On May 19, 2006, PCIC filed an application for re-registration with the Securities Division
10 (“Division”), as well as a copy of its General Offering Circular dated July 1, 2006.

11 BACKGROUND

12 6. PCIC originates or acquires notes secured by deeds of trusts on real property and then resells to
13 investors fractionalized “participation” interests in those loans. PCIC registers these participation interests
14 with the Securities Division as “mortgage paper securities” under RCW 21.20.210 and WAC 460-33A.
15 Through the registration process in WAC 460-33A, PCIC becomes a “mortgage broker-dealer” as that term
16 is defined in WAC 460-33A-005(1). To use this registration process, WAC 460-33A-020 generally
17 requires that the registrant file a registration statement accompanied by a general offering circular, a
18 sample specific offering circular, and certain other documents with the Securities Division.

19 7. WAC 460-33A also sets forth rules regarding trust accounting, disbursement of investor funds,
20 timely recording the instrument securing the investors’ participation interest, fiduciary duties and conflicts
21 of interests, and other matters.

22 8. Since 2004, the Division has twice issued administrative orders against PCIC alleging failure to
23 timely record investor interests, trust accounting violations, and other matters. In Consent Orders dated

1 May 7, 2004, and November 5, 2005, PCIC agreed to cease and desist from future violations of RCW
2 21.20.010 and WAC 460-33A-055, -060, -070. See Order Numbers S-03-209-04-CO01 and S-05-073-05-
3 CO01.

4 SECURITIES DIVISION COMMENT LETTER

5 9. The Division issued a comment letter dated June 15, 2006, addressing incomplete or misleading
6 statements in PCIC's General Offering Circular. Some comments addressed incomplete disclosure about
7 prior loan performance, stale financial information, incomplete disclosure concerning management and key
8 employees, and incomplete information about conflicts of interest and related risks. As of the date of these
9 Orders, PCIC has not responded to the Division's comment letter or otherwise supplemented its
10 registration statement.

11 REAL ESTATE OWNED SALES RECOMMENDATIONS FROM PCIC

12 10. In connection with the mortgage paper securities that PCIC sells, PCIC serves as servicing agent
13 and manager for the loans and underlying properties. For some mortgage paper securities sold by PCIC,
14 borrowers have defaulted on the underlying notes. Through PCIC's efforts as manager, investors
15 subsequently acquired the real properties that had secured the investors' participation interests in the notes.
16 PCIC has recommended to investors that they sell these real estate owned ("REO") properties. Some of
17 these recommended sales involved financing by the investors through loan transactions that were brokered
18 by PCIC. Based on information provided by PCIC, it made at least three recommendations since May
19 2005 to sell properties that secured investor participation interests without providing investors all of the
20 disclosures required by WAC 460-33A-037. Omitted disclosures include a current appraisal or broker's
21 opinion of value when required by WAC 460-33A-037(2); tax assessed value; the right of investors to
22 receive a list of other investors holding an interest in the property; the right of a majority of investors to

1 remove PCIC as servicing agent; and a loan application, credit report, and financial statements for the
2 buyer. Despite investor complaints to PCIC, it continued to fail to disclose this information to investors.

3 DELAYED RECORDING OF SECURITY INTERESTS

4 11. Prior Securities Division examinations and investigations of PCIC have revealed that PCIC fails
5 to record property instruments in a timely manner, leaving the investors unsecured or vulnerable to prior
6 recorded interests. In its role as manager, PCIC sells foreclosed properties for investors. Based on
7 information provided by PCIC, in at least two transactions since May 2005, PCIC released investors'
8 interests in foreclosed properties in consideration for a note without first perfecting investors' security
9 interests in the note. PCIC states that investor interests are secured and does not disclose to investors that
10 it has not perfected their interests in the note or the related risks. In conflict with the investors' interests,
11 PCIC did not obtain consent of investors to release their property interests without having perfected their
12 security interests.

13 EXAMPLE TRANSACTIONS

14 Stambaugh

15 12. During 2005, PCIC solicited investor votes from a group of more than 50 investors to approve a
16 bid for repairs to an REO property, a Youngstown, Ohio office building known as the Stambaugh building.
17 PCIC and Salgado sent the investors a letter dated March 31, 2005. The letter lists three companies and
18 their respective bids. The lowest bid came from Property Renovation Services, a company described as
19 "an independent contractor PCIC has used in the past." PCIC and Salgado failed to disclose that Property
20 Renovation Services was owned and/or controlled by Louis Gadini, a key employee and the REO manager
21 for PCIC.

22 13. Later, PCIC and Salgado solicited investor votes to approve the sale of the Stambaugh building.
23 In letters dated November 15, 2005 and December 6, 2005, PCIC and Salgado represented that Peter

1 Pappas, a prospective purchaser of the Stambaugh building, was a qualified buyer who owned several
2 commercial buildings in Youngstown, Ohio. PCIC said that it had received financial statements showing
3 assets in excess of \$50 million and that PCIC had confirmed Mr. Pappas's net worth. Based on these
4 representations, a majority of the investors voted to approve the sale of the Stambaugh building to Peter
5 Pappas. The letter did not disclose whether Mr. Pappas had any liabilities and it did not disclose Mr.
6 Pappas's net worth. The Securities Division has reviewed all of the files that PCIC produced relating to the
7 transaction and has found no financial statements or other financial information pertaining to Peter Pappas.

8 14. After telling investors that the prospective purchaser for the Stambaugh building was Peter
9 Pappas, PCIC and Salgado sold the Stambaugh building to a different buyer, without the knowledge or
10 approval of the investors. PCIC and Salgado unilaterally approved the sale of the Stambaugh building to
11 Platia Square, LLC, an Ohio LLC with a purported net worth of \$212,500. On March 29, 2006, when
12 PCIC and Salgado sold the Stambaugh building, the purchaser, Platia Square, LLC, had no legal existence.
13 In order to finance the sale, PCIC and Salgado approved a \$1,050,000 loan from the investors to Platia
14 Square, LLC, a company that was organized on May 16, 2006. On March 29, 2006, PCIC recorded a
15 mortgage to secure the note from Platia Square, LLC to PCIC. On May 14, 2006, PCIC recorded an
assignment of mortgage to secure the investors' participation interests in the loan.

16 Oaks Motel

17 15. During 2005, PCIC solicited investor votes from a group of more than 75 investors to approve
18 the sale of a hotel and mobile home park in Longview, Washington, known as the Oaks Motel & Trailer
19 Court ("Oaks Motel"). PCIC and Salgado sent the investors a letter dated April 20, 2005. In the letter,
20 PCIC and Salgado represented that they had received a \$1,752,000 purchase offer for Oaks Motel from
21 REO Property Management, "an independent contractor with whom we have worked in the past and
22 currently help with distressed properties." PCIC and Salgado failed to disclose that REO Property

1 Management, Inc. was owned and/or controlled by Louis Gadini, a key employee and the REO manager
2 for PCIC. On June 30, 2005, PCIC sold the Oaks Motel property to REO Property Management. In order
3 to finance the purchase, REO Property Management borrowed \$1,752,000 from the investors. On July 11,
4 2005, PCIC recorded an assignment of deed of trust to secure the investors' participation interests in the
5 loan.

6 Goldstar Development

7 16. During 2006, PCIC solicited investor votes from a group of approximately 10 investors to
8 approve the sale of three lots in Longview, Washington, known as the Goldstar Development lots. In a
9 letter dated January 23, 2006, PCIC and Salgado told investors that the Goldstar Development loan had
10 originally been secured by 5 vacant lots that were appraised in 1997 at \$180,000. Two of the lots were
11 sold, with three vacant lots remaining. The letter stated that there was no interest in buying the three
12 remaining lots because they had a steep slope and the costs of developing the land had discouraged any
13 potential developers. The letter said that the City of Longview had recently issued a citation because the
14 ground was falling in and creating a public nuisance and that the potential buyer wanted to use the land as a
15 dirt landfill site. The letter stated that in the opinion of the real estate agent the land was not saleable and
16 had little or no commercial value. The letter said that PCIC had received a \$3,000 cash offer for the lots
and PCIC and Salgado recommended that the investors accept the offer.

17 17. PCIC and Salgado failed to disclose that the proposed buyer of the land was REO Property
18 Management, Inc., which was owned and/or controlled by Louis Gadini, a key employee and the REO
19 manager for PCIC. PCIC and Salgado failed to disclose that the reason the City of Longview had issued a
20 public nuisance citation to PCIC was for not clearing off the sidewalks. PCIC and Salgado failed to
21 disclose that the combined tax assessed value of the three lots was approximately \$58,000 at the time of the
offer. On January 29, 2006, PCIC and Salgado sold the lots to REO Property Management, Inc. for

1 \$3,000. REO Property Management, Inc. made improvements to the lots and sold the lots for \$100,000 on
2 April 19, 2006.

3 FAILURE TO PROVIDE REQUIRED RECORDS

4 18. For transactions involving real estate owned properties, because PCIC did not maintain adequate
5 books and records, PCIC and Salgado have been unable to provide ledgers or other records that itemize
6 separately the account of each investor. For example, in 2006, the servicing of the “Tyee” loan was
7 transferred from PCIC to a different company, Mallard Bay, LLC. PCIC and Salgado failed to provide
8 Mallard Bay, LLC with records showing which investors contributed additional funds, through cash calls,
9 over the life of the Tyee loan. PCIC and Salgado have also failed to provide the Securities Division with
10 complete accounting records that itemize the funds that were collected from income-producing REO
11 properties. In addition, PCIC and Salgado have failed to provide the Securities Division with complete
12 records that support the expenses that have been charged to investors for real estate owned properties.

13 UNDISCLOSED LITIGATION

14 19. During 2006, PCIC and Salgado failed to timely disclose to investors and to the Securities
15 Division that Philip Chesterfield, a 1/3 shareholder of PCIC, had filed a lawsuit in February 2006 against
16 PCIC and Salgado for alleged breach of contract, tortious interference with a business relationship,
17 negligent misrepresentation, fraud and defamation and was seeking to dissolve the company.

18 Based upon the Findings of Fact, the following Conclusions of Law are made:

19 **CONCLUSIONS OF LAW**

20 1. The offer or sale of notes, notes and deeds of trust, and mortgage paper securities as described
21 above constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12).
22

1 2. As set forth above in the Findings of Fact, PCIC’s general offering circular and other re-
2 registration materials are materially incomplete, which constitutes a ground for the entry of a Stop Order
3 under RCW 21.20.280(1).

4 3. As set forth above in the Findings of Fact, PCIC has willfully violated WAC 460-33A-037
5 because it recommended to investors that they sell real estate the investors owned without providing
6 required disclosures, which constitutes grounds for a Stop Order under RCW 21.20.280(2), an order
7 suspending and denying broker-dealer and salesperson registration under RCW 21.20.110(1), and an order
8 revoking exemptions under RCW 21.20.325.

9 4. As set forth above in the Findings of Fact, PCIC and Salgado have each violated RCW 21.20.010
10 because, in connection with the offer or sale of a security, they made materially false or misleading
11 statements or omissions regarding investor security interests, property values, borrower credit and financial
12 information, material litigation against the company and its officers and directors, and other matters. Such
13 conduct constitutes grounds for a Stop Order under RCW 21.20.280(2), an order suspending and denying
14 or revoking broker-dealer and salesperson registration under RCW 21.20.110(1), and an order revoking
15 exemptions under RCW 21.20.325.

16 5. As set forth in the Findings of Fact, PCIC has violated RCW 21.20.100 because PCIC has not
17 made, kept, and preserved records as required under WAC 460-33A-115 and -120. Such conduct
18 constitutes grounds for a Stop Order under RCW 21.20.280(2), an order suspending and denying or
19 revoking broker-dealer registration under RCW 21.20.110(1), and an order revoking exemptions under
20 RCW 21.20.325.

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1 **CONSENT ORDER**

2 Based upon the foregoing:

3 IT IS AGREED AND ORDERED, under the authority of RCW 21.20.280(1) and (2), that the
4 securities registration for PCIC, suspended on June 28, 2006, is revoked on the date of entry of this
5 Consent Order.

6 IT IS FURTHER AGREED AND ORDERED, under the authority of RCW 21.20.280(1) and (2),
7 that PCIC's re-registration application is denied.

8 IT IS FURTHER AGREED AND ORDERED, under the authority of RCW 21.20.110(1), that
9 PCIC's broker-dealer registration, suspended on June 28, 2006, is revoked on the date of the entry of this
10 Consent Order.

11 IT IS FURTHER AGREED AND ORDERED, under the authority of RCW 21.20.110(1), that
12 PCIC's broker-dealer re-registration application is denied.

13 IT IS FURTHER AGREED AND ORDERED that PCIC shall not make application for nor be
14 granted a broker-dealer license from the date of entry of this Consent Order by the Securities
15 Administrator.

16 IT IS FURTHER AGREED AND ORDERED, under the authority of RCW 21.20.325, that the
17 exemptions from registration in RCW 21.20.320(1), (5), (8), (9), (11), and (17) are revoked with respect
18 to securities to be offered or sold by PCIC or any affiliates, except that the exemption RCW
19 21.20.320(1) is available to PCIC to conduct the offer and sale of certain existing participation interests
20 so long as the offer and sale are: conducted in compliance with WAC 460-44A-506, made only to
21 accredited and/or sophisticated investors that are represented by attorneys or who are attorneys, and such
22 investors shall, prior to sale, be provided specific disclosure regarding the transaction so as not to violate

1 RCW 21.20.010, and, to the extent applicable the transactions will comply with all state and federal
2 securities laws.

3 IT IS FURTHER AGREED that the Securities Division has jurisdiction and authority to enter this
4 Consent Order.

5 IT IS FURTHER AGREED that in consideration of the foregoing, PCIC waives its right to a
6 hearing in this matter and to judicial review of this order pursuant to RCW 21.20.440 and Chapter 34.05
7 RCW.

8 WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.

9
10 SIGNED this 6th day of December, 2006.

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13 Signed by:
14 Pacific Coast Investment Co.

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16 _____/s/_____
Raymundo Salgado, President

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18 _____/s/_____
19 Jack Orr, Attorney for Pacific Coast Investment Co.

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SIGNED and ENTERED this 19th day of December, 2006.

Michael E. Stevenson

MICHAEL E. STEVENSON
Securities Administrator

Approved by:

Presented by:

Martin Cordell

Tyler Letey

Martin Cordell
Chief of Enforcement

Tyler Letey
Financial Legal Examiner