

# Jercich fails to show at hearing

By NANCY BARR  
STAFF WRITER

When the clerk in federal bankruptcy court in San Jose called the George Jercich case yesterday, a flurry of attorneys approached the podium, but Jercich was nowhere to be found.

Real estate and mortgage broker George Jercich, 49 and a former Watsonville resident, is now wanted on a \$150,000 arrest warrant charging him

with 95 counts of grand theft, conspiracy to commit grand theft and violations of the Corporations Code. The criminal complaint was filed jointly yesterday by the district attorneys of Santa Cruz and Monterey counties.

Criminal complaints have also been filed against six of Jercich's former employees.

Until 1986, Jercich operated Carmel Financial Services, with offices in Carmel and

Aptos. He arranged loans for real estate deals or developments by soliciting investments on which he promised a return of between 16 and 19 percent. Jercich also operated Pajaro Valley Securities Inc., Security Escrow Company and George Jercich Inc.

Jercich is alleged to have commingled and misappropriated money from his investors, leaving behind as many as 200 victims. According to Santa Cruz County District Attorney

Art Danner, investigators have determined that more than \$1.9 million was missing from the trust funds set up by Jercich.

Many people invested their life savings with Jercich, hoping to assure a secure retirement, based on the high return Jercich promised. While some investors received some payments on their investments, others received nothing after putting down large sums of money with Carmel Financial Services.

The bankruptcy court was to hold a hearing yesterday on whether to "discharge" Jercich's debt, which would mean he is no longer liable for the debt he accumulated before he filed for bankruptcy in 1986.

Attorneys representing Jercich's creditors were in court to protest such an absolution of liability. Also present was Assistant Santa Cruz County District Attorney Mike Barton, who said he was also trying to prevent the discharge on behalf

of all Jercich's victims.

Because of Jercich's absence, the judge postponed the hearing until May 23.

While the state can still pursue the criminal complaint against Jercich, a "discharge" would preclude any of the creditors from ever recouping what they lost.

Jercich's financial scheme first came to light in 1986, when

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struggle. Further details were not immediately available.

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the state Department of Real Estate investigated complaints it had received from Jercich's clients. The state agency was set to move against Jercich, filing a notice to cease and desist, when Jercich filed a Chapter 11 bankruptcy petition, which would have allowed him to reorganize his finances and come up with a plan for dealing with creditors.

A judge has since converted it to a Chapter 7 bankruptcy, meaning Jercich was found to be broke and his assets would have to be liquidated.

By filing for bankruptcy, he effectively protected himself from any action by the state real estate officials.

Bankruptcy does not, however, protect against a criminal investigation. The criminal investigation has been pursued for the last 18 months by the district attorneys of both Santa Cruz and Monterey counties.

That investigation culminated with yesterday's filing of the criminal complaint against Jercich.

Barton explained that Jercich would form a group of investors to, for instance, raise enough money to pay for a development on a piece of property. The investors would be under the impression their money was being used to pay off the loans on the property, and that in return, they would get the first deed of trust on the property.

But what happened in many cases, Barton said, was that the money from that group of investors was diverted to some other project, and the loans on the development were never paid off. This left the group of investors with only a second or third deed of trust on a piece of property that was now encumbered beyond its value.

Jercich also allegedly would put together concurrent loan

packages on the same property, so that two separate groups of investors were putting their money into the same property, unaware of the other group. Each group might put up as much as the property was worth, but their loans combined together were more than the value of the property. This again meant the property was encumbered for more than it was worth.

Barton and an investigator from his office were hoping to arrest Jercich after the court hearing yesterday, but Jercich wasn't there. Barton said he told Jercich's attorney, S. Gary Varga, of Monterey, that Jercich should turn himself in before Thursday, when arraignment is scheduled in Salinas Municipal Court. As of this morning, Jercich had not yet turned himself in.

Although the warrant for Jercich's arrest lists his address as Squaw Valley, officials say they think he has been staying in the Fresno area.

Arrest warrants were also issued for:

—Megan Purdy, 65, of San Jose; Richard Dziedzic, 51, of Monterey; Brian K. Smith, 41, of Sunnyvale; and Catherine Melhem, 32, of Monterey, all former account executives for Jercich.

—Marguerite Richardson, 36, of Mount Hermon, manager of Jercich's Security Escrow Company.

—Mary Rutledge, 48, who is listed at the same Squaw Valley address as Jercich, and who worked as his office manager.

All six, Barton said, either knew or should have known what was happening with the investors' money. All are scheduled for the Thursday afternoon arraignment and are being notified they should turn themselves in before then.

Jercich could face a maximum of seven years in state prison if convicted.