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Despite orders, Jercich continued business

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Sentinel Staff Writer

In the eight months since a state audit found \$1.3 million missing from his companies' trust accounts, various government agencies have tried to close George Jercich's real estate and loan brokerage businesses for a thorough examination.

But Jercich, a longtime Watsonville businessman, has continued to transact business in spite of orders from the state Department of Real Estate, the state Attorney General's Office and the federal Bankruptcy Court demanding that he stop.

A "desist and refrain" order filed by the Department of Real Estate April 25 ordered Jercich to stop soliciting business and selling promissory notes. The order also forbade Jercich from spending investors'

trust funds on anything other than payments to the investors.

A May 30 temporary restraining order filed by the attorney general further ordered Jercich to stop withdrawing money from any bank account, spending any money, or selling, transferring or encumbering any property without a court order.

And a federal Bankruptcy Court order July 8 ordered Jercich divested of all control of company bank accounts, according to Deputy Attorney General James Cuneo.

Yet advertisements for Carmel Financial Services, a Jercich company, were aired on KMFO radio until June 7.

As recently as June 10, two Jercich companies completed a loan transaction, and filed a deed of trust with the Monterey Recorder's Office.

And money from trust accounts was being spent as recently as last week for improvements on several properties, according to former employees of Jercich.

The properties being improved include Rancho de los Padres, where Jercich houses racehorses, and the \$680,000 Monterey home where Jercich now resides rent-free, according to Charlie Gibson, who until early July worked on a Jercich construction crew.

Jercich's attorney, S. Gary Varga, did not confirm or deny any of these actions, but asserts that neither he nor his client have violated any laws.

Varga claims that the state orders have never been valid, and even if they were, they would be pre-empted by federal authority since June 6, when Jercich filed for protection under Chapter 11 bankruptcy.

"Our position is that the orders are effective," said Cuneo. "Jercich has maintained all along that the orders were not valid as a matter of law, but has claimed that he has been obeying them. It was upon that basis (that the orders were being obeyed) that the Bankruptcy Court appointed an examiner instead of appointing a trustee to take control."

A trustee appointed by the Bankruptcy Court would have the power to liquidate the business if he or she felt it was necessary. An examiner makes recommendations to the Bankruptcy Court after conducting an examination of the books.

"If there had been any indication that they weren't obeying the orders, we would have immediately gone to court and sought to have a trustee appointed," said Cuneo.

Varga claims that the cease and refrain order was not served to his client until June 10, more than six weeks after the order was filed. "I can't say we weren't aware of (the cease and refrain order)," said Varga, "but it's not effective until it's served."

Varga also claimed that his client was not given a hearing within five days of the temporary restraining order as required by law. "We deny that the temporary restraining order has any legal standing at all, and never did," he said.

According to Cuneo, the desist and refrain order was sent by certified mail within five days of filing, and that the hearing for the temporary restraining order was held within five court days, but was waived by Jercich, who filed for Chapter 11

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bankruptcy instead.

According to Varga, recent business transactions taken to prevent foreclosure on a property were approved by attorney James Baron, the examiner appointed by the Bankruptcy Court.

Baron denied that he had approved any transactions.

"I have approved nothing," said Baron. "I've had no discussion with anyone regarding that property, or any other."

Appointed by the court July 8, Baron began examining Jercich's books and bank accounts Monday in an attempt to clear up the companies' tangled business transactions.

Baron is expected to present a full report to the Bankruptcy Court Aug. 15 unless he finds that the business

is in violation of the law, or that investors' money is at risk. In that case, Baron would request the Bankruptcy Court to take action sooner.

Jercich's companies include Carmel Financial Services, Aptos Development Company, and Pajaro Valley Securities. Jercich has been accused by the attorney general of depositing investors' trust funds into general business bank accounts, and of misappropriating \$1.3 million of investors' money.

Carmel Financial Services had loans totaling more than \$20 million, and 639 investors on the books at the time of the state audit.

"The business is a giant whirlpool of money," said Gibson. "Whose is what, nobody knows. When somebody needed money they'd just pull it out of a loophole somewhere."

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