

Financier: 'They butchered a live business'

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APTOS — One day after losing final control of his bankrupt businesses, financier George Jercich was still vowing that only he can put things back together again.

Jercich, in a rare interview, said Thursday that bankruptcy trustees had mishandled his companies, resulting in losses to creditors.

An attorney working with the trustees said there is very little money left in the Jercich businesses, however, and that the trustees are doing the best they can in a chaotic situation. Thirty-one lawsuits brought by creditors against the trustees are pending, said the attorney.

Wednesday in San Jose, a U.S. Bankruptcy Court judge granted the trustees' request to convert Jercich's Chapter 11 filing to Chapter 7. In a Chapter 11

bankruptcy, a debtor, often under the supervision of a trustee, is given time to reorganize his business. Under a Chapter 7, the trustee normally liquidates all assets and pays off creditors with whatever funds are collected.

The Aptos-based Jercich's troubles came to light when a state Department of Real Estate audit revealed \$1.3 million missing from investors' trust accounts. Jercich, a Realtor and mortgage loan broker, owned

and operated a number of companies, including Carmel Financial Services, which, at the time of the audit, had more than \$20 million in loans from 639 investors on its books. Many of the investors live in Santa Cruz County.

Michael Isaacs, representing the bankruptcy trustee, estimated the current cash on hand from Jercich's businesses at approximately \$260,000.

"If they do not hire me back as a consultant, an additional \$3 million to \$5 million will be lost," said Jercich.

He said a mortgage-loan brokerage is an exceedingly complex business, but that Trustee Jerome Robertson and attorney Issacs have not put the time in to learn it.

Of Wednesday's court hearing, Jercich said, "They literally butchered a live business." He said his companies have "in excess of \$2 million in equities right now. I would have liked to stay on to convert them to cash." The cash, he said, would have been used to repay investors.

"They're hell-bent to fast-track this thing into the slaughterhouse," Jercich said, adding only he could "tell where the money went. I can probably unwind about 97 percent of that money."

He took particular offense at comments during Wednesday's court hearing made by Isaacs about Jercich's girlfriend, Mary Rutledge, and about an 18-acre property Jercich owned in Clear Lake.

Isaacs had said "tremendous pressure" had been put on the trustees to sell the Clear Lake property to Rutledge for \$400,000. But, Isaacs noted, Jercich was now valuing the property at \$1.4 million.

Jercich said Thursday that Rutledge's \$400,000 offer was made prior to a use permit being granted for a 127-unit mobile-home park on the property. The use permit, he said, has caused the value of the property to jump to \$1.4 million.

"She offered what it was (then) worth," said Jercich about Rutledge's initial offer. Rutledge formed a corporation to develop the property and signed a contract with Jercich to purchase it, he said. She then spent her own money and took considerable time in obtaining the permit.

Jercich said he was "naive" because "I thought the trustees would do one of two things — either put up the money themselves (for the property) or honor the contract."

Isaacs said Thursday, "I don't know what the property is worth. I doubt it is (worth) \$1.4 million." He said he did not believe it would increase in value by 400 percent because of the use permit, because the permit would require additional money and time to be put into the property.

Issacs said the trustees had an attorney present at the Clear Lake use-permit hearing. He said to date he has not seen an appraisal or title report on the parcel.

Only two Jercich properties "appear to be" unencumbered with liens and mortgages in excess of their value, said Isaacs — the Clear Lake parcel and a home owned by Jercich and his former wife, Dorothy. "The trustee owns George's half," said Issacs, adding that Dorothy Jercich has agreed to sell the home.

He said one Jercich property is valued by a bank at \$528,000, but that the property is actually encumbered with "lots" of liens and more than \$750,000 owed to secured creditors.

Jercich listed a "cash bond" of \$85,000 as another asset that could be used to pay off creditors, but, said Isaacs, the bond turned out to be an appeal bond, purchased after a court lawsuit was lost by Jercich.

"We've done the best job we can," said Isaacs, "with millions of dollars missing and screwed-up records. We didn't create this."

Isaacs repeated an assertion he made Wednesday in court — that Jercich had requested in writing a fee of \$6,400 a month for consulting with the trustees.

"What do we pay him with?" asked Isaacs.

He said he still does not know the total amount of debt owed to creditors by Jercich and his various enterprises. "It's a real lot of debt," said Isaacs.

Isaacs noted that the state Attorney General's Office had filed a civil suit last June seeking to remove Jercich from control of his business empire and that a committee of creditors appeared Wednesday in court supporting the trustees' request to strip any remaining control of his companies away from Jercich.

Jercich in Thursday's interview also charged the trustees with creating a "super account" out of which he claimed they will pay themselves at the expense of creditors.

The trustees have never made it clear how much they plan to charge for their work, Jercich said. Loan payments and proceeds, plus equity funds are going into this "super account," he said, which has been made "purposely vague" so that the trustees can take out their fees.

He accused the trustees of misleading creditors by not informing them of the account and its true purpose. The Attorney General's Office last June requested that Jercich investors continue to make loan payments into an account set up by the bankruptcy court. "That was wrong," Jercich said. "They should have opened their own trust accounts."

Isaacs said Jercich was "inaccurate" about a "super account."

He said the trustees currently have collected approximately \$230,000 in trust funds, and another \$30,000 in rents. A general account holds another "couple thousand," said Isaacs.

In addition, said Isaacs, "no trustees or attorneys have been paid — we may never get paid, because there may never be any money."

The only Jercich creditors who have been paid so far, said Isaacs, have been Jercich's own attorneys.

He said trustees have spent "hundreds of hours" trying to unravel Jercich's business affairs and in defending themselves against 31 lawsuits brought by creditors against the Jercich estate.

"I assure you but for having the trustee appointed, the court would have been closing the door (foreclosing)" on Jercich's properties, Isaacs said. All the lawsuits have been continued to Dec. 18, he said, at which time he expects foreclosure requests to be granted.

The Jercich loan portfolio has been turned over to a private company, Mortgage Loan Servicing, Isaacs said.

"Creditors will have to act to protect themselves," said Isaacs, adding that because many of the Jercich properties have little or no assets, "they may not want to act."

REFERENCE