



1 WAC 460-33A. As part of the registration process, WAC 460-33A-020 generally requires that  
2 the registrant file a registration statement accompanied by a general offering circular, a sample  
3 specific offering circular, and certain other documents with the Securities Division, but not  
4 necessarily that the registrant file each specific offering circular with the Division.

5 5. Generally, WAC 460-33A-055 requires a mortgage broker-dealer to hold investor  
6 funds in a trust account with a qualifying financial institution, a registered escrow agent, or  
7 another independent escrow agent acceptable to the director.

8 6. In a letter dated May 22, 1987, the Securities Division gave PCIC a waiver, subject  
9 to the Securities Division's later review, that allowed PCIC to hold investor funds in its own  
10 trust account (hereinafter, the "trust account"). The waiver was granted because PCIC  
11 represented that it was subject to HUD auditing procedures and that its escrow department  
12 supervisor had a limited practice permit issued by the Washington Supreme Court. Pursuant to  
13 the waiver, PCIC used its own trust account to hold investors' funds.

14 7. The Securities Division conducted on-site examinations of PCIC in December 2000  
15 and January 2003. Both examinations disclosed that PCIC made multiple disbursements from  
16 its trust account prior to recording investors' interests in the underlying real property. The  
17 January 2003 examination determined that PCIC held numerous investors' funds in trust for  
18 more than 60 days. Following both examinations, the Securities Division gave PCIC notice of  
19 the deficiencies. PCIC responded with certain proposed new practices to avoid future problems.

20 8. The Securities Division conducted an on-site examination in November 2003, again  
21 discovering that PCIC had disbursed funds from the trust account prior to recording investor  
22 interests and had held funds in the trust account for more than 60 days.

1 NATURE OF THE OFFERINGS

2 9. In its general offering circular dated January 24, 2003, PCIC represented that it  
3 would deposit investor funds in its trust account, only removing them when, among other  
4 conditions, the assignment of the participation interests has been recorded in the appropriate  
5 county records. The general offering circular also stated that investor funds would not be held  
6 in the PCIC trust account for more than 60 days and would be returned to investors on the 61st  
7 day from deposit. PCIC filed the general offering circular with the Securities Division.  
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9 10. On or around February 12, 2003, PCIC offered, through a specific offering circular,  
10 participation interests in a \$2,070,000 loan to Evanston Properties, Inc. (loan number 203001).  
11 A mortgage on a shopping center and mobile home park in Charleston County, South Carolina,  
12 secured the loan. At least 98 investors acquired participation interests in this loan. The  
13 approximately three-year, 12-percent interest per annum loan calls for monthly payments to  
14 PCIC of \$20,700. PCIC delivered a specific offering circular, along with the general offering  
15 circular, to investors. PCIC was not required to file and did not file this specific offering  
16 circular with the Securities Division.  
17

18 11. On or around March 7, 2003, PCIC offered, through a specific offering circular,  
19 participation interests in a \$3,200,000 loan to Evanston Properties, Inc. (loan number 202090).  
20 A mortgage on commercial buildings in Berkeley and Dorchester Counties in South Carolina  
21 secured the loan. At least 149 investors acquired participation interests in this loan. The  
22 approximately three-year, 12-percent interest per annum loan calls for monthly payments to  
23 PCIC of \$32,000. PCIC delivered a specific offering circular, along with the general offering  
24 circular, to investors. PCIC was not required to file and did not file this specific offering  
25 circular with the Securities Division.  
26

1 NATURE OF PCIC'S CONDUCT

2 12. For loan number 203001, PCIC held 40 investors' funds in its trust account for  
3 longer than 60 days. For loan number 202090, PCIC held 9 investors' funds in its trust account  
4 for longer than 60 days. These funds were not disbursed or returned to the investors on the 61st  
5 day from deposit into the trust account.

6 13. PCIC disbursed from its trust account the funds of 75 investors in loan 203001  
7 before recording assignments of mortgage in Charleston County, South Carolina, reflecting the  
8 investors' participation interests. PCIC also disbursed the funds of 90 investors in loan 202090  
9 prior to recording their assignments of mortgage in Berkeley and Dorchester Counties, South  
10 Carolina. As a result, for a period of time these investors neither had funds in the trust account  
11 nor a perfected security interest in the underlying real property until the assignments were  
12 recorded.  
13

14 JANUARY 29, 2004, SECURITIES DIVISION ORDER

15 14. On January 29, 2004, based on the above-described facts, the Securities Division  
16 summarily revoked the waiver that had allowed PCIC to maintain its own trust account and  
17 summarily ordered PCIC to obtain, within five business days of receiving the order, an  
18 independent escrow agent for handling all investor funds. The Division also entered a statement  
19 of charges regarding these facts, giving PCIC notice of its intent to suspend or revoke PCIC's  
20 securities and broker-dealer registrations and to impose a \$50,000 fine against PCIC. PCIC was  
21 given the right to request a hearing in this matter. This order was served on PCIC on or before  
22 February 4, 2004.  
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24 15. On February 11, 2004, the Securities Division sent PCIC a letter indicating that  
25 PCIC should refrain from offering any securities until it had complied with the summary order  
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1 regarding the requirement for an independent escrow agent. The Division instructed PCIC to  
2 immediately submit all open specific offering circulars to the Registration section of the  
3 Securities Division. The Division also reminded PCIC that it should amend its registration  
4 materials to reflect material changes in the terms of the investment and to disclose the existence  
5 of the Division's recent order. The Division sent a second letter on March 29, 2004, again  
6 reminding PCIC of these obligations.

7  
8 16. On or around February 20, 2004, PCIC provided to the Securities Division a signed  
9 escrow agreement with Cowlitz Bank, which agreed to hold PCIC investor funds in an  
10 independent escrow account (hereinafter, the "escrow account"). PCIC also acknowledged that  
11 the Division required it to submit proof that the old trust account had been closed, indicating  
12 that this proof would be forthcoming. PCIC did not submit this proof until April 27, 2004.

13 SUBSEQUENT OFFERINGS

14 17. Since the Securities Division's January 29, 2004, order against PCIC, PCIC has  
15 made, by specific offering circulars, at least 79 offers of participation interests in four different  
16 loans. These loans include the loan numbers 201018, 204008, 204003, and 204009.

17 18. From these 79 offers and offers made prior to January 29, 2004, PCIC sold at least  
18 \$1.4 million in mortgage participation interests.

19 19. After January 29, 2004, deposits from twenty one investors, representing at least  
20 \$1.2 million, were deposited to the old PCIC trust account and not the new escrow account with  
21 an independent escrow agent.

22 20. At the time some of these offers and sales were made, PCIC had not filed the  
23 specific offering circulars with Securities Division nor amended its general offering circular to  
24 disclose the Securities Division's January 29, 2004, order or to disclose the location of the new  
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1 escrow account. PCIC did not disclose to investors the entry of the January 29, 2004 Summary  
2 Cease and Desist Order against PCIC and the requirement to deposit investor funds into an  
3 independent escrow account.

4 21. PCIC has also sent a document entitled “preliminary specific offering circular” to at  
5 least 6 persons, accompanied by a cover letter. These documents were used to call attention to  
6 and solicit possible investors in PCIC loans. The cover letter lists the loan amount in large font,  
7 the interest rate directly below in exceptionally large font, and the following phrase in all  
8 capitals directly below the rate: “FOR THE CONSERVATIVE INVESTOR.” The  
9 “preliminary specific offering circular,” or “fact sheet,” is a one-page document that briefly lists  
10 certain information about the loan, such as the borrower, the borrower’s credit scores, and the  
11 use of proceeds for the investment.  
12

13 22. PCIC did not, at least 5 days prior to disseminating the cover letter or preliminary  
14 specific offering circular, file these advertising materials with the Securities Division.

15 23. In January 2004 PCIC delivered specific offerings circulars to (a) persons holding  
16 participation interests in loan number 201018 for the purpose of offering them the opportunity  
17 to renew their participation investments in the loan and (b) to other persons for the purpose of  
18 offering them participation interests in the loan. The specific offering circular used by PCIC in  
19 offering the participation interests to the existing and new investors had originally been  
20 prepared in 2000 when participation interests in loan 201018 were first offered. The specific  
21 offering circular contained information about the assessed value of the property securing the  
22 loan which information was from 1999. It did not contain updated information about the  
23 assessed value of the property for the year 2003. The assessed value of the property in 2003  
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1 was less than its assessed value in 1999. PCIC used the 1999 rather than the 2003 assessed  
2 value of the property to calculate the loan to value ratio presented to investors

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

4 **CONCLUSIONS OF LAW**

5 1. The offer or sale of participation interests described above constitutes the offer or  
6 sale of a security as defined in RCW 21.20.005(10) and (12).

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8 2. As set forth in Findings of Fact 7 through 13, PCIC violated RCW 21.20.010 by  
9 making untrue statements of material fact, or omitting to state material facts necessary in order  
10 to make the statements made not misleading, including but not limited to statements about how  
11 long PCIC would hold investor funds in its trust account and the conditions upon which PCIC  
12 would disburse them.

13 3. As set forth in Finding of Fact 12, PCIC violated WAC 460-33A-055 by  
14 maintaining investors' funds in its trust account for longer than 60 days without disbursing the  
15 funds or returning them to the investor on the 61st day from deposit in the account.

16 4. As set forth in Finding of Fact 13, PCIC violated WAC 460-33A-060 and WAC  
17 460-33A-070 by failing to record assignments of mortgage in the appropriate counties before  
18 disbursing any investor funds held in the trust account.

19  
20 5. As set forth in Findings of Fact 14 through 20 and 23, PCIC violated RCW  
21 21.20.010 by making untrue statements of material fact, or omitting to state material facts  
22 necessary in order to make the statements made not misleading, including but not limited to  
23 failing to adequately disclose the Securities Division's January 29, 2004, order, the location of  
24 the new trust account and failed to disclose to investors the proper assessed value to loan ratio  
25 of loan number 201018.





1 IT IS FURTHER AGREED that Respondent, Pacific Coast Investment Company, shall  
2 file all specific offering circulars, including all appendices, with the Registration section of the  
3 Securities Division until notified in writing that such filings are no longer necessary.

4 IT IS FURTHER AGREED AND ORDERED that Respondent, Pacific Coast  
5 Investment Company, shall be liable for and pay a fine of \$100,000.

6 IT IS FURTHER AGREED that Respondent, Pacific Coast Investment Company, shall  
7 be liable for and pay \$8,000 in investigative costs.

8 IT IS FURTHER AGREED that Respondent, Pacific Coast Investment Company, shall,  
9 within 30 days of the entry of this order, provide a copy of this order with the amended general  
10 offering circular and the cover letter reviewed by the Securities Division to each investor in the  
11 loan numbers 204008, 204003, and 204009.  
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13 IT IS FURTHER AGREED that Respondent, Pacific Coast Investment Company, shall,  
14 within 30 days of the entry of this order, provide to each investor in loan 201018 a copy of this  
15 order with the amended general offering circular, the revised specific offering circular and the  
16 rescission offer reviewed by the Securities Division.

17 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this  
18 Order.  
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20 IT IS FURTHER AGREED that in consideration of the foregoing Respondent, Pacific  
21 Coast Investment Company, waives its right to a hearing in this matter and judicial review of  
22 this order.

23 IT IS FURTHER ORDERED that in consideration of the foregoing the Securities  
24 Division hereby vacates Order number S-03-209-03-SC01.  
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