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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-CO02

CONSENT ORDER DENYING  
SALESPERSON RE-REGISTRATION,  
SUSPENDING LICENSE, BANNING AS  
PRINCIPAL, AND IMPOSING A FINE

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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 Raymundo Salgado do hereby enter into this CONSENT ORDER in settlement of the matters alleged herein. Respondent Salgado 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.



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.

### 12 EXAMPLE TRANSACTIONS

#### 13 Stambaugh

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

21 13. Later, PCIC and Salgado solicited investor votes to approve the sale of the Stambaugh building.  
22 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  
17 and PCIC and Salgado recommended that the investors accept the offer.

18 17. PCIC and Salgado failed to disclose that the proposed buyer of the land was REO Property  
19 Management, Inc., which was owned and/or controlled by Louis Gadini, a key employee and the REO  
20 manager for PCIC. PCIC and Salgado failed to disclose that the reason the City of Longview had issued a  
21 public nuisance citation to PCIC was for not clearing off the sidewalks. PCIC and Salgado failed to  
22 disclose that the combined tax assessed value of the three lots was approximately \$58,000 at the time of the  
23 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).  
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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 that Raymundo Salgado’s salesperson registration was suspended  
4 on June 28, 2006, expired on June 30, 2006, and that his salesperson re-registration application submitted  
5 on May 19, 2006 is denied.

6 IT IS FURTHER AGREED AND ORDERED that Raymundo Salgado shall not make application for  
7 nor be granted a securities salesperson, broker-dealer, investment adviser or investment adviser  
8 representative registration for nine months from the date of entry of this Order.

9 IT IS FURTHER AGREED AND ORDERED that Raymundo Salgado shall be subject to a fine in  
10 the amount of Twenty Thousand Dollars (\$20,000) and shall pay this amount on or before the date of  
11 entry of this Consent Order.

12 IT IS FURTHER AGREED AND ORDERED that Raymundo Salgado shall not be an officer, or  
13 director, or partner, or managing member of an LLC, or an equity owner (10% or more), or otherwise be  
14 involved in the control, policy-making functions or supervision of individuals of a broker-dealer,  
15 investment adviser or mortgage paper securities issuer for a period four years from the date of entry of  
16 this Order.

17 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Order.

18 IT IS FURTHER AGREED that in consideration of the foregoing Raymundo Salgado waives his  
19 right to a hearing in this matter and to judicial review of this order pursuant to RCW 21.20.440 and  
20 Chapter 34.05 RCW.

21 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

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SIGNED this 22<sup>nd</sup> day of November, 2006.

Signed by:

\_\_\_\_\_/s/\_\_\_\_\_  
Raymundo Salgado

Approved for entry by:

\_\_\_\_\_/s/\_\_\_\_\_  
Greg Cavagnaro, attorney for Raymundo Salgado

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SIGNED and ENTERED this 11<sup>th</sup> day of December, 2006

*Michael E. Stevenson*

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MICHAEL E. STEVENSON  
Securities Administrator

Approved by:

*Martin Cordell*

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Martin Cordell  
Chief of Enforcement

Presented by:

*Tyler Letey*

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Tyler Letey  
Financial Legal Examiner

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**APPENDIX**

For the purposes of this Consent Order, the term "officer" shall mean an issuer's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the issuer in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the issuer. Officers of the issuer's parent(s) or subsidiaries shall be deemed officers of the issuer if they perform such policy-making functions for the issuer. In addition, when the issuer is a limited partnership, officers or employees of the general partner(s) who perform policy-making functions for the limited partnership are deemed officers of the limited partnership. When the issuer is a trust, officers or employees of the trustee(s) who perform policy-making functions for the trust are deemed officers of the trust.