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FILED

FEB 15 2017

BUREAU OF REAL ESTATE

By John Aguirre

8 **BEFORE THE BUREAU OF REAL ESTATE**

9 **STATE OF CALIFORNIA**

10 * * *

11 In the Matter of the Accusation of)

No. H-04876 SD

12 COASTAL CALIFORNIA FUNDING)
13 GROUP INC and)
14 C. CRAIG CECILIO,)
15 individually and as designated officer)
16 of Coastal California Funding Group Inc,)

ACCUSATION

16 Respondents.

17 The Complainant, Veronica Kilpatrick, a Supervising Special Investigator of the
18 State of California, for cause of Accusation against COASTAL CALIFORNIA FUNDING
19 GROUP INC and C. CRAIG CECILIO, individually and as former designated officer of Coastal
20 California Funding Group Inc alleges as follows:

21 1.

22 The Complainant, Veronica Kilpatrick, a Supervising Special Investigator of the
23 State of California, makes this Accusation in her official capacity.

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All references to the "Code" are to the California Business and Professions Code and all references to "Regulations" are to Title 10, Chapter 6, California Code of Regulations.

LICENSE HISTORY

3.

C. CRAIG CECILIO

A. Respondent C. CRAIG CECILIO ("CECILIO") is presently licensed and/or has license rights under the Real Estate Law (Part 1 of Division 4 of the Code) as a real estate broker ("REB"), Bureau of Real Estate ("BRE" or "Bureau") license ID 01322708.

B. CECILIO was originally licensed by the Bureau as a real estate salesperson ("RES") on or about October 10, 2002, and as a REB on or about May 5, 2004.

C. CECILIO's BRE mailing and main office address of record are the same: 600 W. Broadway, Suite 1420, San Diego, CA 92101.

D. According to BRE records to date, CECILIO has no current DBAs under his BRE license and CECILIO is the designated officer ("D.O.") for COASTAL CALIFORNIA FUNDING GROUP INC until his officer license affiliation expires on November 11, 2017.

E. CECILIO's BRE license will expire on May 4, 2020.

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COASTAL CALIFORNIA FUNDING GROUP INC

A. Respondent COASTAL CALIFORNIA FUNDING GROUP INC ("CCFGI") is presently licensed and/or has license rights under the Real Estate Law (Part 1 of Division 4 of the Code) as a real estate corporation ("REC"), license ID 01520017.

B. CCFG I was originally licensed by the Bureau on or about November 12, 2005.

C. CCFG I's mailing and main office address of record is the same as that of CECILIO.

1 D. According to BRE records to date CCFGI's designated officer of record is
2 CECILIO (until his license affiliation expiration on November 11, 2017); CCFGI maintains two
3 (2) current DBAs: CCFG, Inc. (active as of February 11, 2010) and CCFG Investments (active as
4 of May 27, 2011).; and CCFGI employs two (2) RES.

5 AUDIT OF COASTAL CALIFORNIA FUNDING GROUP INC

6 (SD 150019)

7 5.

8 On February 4, 2016, the Bureau completed an audit examination of the books
9 and records of Respondent CCFGI pertaining to the mortgage loan activities described in
10 Paragraph 7, below, which require a real estate license. The audit examination covered a period
11 of time beginning on December 1, 2014 and ending on November 30, 2015 ("audit examination
12 period"), and was performed between December 14, 2015 and January 14, 2016 ("field work
13 period"). The final report of February 4, 2016 revealed violations of the Code and the
14 Regulations as set forth in the following paragraphs, and more fully discussed in Audit Report
15 SD 150019.

16 7.

17 CCFGI's Business Activities & Corporate Structure

18 A. At all times mentioned in San Diego, California, Respondent CCFGI acted as
19 a real estate broker, and ordered, caused, authorized or participated in licensed activities within
20 the meaning of: Code Section 10131(d), by soliciting borrowers or lenders for or negotiating
21 loans or collecting payments or performing services for borrowers or lenders or note owners in
22 connection with loans secured directly or collaterally by liens on real property or on a business
23 opportunity ("mortgage loan activities").

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1 B. According to the BRE's licensing records of December 14, 2015, CCFGI had
2 three (3) fictitious business names: CCFG, Inc.; CCFG Investments; and Coastal La Jolla
3 Funding" and employed three (3) licensed employees.

4 C. According to CECILIO, CCFGI was engaged in negotiating hard money loans
5 for borrowers and private investors, and during the audit period, closed one hundred nine (109)
6 non-institutional loans with private investor's funds totaling about \$36.7 million for two hundred
7 ten (210) investors. Included in these loan transactions were forty-eight (48) multi-lender loan
8 transactions valued at \$17.6 million. CCFGI did not perform the escrows on any of these loan
9 transactions; escrows related to the hard money loans were handled by independent escrow
10 companies. According to CECILIO, all of the hard money loans negotiated were for investment,
11 construction, and rehabilitation purposes, and were non-owner occupied.

12 D. CCFGI also performed loan servicing activities for borrowers and lenders. As
13 of November 30, 2015, CCFGI collected loan payments for approximately fifty-six (56) loans
14 with a principal balance of \$17.5 million for one hundred seventy-three (173) investors. The
15 average annual collections were approximately \$12.6 million.

16 E. Based on the loan files provided for the rehabilitation/construction loans,
17 CCFGI used neutral third party escrows to handle the receipts and disbursement of funds.
18 According to the final settlement statements in some of the loan files examined, Rehab Holdback
19 funds were disbursed at the close of escrow from the neutral third party escrow to CCFGI and
20 were kept at CCFGI's separate bank account for further disbursements according to the draw
21 schedule to complete the project. If the Rehab Holdback amounts were less than \$100,000.00 the
22 proceeds were disbursed by independent escrow companies to CCFGI's bank accounts and
23 CCFGI in turn would disburse the funds to the borrowers to complete the project/rehabilitation.
24 If the Rehab Holdback amounts of the rehabilitation/construction loans were more than
25 \$100,000.00, the proceeds were disbursed by the independent escrow companies to the bank
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1 account(s) of "BuildZig to Buildzig," an independent third party company not affiliated with
2 CCFGI.

3 F. According to CECILIO, CCFGI maintained one (1) trust account for multiple
4 beneficiaries during the audit period used in connection with its loan servicing activity and about
5 fifty-five (55) separate trust accounts during the audit period and beyond used in connection with
6 the rehabilitation loans (holdbacks) activity. CECILIO represented that he maintained one (1)
7 trust account for each property/loan for the loan proceeds received from the independent escrow
8 companies for the rehabilitation loan (holdback) of the property; he would then close the trust
9 account once he disbursed the funds to the borrowers after the completion of the
10 project/rehabilitation. CECILIO indicated there were about seventeen (17) trust accounts still
11 open as of November 30, 2015.

12 G. CECILIO is the Chief Executive Office, Chief Financial Officer, Secretary and
13 one hundred percent (100%) owner of CCFGI.

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1 Bank Accounts

2 8.

3 According to CECILIO, CCFGI maintained one (1) trust account for the receipts
4 and disbursements of trust funds in connection with its loan servicing activity, and about fifty-
5 five (55) trust accounts for the receipts and disbursements of trust funds in connection with the
6 rehabilitation loans (holdbacks) activity. Three (3) trust accounts were sampled for the audit:

7 Trust Account 1 ("T/A1")

8 * Account Name/Title: COASTAL CALIFORNIA FUNDING GROUP INC dba
CCFG Investments, A CA Corporation Real Estate Broker Trust Account
9 Realty Group

10 * Bank: City National Bank, San Diego, CA

11 * Account # xxxxx8440

12 * Signatory: CECILIO

13 CCFGI maintained T/A 1 for multiple beneficiaries for handling the receipts and
14 disbursements of trust funds received in connection with its loan servicing activity.

15 Trust Account 2 ("T/A2")

16 * Account Name/Title: COASTAL CALIFORNIA FUNDING GROUP INC dba
CCFG Investments, A CA Corporation Real Estate Broker Trust Account
17 Realty Group

18 * Bank: City National Bank, San Diego, CA

19 * Account # xxxxx2197

20 * Signatory: CECILIO

21 CCFGI maintained T/A 2 for a single beneficiary for handling the receipts and
22 disbursements of trust funds received in connection with its rehabilitation loan (holdback)
23 activity for the property located at 3019 S. Denison Street in Los Angeles.

24 Trust Account 3 ("T/A3")

25 * Account Name/Title: COASTAL CALIFORNIA FUNDING GROUP INC dba
CCFG Investments, A CA Corporation Real Estate Broker Trust Account
26 Realty Group

27 * Bank: City National Bank, San Diego, CA

* Account # xxxxx1395

* Signatory: CECILIO

1 Violations of the Real Estate Law

2 9.

3 In the course of activities as described in Paragraph 7, above, and during the
4 examination period described in Paragraph 6, Respondent CCFGI acted in violation of the Code
5 and the Regulations, as described below:

6 **A. Trust Fund Handling for Multiple Beneficiaries (Code Section 10145 and**
7 **Regulation 2832.1)**

8 Based on the records provided and the bank reconciliation prepared by the BRE
9 auditor, T/A 2 and T/A 3 were in balance as of November 30, 2015. However, T/A 1 had a
10 shortage of <\$94,813.20> as of November 30, 2015. The accountability was determined based
11 on separate records provided by CCFGI's asset manager and consultant, and the adjusted bank
12 balance was compared to the accountability. The shortage was attributable to:

13	Negative balance of accounts totaling	<\$ 40,617.86>
14	Bank service charges	<\$ 9,831.10>
15	Unidentified disbursements ¹	<\$ 2,012.33>
16	<u>Unidentified shortage</u>	<u><\$ 42,351.91></u>
17	Trust Fund Shortage as of 11/30/15	<\$ 94,813.20>

18 On or about January 19, 2016, CECILIO made a wire transfer deposit from CCFGI's general
19 business account #xxxxxxx2768 into T/A 1 in the amount of \$94,813.20 to cure the total trust
20 funds shortage.

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25 ¹ The unidentified disbursements of <\$912.41> and <\$1,099.92> totaled <\$2,012.33> and could not be identified or
26 tied to loan transactions examined in the audit.

1 **B. Trust Fund Handling – Trust Fund Records to be Maintained (Code**
2 **Section 10145 and Regulation 2831)**

3 The control record maintained for T/A 1 which was used for the receipts and
4 disbursement of trust funds in connection with CCFGI's loan servicing activity was inaccurate
5 and incomplete, in violation of **Code Section 10145 and Regulation 2831**.

6 1. The auditor found sixteen (16) examples where receipts were deposited
7 into T/A 1 but were not recorded on the control record.

8 2. The auditor also found five (5) examples in which receipts were
9 recorded on the control record but were not deposited into T/A 1, including one receipt for the
10 amount \$1,224,406.26 that was recorded but not deposited.

11 3. The auditor found ten (10) examples in which disbursements were made
12 from T/A 1 but were not recorded on the control record.

13 4. The auditor found six (6) examples in which disbursements were
14 recorded on the control record but were not disbursed from T/A 1.

15 **C. Trust Fund Handling – Separate Record For Each Beneficiary or**
16 **Transaction (Code Section 10145 and Regulation 2831.1)**

17 The separate records maintained for T/A 1 were inaccurate and incomplete, in
18 violation of **Code Section 10145 and Regulation 2831.1**. Some receipts were deposited into
19 T/A 1 but were not recorded on the separate records. Some receipts were recorded on the
20 separate records but were not deposited into T/A 1. Some disbursements were made from T/A 1
21 but were not recorded on the separate records. Some disbursements were recorded on the
22 separate records but were not disbursed from T/A 1. The auditor's examples regarding the
23 separate records of T/A 1 are the same as the examples cited above in 9B., with respect to the
24 control record of T/A 1.

1 **D. Trust Fund Handling – Trust Account Reconciliation (Code Section 10145**
2 **and Regulation 2831.2)**

3 During the audit period, CCFGI did not maintain the monthly reconciliation of all
4 the separate records or transactions (separate records) to the balance of the record of all trust
5 funds received and disbursed (control record) for T/A 1 in connection with the mortgage loan
6 servicing activity, in violation of **Code Section 10145 and Regulation 2831.2.**

7 **E. Secret Profit or Undisclosed Compensation/Broker Placement of Trust**
8 **Funds with Financial Institutions (Code Section 10176(g) and Regulation 2830)**

9 CCFGI engaged in an earnings credit relationship with City National Bank
10 whereby it received earnings credit from the trust funds available in T/A 1, and the earnings
11 credit was used to offset bank service charges incurred in T/A 1, in connection with the mortgage
12 loan servicing activity, without written disclosure of such usage to the owners of the trust funds,
13 in violation of **Code Section 10176(g) and Regulation 2830.** The auditor found six (6)
14 examples between the months June 2015 and October 2015 in which CCFGI utilized the earnings
15 credit to offset bank service charges in T/A 1 without disclosing such usage to the trust fund
16 owners.

17 **F. Use of False or Fictitious Business Names (Code Section 10159.5 and**
18 **Regulation 2731)**

19 CCFGI used unlicensed fictitious business names “DiversyFund” on business
20 cards and in e-mails during the audit period without first obtaining a license from the Bureau
21 bearing such fictitious name, in violation of **Code Section 10159.5 and Regulation 2731.**

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1 **G. Filing Fiscal Year Reports – Failure to Submit Independent Audit**
2 **Report – Delayed Filing of Annual Trust Account Report (Code Sections 10232.2(a),**
3 **10238(k)(3), and 10238(o) and Regulations 2846.5 and 2846.7)**

4 CCFGI failed to file the Annual Report of a Review of Trust Fund Financial
5 Statements (“TAR”) with the BRE for the year ended 2014 within ninety (90) days after the end
6 of CCFGI’s fiscal year December 31, 2014. The TAR was due May 31, 2015; CCFGI submitted
7 said report to the BRE on October 16, 2015, in violation of **Code Sections 10232.2(a),**
8 **10238(k)(3), and 10238(o) and Regulations 2846.5 and 2846.7.**

9 **H. Quarterly Trust Fund Status Report (Code Section 10232.25(a), (b) and**
10 **Regulation 2846.8)**

11 CCFGI failed to file with the BRE the Quarterly Threshold Reports within thirty
12 (30) days after the end of each of the first three fiscal quarters of CCFGI’s fiscal year, for the
13 quarters ending March 31, 2015, June 30, 2015, and September 30, 2015. The 1st Quarterly
14 Threshold Report was due April 30, 2015; CCFGI submitted said report to the RE on October 9,
15 2015, in violation of **Code Section 10232.25(a), (b) and Regulation 2846.8.** CECILIO stated
16 that he would submit the 2nd and 3rd Quarterly Threshold Reports to the BRE’s Mortgage Loan
17 Activity Section by the end of January 2016. As of the date of Audit Report SD 150019, CCFGI
18 did not submit the 2nd and 3rd Quarterly Threshold Reports to the BRE, in violation of **Code**
19 **Section 10232.25(a), (b) and Regulation 2846.8.**

20 **I. Quarterly Multi-Lender Reports (Code Section 10238(k)(3) and**
21 **10238(j)(6))**

22 CCFGI failed to file with the BRE the Quarterly Multi-Lender Reports within
23 thirty (30) days after the end of each of the first three fiscal quarters of CCFGI’s fiscal year, for
24 the quarters ending March 31, 2015, June 30, 2015, and September 30, 2015. The 1st Quarterly
25 Multi-Lender Report was due April 30, 2015; CCFGI submitted said report to the RE on October
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1 9, 2015, in violation of **Code Section 10238(k)(3) and 10238(j)(6)**. CECILIO stated that he
2 would submit the 2nd and 3rd Quarterly Multi-Lender Reports to the BRE's Mortgage Loan
3 Activity Section by the end of January 2016. As of the date of Audit Report SD 150019, CCFGI
4 did not submit the 2nd and 3rd Quarterly Multi-Lender Reports to the BRE, in violation of **Code**
5 **Section 10238(k)(3) and 10238(j)(6)**.

6 **J. Multi-Lender Loans – Construction/Rehabilitation Loans (Rehab**
7 **Holdback) – Code Section 10238(h)(4)(A)**

8 CCFGI failed to meet the following safeguard as required on multi-lender
9 construction/rehabilitation loans if the value of the project after completion is disclosed as the
10 current market value to the lenders in the project: CCFGI failed to use a neutral third party
11 escrow to handle all receipts and disbursements for the multi-lender construction/rehabilitation
12 loans related to disbursement draws from the escrow account in accordance with the draw
13 schedule, in violation of **Code Section 10238(h)(4)(A)**. Rehab Holdback funds were disbursed
14 at the close of escrow from the neutral third party escrow to CCFGI and were kept at CCFGI's
15 separate bank account for further disbursements according to the draw schedule to complete the
16 project. The auditor found in the loan file settlement statement for the multi-lender loan
17 transaction of Nueva Casa LLC, loan # CCFG11743, that \$50,000 of the \$370,000 loan proceeds
18 were disbursed by Keller Williams Realty Irvine Escrow Division to CCFGI's bank account, the
19 funds of which CCFGI would then disburse to borrowers according to the draw schedule to
20 complete the project/rehabilitation.

21 **K. Responsibility of Corporate Officer/ Failure to Supervise – D.O.**
22 **CECILIO (Code Sections 10159.2 and 10177(h) and Regulation 2725)**

23 The acts and/or omissions of D.O. CECILIO as described in Paragraphs 9A.
24 through 9J. above, demonstrate a failure to adequately supervise the real estate activities of
25 CCFGI, its salespersons, and its employees to ensure compliance with the Real Estate laws and
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1 regulations. D.O. CECILIO failed to maintain complete and accurate control record, separate
2 records, and failed to maintain trust account reconciliations for CCFGI's mortgage loan broker
3 servicing activity. CECILIO reduced the balance of trust funds in T/A 1 to an amount less than
4 the aggregate trust fund liabilities of CCFGI to all the owners of the trust funds without their
5 written consent. CECILIO failed to submit on time to the BRE the Annual Report of a Review
6 of Trust Fund Financial Statements, the 1st, 2nd, and 3rd Quarterly Trust Fund Status Reports, and
7 the 1st, 2nd, and 3rd Quarterly Multi-Lender Reports. CCFGI failed to use a neutral third party
8 escrow to handle all receipts and disbursements related to some of the multi-lender
9 construction/rehabilitation loans. Rehab Holdbacks were disbursed from the neutral third party
10 escrow to CCFGI and were kept at CCFGI's separate bank account for future disbursements
11 upon completion of the project. The violations cited in Audit SD 150019 are indicative of
12 Respondent CECILIO's failure to establish policies, rules, procedures and systems to review,
13 oversee, inspect and manage: transactions requiring a real estate license, the handling of trust
14 funds in CCFGI's activities, and the proper reporting of trust fund activity to the BRE. These
15 acts and/or failures to act constitute grounds for the suspension or revocation of the license and
16 license rights of Respondent CECILIO under the provisions of **Code Sections 10159.2 and**
17 **10177(h) and Regulation 2725.**

18 Additional Violations of the Real Estate Law

19 10.

20 The overall conduct of Respondents CCFGI and CECILIO are violative of the
21 Real Estate Law and constitute cause for the suspension or revocation of the real estate licenses
22 and license rights of CCFGI and CECILIO under the provisions of **Code Section 10177(g)** for
23 negligence and **Code Section 10177(d)** for willful disregard of the Real Estate Law.

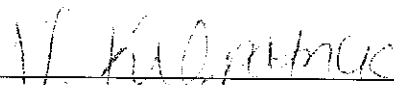
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1 WHEREFORE, Complainant prays that a hearing be conducted on the allegations
2 of this Accusation and that upon proof thereof, a decision be rendered imposing disciplinary
3 action against the licenses and license rights of Respondents COASTAL CALIFORNIA
4 FUNDING GROUP INC and C. CRAIG CECILIO under the Real Estate Law (Part 1 of vision 4
5 of the Business and Professions Code), for the cost of investigation and enforcement as permitted
6 by law, and for such other and further relief as may be proper under other provisions of law, and
7 for costs of audit.

8 Dated at San Diego, California

9 this 25th day of JULY, 2017.

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11 
12 Veronica Kilpatrick
13 Supervising Special Investigator
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22 cc: Coastal California Funding Group Inc
23 C. Craig Cecilio
24 Sacto.
25 Audits – Z. Wanis
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