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California Corporations Commissioner
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8 BEFORE THE DEPARTMENT OF CORPORATIONS
9 OF THE STATE OF CALIFORNIA

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11 In the Matter of the Statement of) Case No.: 963-2373
Issues/Accusation of THE CALIFORNIA)
12 CORPORATIONS COMMISSIONER,) STATEMENT OF ISSUES/ACCUSATION
13)
Complainant,)
14)
15 vs.)
16 MORRIS ESCROW, INC., CESAR DAVID)
ESTRADA, and BETHSABE E. MORRIS,)
17)
18 Respondents.)

19 The Complainant is informed and believes, and based upon such information and belief,
20 alleges and charges Respondents as follows:

21 I
22 INTRODUCTION

23 The proposed orders seek to deny the application for change of ownership of Morris Escrow,
24 Inc. ("Morris Escrow") pursuant to Financial Code section 17209.3, revoke the escrow agent's
25 license of Morris Escrow pursuant to Financial Code section 17608, and to bar Cesar David Estrada
26 ("Estrada") and Bethsabe E. Morris ("Morris") from any position of employment, management or
27 control of any escrow agent pursuant to Financial Code section 17423 in that Morris Escrow and
28 Estrada have committed numerous violations of the Escrow Law and Morris made false statements

1 of material fact in the application filed with the Commissioner for change of ownership of Morris
2 Escrow.

3 II

4 LICENSEE

5 Morris Escrow holds an escrow agent’s license issued by the California Corporations
6 Commissioner (“Commissioner”) on or about January 23, 2007 under the California Escrow Law
7 (California Financial Code Section 17000 et seq.). Estrada is, and at all times relevant herein, was
8 the president and sole shareholder of Morris Escrow. The licensed location of Morris Escrow is at
9 1010 N. Central Avenue, Suite 317, Glendale, California 91202.
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11 III

12 THE PENDING APPLICATION

13 On or about October 30, 2007, Morris Escrow filed an application for change of ownership
14 (hereinafter "application") with the Commissioner pursuant to the Escrow Law, in particular,
15 Financial Code Section 17213. The application identified Morris as the new president, secretary,
16 treasurer, and sole shareholder and director of Morris Escrow. Morris had never previously been
17 employed in the independent escrow industry.

18 The application included a Statement of Identity and Questionnaire (“SIQ”) for Morris. The
19 SIQ at Question #5 specifically asked: “Have you ever been convicted of or pleaded nolo contendere
20 to a misdemeanor or felony other than traffic violations?” Morris answered “no”. Morris signed the
21 application and SIQ under penalty of perjury that all of the information submitted in the application
22 was true and correct.

23 The Commissioner, while reviewing the application discovered that Morris, on December 20,
24 1990, had been convicted of misdemeanor theft under Penal Code section 484(a). Theft is a crime
25 involving moral turpitude, which is substantially related to the qualification, functions and duties of
26 a person engaged in the escrow business, and is also an offense identified in subdivision (b) of
27 Financial Code section 17414.1. Moreover, it is a violation of Financial Code section 17702 to
28

1 make any untrue statement of material fact in any application filed with the Commissioner or omit
2 any material fact required to be stated in any such application.

3 On or about April 8, 2008, Morris was asked to explain the conviction and why she had not
4 disclosed it on her SIQ. In response, Morris stated “[I]n a stationery store near the 134 freeway
5 while shopping, I placed something in my pocket, which I do not recall at this time, worth
6 approximately \$7.00. I forgot to pay. I had difficulty making myself understood and I was taken to
7 jail. While inside the jail on a tv monitor, I was asked some questions over the tv and was told that if
8 I pled guilty, the matter would be finished. I did not have an interpreter, did not have an attorney,
9 did not go to Court and did not really understand what was going on. . . .”

10 The Commissioner has been unable to obtain the criminal complaint filed against Morris in
11 the above-described matter, as the majority of the records in the case have been purged. However,
12 the available court records disclose that Morris made further misrepresentations to the Commissioner
13 in her explanation regarding the conviction in that Morris did make court appearances and was
14 represented by counsel when she entered into her plea agreement. Morris never offered an
15 explanation as to why she did not disclose the conviction on her SIQ as requested.

16 Additionally, a letter to Morris Escrow regarding the application dated April 23, 2008
17 requesting a financial statement dated within 60 days of the date of the application and written
18 confirmation from Escrow Agent’s Fidelity Corporation (“EAFC”) that each shareholder, director,
19 officer and employee of Morris Escrow had filed a completed application for certification with
20 EAFC has gone unanswered.

21 III

22 ESCROW LAW VIOLATIONS

23 A. Annual Audit Report:

24 Pursuant to Financial Code section 17406, all escrow agent licensees are required to submit
25 their annual audited financial statement to the Commissioner within 105 days of their fiscal year end.
26 The fiscal year end for Morris Escrow is December 31. Accordingly, the annual audited financial
27 statement for Morris Escrow is due to the Commissioner on or before April 15 of each year. As of
28 the date of this Statement of Issues/Accusation, Morris Escrow has failed to submit its December 31,

1 2007 and December 31, 2008 audited financial statements to the Commissioner as required by
2 Financial Code section 17406.

3 B. Surety Bond:

4 Pursuant to Financial Code section 17202, all escrow agent licensees are required to maintain
5 a surety bond in the minimum amount of \$25,000.00. The surety bond of Morris Escrow expired on
6 January 23, 2009. On or about January 23, 2009, the Commissioner issued an Order to Discontinue
7 Escrow Activities to Morris Escrow pursuant to Financial Code section 17415 for failure to maintain
8 the required surety bond.

9 On or about February 6, 2009, Morris Escrow did obtain a replacement surety bond, which
10 the Commissioner did not learn about until on or about July 7, 2009 during the course of a follow-up
11 examination, as Morris Escrow never sent the replacement surety bond to the Commissioner. The
12 replacement surety bond was effective from February 6, 2009 forward. On or about July 7, 2009,
13 Morris Escrow was requested to contact its bond company to have the coverage of the replacement
14 surety bond extended back to the original lapse date of January 23, 2009.

15 During the follow-up examination, it was discovered that Morris Escrow had violated the
16 Order to Discontinue Escrow Activities by continuing to accept new escrow business while the
17 Order was in effect, but specifically during the time period Morris Escrow had yet to replace its
18 surety bond. The Commissioner has documented at least two new escrows that were accepted by
19 Morris Escrow during the period after Morris Escrow was served with the Order to Discontinue
20 Escrow Activities and prior to replacing the surety bond. This activity is not only in direct violation
21 of the Order to Discontinue Escrow Activities, but is also a violation of California Financial Code
22 sections 17200 and 17600.

23 C. Unauthorized Disbursements:

24 On or about November 10, 2008, the Commissioner commenced a special examination of the
25 books and records of Morris Escrow after receiving an anonymous tip that Morris Escrow had been
26 improperly reconciling the trust account. During the course of the special examination, Estrada, on
27 or about January 21, 2009, confessed that he had unlawfully transferred \$98,830.73 in escrow trust
28 funds from the trust account(s) to the general account to pay the operating expenses of Morris

1 Escrow, including employee salaries, for which he had returned \$19,000.00, leaving a trust account
2 shortage of \$79,830.73. Financial Code section 17409 prohibits the commingling of trust funds with
3 general funds and Financial Code section 17414(a)(1) prohibits the disbursement of trust funds
4 except in the accordance with the escrow instructions of the principals.

5 The special examination revealed that Morris Escrow, by and through Estrada, had made at
6 least 12 unauthorized disbursements of trust funds totaling \$99,770.73 between November 21, 2007
7 and September 18, 2008 in violation of Financial Code section 17414(a)(1) and California Code of
8 Regulations, title 10, sections 1738 and 1738.2. Only \$24,000.00 of the misappropriated trust funds
9 has been returned. The special examination further revealed that Morris Escrow had never
10 reconciled the trust account since its licensure on January 23, 2007 in violation of Financial Code
11 section 17404 and California Code of Regulations, title 10, section 1732.2 and there existed
12 adjusting items totaling \$44,206.05 of which \$8,552.49 created an additional shortage in the trust
13 account in violation of California Code of Regulations, title 10, section 1738.1.

14 The unauthorized disbursements of trust funds, along with certain of the adjusting items,
15 caused a trust account shortage of \$108,323.42. Demand has been made upon Morris Escrow to
16 cure the trust account, but only \$24,000.00 of the trust account shortage has been cured leaving an
17 existing trust account shortage of \$84,323.42 as of December 31, 2008.

18 The unauthorized disbursements of trust funds are described as follows:

19 1. On or about November 21, 2007, Estrada made an unauthorized disbursement of trust
20 funds to himself in the amount of \$200.00 in violation of Financial Code section 17414(a)(1) and
21 California Code of Regulations, title 10, sections 1738 and 1738.2.

22 2. On or about December 31, 2007, Estrada made an unauthorized disbursement of trust
23 funds to the Morris Escrow general account in the amount of \$9,520.73 in violation of Financial
24 Code section 17414(a)(1) and California Code of Regulations, title 10, sections 1738 and 1738.2.

25 3. On or about January 9, 2008, Estrada made an unauthorized disbursement of trust
26 funds to himself in the amount of \$750.00 in violation of Financial Code section 17414(a)(1) and
27 California Code of Regulations, title 10, sections 1738 and 1738.2.
28

1 4. On or about January 15, 2008, Estrada made an unauthorized disbursement of trust
2 funds to the Morris Escrow general account in the amount of \$15,000.00 in violation of Financial
3 Code section 17414(a)(1) and California Code of Regulations, title 10, sections 1738 and 1738.2.

4 5. On or about January 23, 2008, the Human Resources manager of Morris Escrow
5 made an unauthorized disbursement of trust funds to the Morris Escrow general account in the
6 amount of \$1,800.00 in violation of Financial Code section 17414(a)(1) and California Code of
7 Regulations, title 10, sections 1738 and 1738.2.

8 6. On or about February 27, 2008, Estrada made an unauthorized disbursement of trust
9 funds to the Morris Escrow general account in the amount of \$15,000.00 in violation of Financial
10 Code section 17414(a)(1) and California Code of Regulations, title 10, sections 1738 and 1738.2.

11 7. On or about June 10, 2008, Estrada made an unauthorized disbursement of trust
12 funds to himself in the amount of \$20,000.00 in violation of Financial Code section 17414(a)(1) and
13 California Code of Regulations, title 10, sections 1738 and 1738.2.

14 8. On or about June 11, 2008, Estrada made an unauthorized disbursement of trust funds
15 to himself in the amount of \$10,000.00 in violation of Financial Code section 17414(a)(1) and
16 California Code of Regulations, title 10, sections 1738 and 1738.2.

17 9. On or about July 11, 2008, Estrada made an unauthorized disbursement of trust funds
18 to himself in the amount of \$5,000.00 in violation of Financial Code section 17414(a)(1) and
19 California Code of Regulations, title 10, sections 1738 and 1738.2.

20 10. On or about August 28, 2008, Estrada made an unauthorized disbursement of trust
21 funds to the Morris Escrow general account in the amount of \$10,000.00 in violation of Financial
22 Code section 17414(a)(1) and California Code of Regulations, title 10, sections 1738 and 1738.2.

23 11. On or about September 16, 2008, Estrada made an unauthorized disbursement of trust
24 funds to himself in the amount of \$7,000.00 in violation of Financial Code section 17414(a)(1) and
25 California Code of Regulations, title 10, sections 1738 and 1738.2.

26 12. On or about September 18, 2008, Estrada made an unauthorized disbursement of trust
27 funds to himself in the amount of \$5,500.00 in violation of Financial Code section 17414(a)(1) and
28 California Code of Regulations, title 10, sections 1738 and 1738.2.

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IV

CONCLUSION

Complainant finds, by reason of the foregoing, that:

(1) Estrada, the president and sole shareholder of Morris Escrow has committed innumerable violations of the Escrow Law, including misappropriating trust funds resulting in an ongoing trust account shortage.

(2) Morris Escrow has violated an Order of the Commissioner and committed numerous violations of the Escrow Law, which violations continue to date.

(3) Morris Escrow and Morris have made false statements of material fact in the change of ownership application.

(4) Morris Escrow is incapable of operating its escrow business in compliance with the Escrow Law as demonstrated by its continuing violations.

(5) It is in the best interests of the public to (i) deny the change of ownership application of Morris Escrow, (ii) revoke the escrow agent’s license of Morris Escrow, and (iii) bar Estrada and Morris from any position of employment, management or control of any escrow agent.

California Financial Code section 17209.3 provides in pertinent part:

The commissioner may refuse to issue any license being applied for if upon his examination and investigation, and after appropriate notice and hearing, he finds any of the following:

...

(e) A false statement of material fact has been made in the application.

(f) The applicant or any officer, director, general partner, or incorporator of the applicant, or any person owning or controlling, directly or indirectly, 10 percent or more of the outstanding equity securities of the applicant has violated any provision of this division or the rules thereunder or any similar regulatory scheme of the State of California or of a foreign jurisdiction.

California Financial Code section 17608 provides in pertinent part:

The commissioner may, after notice and a reasonable opportunity to be heard, suspend or revoke any license if he finds that:

(a) The licensee has failed to maintain in effect a bond required under the provisions of this division.

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(b) The licensee has violated any provision of this division or any rule made by the commissioner under and within the authority of this division.

California Financial Code Section 17423 provides in pertinent part:

(a) The commissioner may, after appropriate notice and opportunity for hearing, by order, . . . bar from any position of employment, management, or control any escrow agent, or any other person, if the commissioner finds either of the following:

(1) That the . . . bar is in the public interest and that the person has committed or caused a violation of this division or rule or order of the commissioner, which violation was either known or should have been known by the person committing or causing it or has caused material damage to the escrow agent or to the public.

THEREFORE, Complainant asserts that he is justified under Financial Code sections 17209.3, 17423 and 17608 in (i) denying the change of ownership application of Morris Escrow, (ii) revoking the escrow agent’s license of Morris Escrow, and (iii) barring Estrada and Morris from any position of employment, management or control of any escrow agent.

WHEREFORE IT IS PRAYED that (i) the change of ownership application of Morris Escrow filed on October 30, 2007 be denied, the escrow agent’s license of Morris Escrow be revoked, and (iii) Estrada and Morris be barred from any position of employment, management or control of any escrow agent.

Dated: August 12, 2009
Los Angeles, CA

PRESTON DuFAUCHARD
California Corporations Commissioner

By _____
Judy L. Hartley
Senior Corporations Counsel