



dfi



2007 Annual Report

Department Overview

The Department of Financial Institutions (DFI) was established in October 1993 by RCW 43.320. Its historical roots date back to the early 1900s with the organization of the Division of Banking in 1907 and the Division of Securities in the 1930s. The Department celebrated its 100th year anniversary of its banking division in 2007.

The Department is composed of five divisions: Administration, Banks, Consumer Services, Credit Unions, and Securities. The Department is self-supported. Fees paid by regulated institutions fund all agency activities. No funding is received from the state General Fund or other tax revenue to support ongoing operations, however, the agency contributes to the General Fund through its Division of Securities, which collects significant revenues in connection with its primary functions of registration, licensing, and enforcement. The Division retains 13 percent of the revenue it receives to fund its activities. The remaining 87 percent of the funds collected are contributed to the Washington State General Fund and are used to fund other areas of state government.

The Department regulates our state's financial services industry. This responsibility includes examining and supervising state-chartered commercial banks, credit unions, savings and loan associations, savings banks, and foreign banks. In addition, the Department regulates the securities industry in Washington, issuing licenses, permits and exemptions for securities broker-dealers, investment advisers and their agents, securities issuers, franchises, franchise brokers, and business opportunities. The Department also regulates consumer loan companies, loan officers, check cashers and sellers (which include payday lenders), money transmitters and currency exchangers, as well as mortgage brokers and escrow agents and officers operating in this state. As a result of 2005 legislation, the Department also began registering entities that offer tax refund anticipation loans.

DFI VISION

Safe, honest and reliable financial services.

DFI MISSION STATEMENT

DFI regulates financial services to protect and educate the public and promote economic vitality.

DFI VALUES

We value:

- Employees – our most important resource
- Empowerment with accountability
- Diversity
- Fairness and respect for individuals and institutions
- Sharing information and knowledge
- Professionalism and integrity
- Providing quality services

Letter from DFI's Director

- SCOTT JARVIS



It pleases me to present the 2007 annual report on behalf of the dedicated staff of the Washington State Department of Financial Institutions (DFI). This document is a snapshot in time, offering a detailed look at one of the many years this agency is proud to have served our stakeholders and Washington residents.

DFI's nearly 200 employees are devoted to maintaining a safe and reliable financial services environment for Washington consumers and our licensees. Each day, we put into practice our mission — to protect the public and promote economic vitality — through the regulation of financial services in our state. Our licensees include banks, credit unions, mortgage brokers, loan originators, payday lenders, securities brokers, investment advisers and securities issuers, money transmitters, independent escrows, check cashers and check sellers.

Washington residents face an ever increasing number of schemes and scams aimed at defrauding them of hard-earned money. To counter this attack, and in an effort to better protect consumers, DFI continued expansion of financial education outreach efforts for residents of all ages throughout Washington State.

This agency's staff is devoted to ensuring that our licensees understand how legislative changes may impact how they do business in Washington State. Our education and enforcement role ensures that those we license and regulate understand and adhere to the law.

Collectively and independently, the department's five divisions — Securities, Consumer Services, Banks, Credit Unions and Administration — work to create a stronger, more secure financial environment for businesses and consumers.

We look forward to another year of working hard to make this state an even better place for all who choose to call it home.

Sincerely,

Scott Jarvis,
Director

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Division of Administration

- GLORIA PAPIEZ, DIRECTOR OF ADMINISTRATION

ABOUT THE DIVISION OF ADMINISTRATION

The Division of Administration performs functions in the areas of legislation, communications, budget and accounting, information technology and support, human resources, and facilities.

SIGNIFICANT HIGHLIGHTS

DFI achieved confirmation in 2007 from the State Department of Personnel, authorizing the agency to implement a recognition pay program. This was made possible by passage of the Civil Service Reform Act of 2002 which provided new options to agencies in the area of performance management. The focus of the new DFI program is to recognize and reward outstanding and extraordinary performance of our employees whose efforts contributed greatly to enhancing the performance of the agency's mission and goals.

TECHNOLOGY IMPROVEMENTS

In 2006, DFI developed and implemented an Internet based licensing system to license Loan Originators for the first time. At that time approximately 16,000 Loan Originators applied and paid for their licenses online. In 2007, DFI developed and implemented an Internet based renewal system for these Loan Originators and Mortgage Brokers. There were 5,609 Loan Originators and 1,440 Mortgage Brokers that renewed online using this new system.

The agency took further steps to protect the privacy of sensitive data used in the regulatory process by implementing secure e-mail for sharing sensitive data with federal and state counterparts and regulated entities. DFI implemented a

third party secure Email system (ZixMail) that works within the Microsoft email environment. The system encrypts confidential e-mails and associated attachments to recipients even those not using ZixMail on the receiving end.

To mitigate the risk of loss of sensitive information or data, DFI implemented full disk encryption on every PC in the agency. This makes the hard disk on a PC fully protected if the PC is lost or stolen. DFI also issues flash (USB) drives with built in encryption that staff can use for sharing sensitive data or backing up their data while working in the field.

INDUSTRY FACTS AT A GLANCE

Total budgeted staff: FY 2007	178.9
Staff composition by gender:	58% female, 42% male
Total biennial agency budget: ..2005-2007 Biennium	\$38,534,768
Racial diversity of workforce:	23.8%
Number of complaints resolved:	2,610
Total fines and penalties collected:	FY 2007 \$1,112,383
Number of enforcement actions:	402
Depository institutions and trust companies combined assets:	Over \$102 billion
Amount of loans made by payday lenders:	\$1,291,212,797
Total assets of state chartered credit unions:	\$22.61 billion
Amount of ordered restitution to consumers:	\$1,930,709.81



Final Legislative Report – 2007 Session

This document is a summary of the bills related to DFI or our stakeholders that passed the Legislature during the 2007 session. For a full discussion of these laws, please refer to the bill documents at www.leg.wa.gov

HB 1270 – MODIFYING PROVISIONS OF THE CONSUMER LOAN ACT WITH RESPECT TO LOAN RESTRICTIONS *(Governor signed, effective July 22nd)*

Currently consumer loan licensees cannot make closed-end non real estate loans with a repayment period longer than six years and 15 days. The new law removes this restriction and allows licensees to extend the repayment period for these loans.

ESHB 1512 – INCREASING THE AMOUNT THE TREASURER MAY USE FOR THE LINKED DEPOSIT PROGRAM *(Governor signed, effective July 22nd, bill is null and void if not funded by June 30, 2007)*

The Linked Deposit Program (Program) was created in 1993. The stated purpose of the program is to increase access to business capital for the state's certified minority-owned and women-owned businesses. Under the program, certified businesses can obtain reduced interest rate loans from participating financial institutions. The State Treasurer is authorized to use up to \$100 million of short-term state treasury surplus funds for the Program.

The bill authorizes the State Treasurer to use up to \$150 million (instead of \$100 million) of short-term state treasury surplus funds for the Linked Deposit Program. The Office of the Minority and Women's Business Enterprises is granted the authority to adopt rules to:

- ensure priority to businesses that have never received a loan under the program;
- limit total principal loan amounts received during the lifetime of the business and the lifetime of the business owner; and
- limit the total amount of any single qualified loan under the program.

SHB 1805 – INCREASING THE HOMESTEAD EXEMPTION AMOUNT *(Governor signed, effective July 22nd)*

Certain property of a debtor is protected by the state homestead exemption. The homestead exemption protects a debtor's equity in the real or personal property that the debtor uses or plans to use as a residence. The current exemption is limited to the lesser of: (1) \$40,000 if the homestead consists of real property, or \$15,000 if the homestead consists of personal property; or (2) the total net value of the homestead property. Net value is defined as the market value of the property less all liens and encumbrances that are senior to the judgment being executed upon.

The current homestead exemption amount of \$40,000 for real property has been in effect since 1999, when the amount was increased from \$30,000. The availability of a homestead in personal property was established in 1993 at an amount of \$15,000 and has not been changed since. The bill increases

FINAL LEGISLATIVE REPORT - 2007, CONTINUED

the value of the real property homestead exemption limit from \$40,000 to \$125,000. The bill also adds manufactured homes as a type of homestead property.

2SHB 1980 – REGARDING THE FINANCIAL LITERACY PUBLIC PRIVATE PARTNERSHIP

(Governor signed, effective immediately)

In 2004, the Legislature created the Financial Literacy Public-Private Partnership (Partnership) consisting of legislators, representatives from the Office of the Superintendent of Public Instruction (OSPI) and the Department of Financial Institutions, financial services representatives, and educators. The Partnership is charged with identifying important financial literacy skills and knowledge and considering strategies to increase financial literacy in public school students. Such strategies include instructional materials, assessment measures, and professional development to expand and improve financial literacy instruction.

There is a Partnership account administered by the OSPI which can be used for public funds and private donations. For the first years of its existence, the Partnership did not have state operating funds. However, \$50,000 was appropriated to the Partnership account in the 2006 supplemental operating budget. The Partnership is scheduled to issue a final report and expire on June 30, 2007. The new law extends the completion date of activities by the Partnership from June 30, 2006, to June 30, 2009. The expiration date for the Partnership and the final report date are extended to June 30, 2009. The law also states that if funds are provided, the OSPI and other members of the Partnership will make financial literacy materials available to school districts. School districts are encouraged to provide students with an opportunity to master financial literacy skills and knowledge.

SHB 2286 – REGULATING INTERSTATE BRANCHING

(Governor signed, effective July 22)

In 1994, Congress passed an interstate bank branching act (Riegle-Neal Act), giving states five choices for how to allow interstate bank branching. Washington uses the federally-allowable choice, made by approximately 16 other states, called "reciprocal de novo branching." Under that approach, an out-of-state financial institution is permitted to form branches in Washington State without having first to acquire a bank, provided that the other state's laws permit branching by a Washington State bank or savings bank on equally favorable terms and conditions as Washington offers. Mergers are allowed between domestic stock savings banks and certain out-of-state national banks.

The bill amends Washington's bank branching law by allowing an out-of-state bank to acquire, establish, or maintain a branch in Washington within one mile of an affiliate commercial location only to the same extent permitted for a Washington bank under applicable state and federal law.

SB 5123 – PROTECTING PERSONS WITH VETERAN OR MILITARY STATUS FROM DISCRIMINATION

(Governor signed, effective July 22)

Washington's Law against Discrimination establishes that it is a civil right to be free from discrimination based on race, color, creed, national origin, sex, or sexual orientation; the presence of any sensory, mental, or physical disability; or the use of a trained dog guide or service animal. This right applies to employment; places of public resort, accommodation, or amusement; commerce; and real estate, credit, and insurance transactions. The Washington State Human Rights Commission is responsible for administering and enforcing the Law Against Discrimination.

The bill amends Washington Law Against Discrimination to prohibit discrimination based on a person's status as a veteran or member of the military, as it relates to employment; commerce; real estate transactions; places of public resort, accommodation, or amusement; insurance transactions; and credit transactions. "Veteran or military status" is defined to include any honorably discharged veteran as defined in RCW 41.04.007, and any active or reserve member in any branch of the armed forces of the United States, including the National Guard and the Coast Guard.

SB 5199 – RESTRICTING SMALL LOAN PRACTICES

(Governor signed, effective July 22)

This is the legislation requested by DFI. It clarifies that a small loan endorsement must be obtained in order to offer payday loans through the use of the internet, facsimile, telephone, or kiosks. The bill makes it a violation of Chapter 31.45 RCW to:

- directly or indirectly defraud or mislead any borrower, lender, or person;
- directly or indirectly engage in any unfair or deceptive practices;
- directly or indirectly obtain property by fraud or misrepresentation.

The bill adds a provision that states that in addition to any other penalties for a violation, any transaction in violation of the

FINAL LEGISLATIVE REPORT - 2007, CONTINUED

law becomes uncollectible and unenforceable.

SB 5250 – REGARDING THE TRANSFER OF MOTOR VEHICLE OWNERSHIP *(Governor signed, effective July 22)*

When selling a vehicle that has a lien on it, the lien must be removed and the certificate of ownership reissued before the registered owner can release his or her interest. The bill states that when selling a vehicle that has a lien on it, the financial institution's and the registered owner's interest may be released at the same time. The Department of Licensing is required to provide instructions on the release of interest forms regarding the appropriate process.

SSB 5826 – MODIFYING CONSUMER CREDIT REPORT PROVISIONS *(Governor signed, effective September 1, 2008)*

Currently, a victim of identity theft may elect to place a security freeze on his or her credit report by submitting a written request by certified mail to a consumer credit reporting agency. Subject to certain exceptions, within five business days of receipt of the written request, the consumer reporting agency must place the security freeze. Placement of a security freeze prohibits the consumer credit reporting agency from releasing the report or information from the report without the consumer's express permission. A victim of identity theft requesting a freeze is given a personal identification number to use when making a request for a temporary lifting or removal of the freeze. The temporary lifting of a freeze and the removal of a freeze must occur within three business days after the consumer credit reporting agency receives the request. The request to temporarily lift a freeze may be made electronically and limited by the consumer to a period of time or a specific party.

The bill allows any consumer (not only a victim of identity theft) who is a resident of Washington to place a security freeze on his or her credit report.

A security freeze is redefined to mean that the credit reporting agency is prohibited from furnishing the credit report to a third party who intends to use the credit report for determining the consumer's eligibility for credit. Only the victim of the crime of identity theft, when requested to do so by the credit reporting agency, must produce a police report to obtain the freeze. For a fee the temporary lift of a security freeze must be accomplished by the credit reporting agency within 15 minutes of its receipt of the consumer's request made by electronic contact (The bill has some exemptions to this requirement). The new law takes effect on September 1, 2008.

ESSB 5827- REGARDING CONSUMER PRIVACY *(Governor signed, effective July 22)*

Currently consumer reports may be used for employment purposes. Employment purposes include evaluating applicants for employment, promotion, reassignment or retention. A person may not obtain a consumer report for employment purposes with respect to any consumer who is not an employee at the time unless either:

- the consumer has received written disclosure that a consumer report may be obtained for purposes of considering the consumer for employment. This disclosure must be made prior to the employer obtaining the report. The disclosure may be contained in a written statement contained in employment application materials; or
- the consumer authorizes the procurement of the report.

A person may not obtain a consumer report for employment purposes with respect to a current employee unless the employee was provided with written notice that consumer reports may be used for employment purposes. A written statement in employee guidelines or manuals available is adequate notice. These requirements do not apply with respect to a consumer report of an employee who the employer has reasonable cause to believe has engaged in specific activity that constitutes a violation of law.

The bill changes the use of consumer reports for employment purposes. The new law provides that a person may not procure a consumer report for employment purposes where any information contained in the consumer report "bears on" the credit worthiness, credit standing, or credit capacity of an applicant or current employee, unless the information is either substantially job related and the employer discloses the use of the information to the consumer in writing; or the information is required by law.





Division of Banks

- BRAD WILLIAMSON, DIRECTOR OF BANKS

The Division of Banks was organized in 1907 and has responsibility for supervising commercial banks, trust companies, savings banks, savings and loan associations, alien banks and business development companies incorporated under the laws of the state of Washington.

The division works directly with the institutions it regulates through examination and supervisory activity in an effort to assure the public of adequate services from the institutions. It seeks to ensure the protection of the interests of depositors, borrowers, shareholders, and consumers.

In 2007, Washington State chartered banks had generally positive earnings, continued loan and deposit growth, and satisfactory asset quality. While Washington State Chartered institutions were not significantly involved in the sub-prime mortgage crisis, the institutions were impacted by resultant changes in the mortgage market and cascading effects felt in the real estate market. The cooling housing market in Western Washington did increase loan delinquencies in banks with significant land development and home construction loan portfolios.

Chartering of new institutions continued; however at a slower pace than experienced in 2005 and 2006. The division chartered two new commercial banks during 2007. Eight bank mergers occurred during 2007.

The division's fiscal condition remains sound; however, the division had a slight operating deficit during 2007. The operating deficit resulted from recent federal legislation that eliminated the division's ability to obtain assessment revenue from out-of-state banks that maintain branches in our state. In order to remain fiscally sound, increased assessments and fees on regulated institutions will be necessary in the near future.

Emphasis continued to be placed on training and development of employees, and remaining responsive to changes in the financial services markets. Division personnel were heavily involved in National banking initiatives through the Conference of Bank Supervisors.

INDUSTRY FACTS AT A GLANCE

Institutions Regulated by the Division of Banks

Commercial Banks	73
Savings Institutions	10
Trust Companies	9
Branches of foreign banks	2
Business Development Corporations	1
SBA (7) A Lenders	1
Total assets of banks and trust companies	\$102 billion

STATUTES ADMINISTERED BY THE DIVISION OF BANKS

Chapter 30 RCW - Banks and Trust Companies

Chapter 31.24 RCW - Business Development Companies

Chapter 31.35 RCW - Agricultural Lenders, Loan Guaranty Program

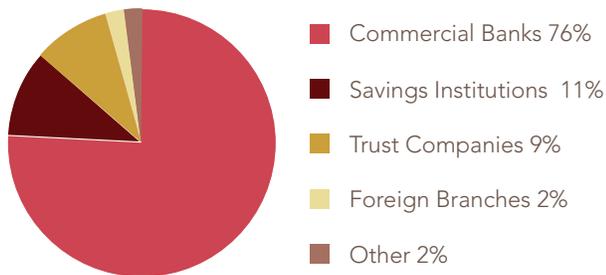
Chapter 31.40 RCW - Federally Guaranteed Small Business Loans

Chapter 32 RCW - Mutual Savings Banks

Chapter 33 RCW - Savings and Loan Associations

DIVISION OF BANKS, CONTINUED

REGULATED INSTITUTIONS BY CHARTER TYPE



DIVISION MILESTONES AND ACCOMPLISHMENTS

- The division chartered two new commercial banks in 2007.
- The division completed scheduled examinations within their statutory timeframe with assistance from the Federal Deposit Insurance Corporation and the Federal Reserve Board.
- The Division of Banks celebrated its 100th anniversary, recognizing state chartered banks from the very first - Dexter Horton & Co. Bankers in 1870 - to more recent additions to our state's banking industry like The Bank of Northshore.

NEW BANKS

- Bank of Tacoma, Tacoma (January 2007)
- Issaquah Community Bank, Issaquah (July 2007)

NEW FOREIGN BUREAUS

- Royal Bank of Canada, Seattle Bureau (July 2007)

CHARTER CONVERSIONS

- State Bank of Garfield, National Association, Garfield, converted from a national bank to a state-chartered commercial bank. They also changed their name to State Bank Northwest and moved their headquarters from Garfield to Spokane Valley, Washington. (March 2007)

MERGERS AND LIQUIDATIONS

- Sonoma National Bank, Santa Rosa, California, merged into Sterling Savings Bank, Spokane. (March 2007)
- Far West Bank, Provo, Utah, merged into AmericanWest Bank, Spokane. (March 2007)
- F&M Bank, Spokane Valley, merged into Banner Bank, Walla Walla. (May 2007)
- Mid State Bank, Waterville, merged into North Cascades National Bank, Chelan. (July 2007)
- Mount Rainier National Bank, Enumclaw, merged into Columbia State Bank, Tacoma. (July 2007)
- Town Center Bank, Portland, Oregon, merged into Columbia State Bank, Tacoma. (July 2007)
- NCW Community Bank, Wenatchee, merged into Banner Bank, Walla Walla. (October 2007)
- Bank of Salem, Salem, Oregon, merged into Frontier Bank, Everett. (November 2007)

NAME CHANGES

- Viking Community Bank, Seattle, changed its name to Viking Bank. (March 2007)
- Business Bank of Skagit Valley, Bellingham, changed its name to Business Bank. (May 2007)
- First Savings Bank of Renton, Renton, changed its name to First Savings Bank Northwest. (October 2007)

TRUST POWERS

- Washington First International Bank, Seattle, was granted trust powers. (April 2007)

KEY STATISTICS

	2003	2004	2005	2006	2007
Number of State Chartered Commercial Banks	65	64	67	72	73
Number of State Chartered Savings Institutions	15	13	11	10	10





DFI Communications 2007 - Focus on Financial Education

In 2007, DFI's Communications ensured statewide financial education outreach in elementary and middle schools with the continuation of Money Savvy Kids, Money Savvy U and Mad About Money II programs.



Thousands of high school students received financial education through an Investor Protection Trust grant. The funding brought Consumer University and the Basics of Saving and Investing into high schools throughout the state. DFI also worked with the Washington State Business Education Association to offer a pre-conference financial education workshop with partners from the Washington Society of Certified Public Accountants (WSCPAs) and King County Bar Association Consumer Education and Training Services (CENTS) program.



DFI partnered with Bellevue Community College, WSCPAs and members of campus Beta Alpha Psi chapters to take financial education out to college campuses throughout Washington. College students received copies of "Right On The Money" – created by the National Endowment for Financial Education – and a Seattle Times Newspaper In Education publication "Get Smart About Your Money" during outreach events.

Working with WaMu and the Department of Treasury's Financial Literacy Education Commission DFI co-sponsored a National Financial Literacy Summit in Seattle, bringing hundreds of financial education leaders together. For two days, the issue of how to improve financial education in our communities for residents of all ages was at the center of discussion, debate and creative problem solving.



Hoping to reach out to Washington homeowners with adjustable rate mortgages (ARMs) about to reset with higher mortgage interest rates, DFI launched a bi-lingual advertising campaign. Seeing a potential for record numbers of homeowners facing financial trouble with pending mortgage rate increases, DFI urged homeowners to assess their mortgages and seek assistance early if they were going to have difficulty making the new higher payments.

Recognizing that thousands of Washington residents don't use financial institutions, Communications worked with the Division of Credit Unions to reach out to industry members in a series of "Unbanked" conferences on the importance financial education plays in being a member of the "Banked" community.





Division of Consumer Services

The Division of Consumer Services regulates the business activities of consumer loan companies, mortgage brokers, loan originators, escrow agents, escrow officers, money transmitters and currency exchangers, check cashers and sellers and payday lenders. The division is also responsible for the investigation and the criminal referrals of residential mortgage lending fraud cases budgeted under the Residential Mortgage Lending Fraud Account.

The division reviews applications for licenses issued under the division's regulatory authority. Applicants meeting qualifications and found to be without negative regulatory or criminal backgrounds are typically granted licenses. A core group of financial examiners periodically examine the books and records of licensees for compliance with applicable state and federal law.

The division's investigation and enforcement arm consists of a mix of financial legal examiners (attorneys) and financial examiners who investigate fraud. This unit investigates and resolves consumer complaints, investigates administrative and criminal violations of financial institution laws, files charges against violators, conducts settlement negotiations, assists assistant attorneys general in administrative and civil litigation, and assists prosecutors in the conviction of criminal violations.

INDUSTRY FACTS AT A GLANCE

Mortgage Broker Licenses	1,911
Mortgage Broker Branch Office Licenses	1,737
Consumer Loan Company Licenses	305
Consumer Loan Company Branch Office Licenses	1,020
Money Transmitter and Currency Exchange Offices	94
Money Transmitter Delegates	8,634
Check Casher Company Licenses*	193
Check Casher Branch Office Licenses	745
Check Seller Company Licenses*	4
Check Seller Branch Office Licenses	11
Payday Lender Endorsement Licenses*	131
Payday Lender Endorsement Branch Office Licenses	589
Escrow Agents	184
Escrow Agent Branch Offices	23
Escrow Officers	400
Tax Refund Anticipation Loan Facilitators	465

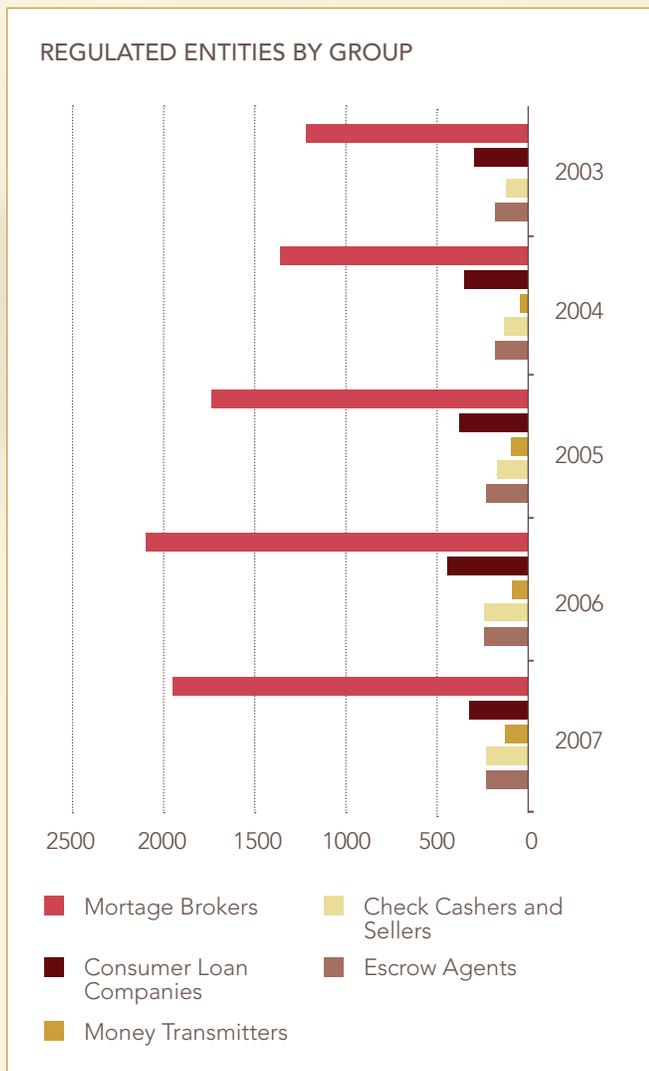
** Check Casher, Check Seller and Payday Lender endorsements overlap. The identified Check Sellers are also Check Cashers and either a Check Casher or Seller license is required in order to obtain a Payday Lender endorsement. Many licensees only conduct payday loan activity despite holding a Check Casher or Seller license.*

STATUTES ADMINISTERED BY THE DIVISION OF CONSUMER SERVICES

- Chapter 31.04 RCW - Consumer Loan Act
- Chapter 31.45 RCW - Check Cashers and Sellers Act
- Chapter 19.146 RCW - Mortgage Broker Practices Act
- Chapter 19.230 RCW - Uniform Money Services Act

- Chapter 18.44 RCW - Escrow Agent Registration Act
- Chapter 36.22/43.320 RCW - Mortgage Fraud Prosecution Account
- Chapter 19.265 RCW - Refund Anticipation Loan

DIVISION OF CONSUMER SERVICES, CONTINUED



DIVISION MILESTONES AND ACCOMPLISHMENTS

- Prior to 2007, the Division had about 2,900 licensees. With the introduction of Loan Originator (LO) licensing in 2007, the number of licensees grew significantly. Within the first two months of 2007, the Division received approximately 10,000 LO applications and ultimately received more than 13,000 LO applications. This workload placed tremendous stress on the Division's employees and systems. However, thanks to the employees' dedicated efforts and remarkable ingenuity the project was a success, with 13,722 LOs licensed at year-end.
- DFI has been very proactive in addressing the subprime mortgage crisis, which is characterized by a sharp rise in the foreclosure rate and mortgage delinquencies. In July 2007, DFI adopted the CSBS/AARMR/NACCA Statement on Subprime Mortgage Lending and the federal guidance on non-traditional mortgage loans. These interagency statements were developed to address the emerging risks associated with certain subprime mortgage products and lending practices. Additionally, DFI Director Scott Jarvis is an active member of the Washington Task Force for Homeowner Security. Governor Gregoire formed this task force to evaluate instability in the national subprime mortgage market and ensure that the impact of this national trend is minimized in Washington.
- In 2007, the Division issued 199 administrative enforcement actions involving loan originator applicants that were not eligible for a license.
- The Division's efforts on the 2006 nationwide settlement with Ameriquest Mortgage Company resulted in 8,750 Washington consumers who are scheduled to receive settlement checks totaling nearly \$9.9 million in December 2007.
- In March 2007, the Division entered an Agreed Order to Cease and Desist against New Century Mortgage Corp., New Century Mortgage Ventures, LLC, New Century Credit Corp., and Home 123 Corp. The Order was due to New Century not having sufficient warehouse lines of credit to fund loans that New Century closed or intended to close with Washington Consumers. New Century was in such poor financial condition that they could not continue business in Washington without a substantial likelihood that Washington consumers would be injured. The Division addressed two other similar situations in August 2007 by issuing a Temporary Order to Cease and Desist against Aegis Wholesale Corporation, Aegis Funding Corporation

(CONTINUED NEXT PAGE)

DIVISION OF CONSUMER SERVICES, CONTINUED

Division Milestones and Accomplishments, continued

and by issuing an Agreed Order to Cease and Desist against American Home Mortgage Acceptance Inc; American Home Mortgage Ventures LLC; and American Home Mortgage Corp.

- Linden Loans, LLC of Kirkland, a licensed mortgage broker, advertised on television as the "Home of the 1% Mortgage." DFI entered a Statement of Charges in December 2007, alleging among other things that Linden used bait and switch tactics in its advertising. The investigation revealed that though Linden promised consumers residential mortgage loans at "1% interest, with no points and no fees," not one borrower actually received those terms in 2006. DFI is seeking the following sanctions against Linden and its owners and officers: to cease all advertising in violation of the law, suspension of their mortgage broker and loan origination licenses for 30 days, payment of a fine of at least \$150,000 and of an investigation fee of at least \$2,500.
- A Final Order was entered against Cash USA Inc. and Nilo and Marita Tuazon in January 2007 denying Cash USA's license application; banning the Tuazons from the industry until January 23, 2017; imposing a fine of \$65,000; and ordering restitution of \$242,110.68 due to 298 borrowers (\$98,177 allowed as forgiveness of debt, \$143,934 due in cash). [Background: In November 2004 Cash USA Inc. and the Tuazons were ordered to cease and desist from engaging in unlicensed payday lending. In June 2005 a Statement of Charges was issued against Cash USA and the Tuazons for numerous violations including the unauthorized making of small loans, charging excessive interest or fees, accepting multiple postdated checks, making small loans repaid with proceeds of successive small loans (rolling), and violating the order to cease and desist.]
- In November 2007, the Division Issued a Temporary Cease and Desist Order against Escrow Visions, LLC, d/b/a American West Escrow and Barbara Marie Simmons. The Order resulted from an examination which revealed that Escrow Visions failed to maintain records and reconcile its trust accounts.
- In June 2007, the Division issued a Temporary Cease and Desist Order against Exceptional Escrow Corp and Catherine Wiseman. The Division alleges consumer escrow funds were illegally used for operating expenses. An examination discovered that various trust accounts had not been reconciled for several months, as well as what appeared to be a series of suspicious transactions.

The Division requested that King County Superior Court appoint a receiver to take over Exceptional Escrow.

- The Division performed 259 examinations in 2007, far exceeding the Division's annual performance goal of 100. In this first year of routine examination authority over the Mortgage Broker industry, the Division performed 99 Mortgage Broker examinations uncovering numerous instances where licensees provided inadequate disclosures, failed to disclose fees, or collected unearned fees.
- In December 2007, following the enactment of federal law that limited the interest rate on payday loans to service members at 36% annual interest, DFI performed sweep exams of 92 licensed locations offering payday loans near military installations. By reviewing the practices of these payday lenders, the Division supported its mission by educating stakeholders to protect consumers.
- To improve communication with its licensees and interested parties, the Division established email ListServes for each of its regulated industries. The Division utilizes these ListServes to effectively distribute information such as newsletters, interpretive and policy statements, rulemaking notices, industry meeting notices, and other communications to a targeted audience.
- In October 2007, the Division launched an online Mortgage Broker and Loan Originator renewal system. This system enabled thousands of licensees to conveniently renew their license for 2008.



DIVISION OF CONSUMER SERVICES, CONTINUED

REGULATED INSTITUTIONS

MORTGAGE BROKERS

	2003	2004	2005	2006	2007
Companies	1,192	1,316	1,771	2,038	1,911
Branch Offices	629	787	963	1,335	1,737
Consumer Complaints	402	317	484	696	894
Total*					1270

*This total includes 524 assessments of loan originator license applications, unlicensed activity, and examination findings

2007 MORTGAGE BROKER ANNUAL REPORT DATA

Mortgage Broker Activity	Number	Total Principal Loan Amount
Brokered Loans	97,075	\$23,141,273,169.48
Funded Loans	17,654	\$ 4,435,539,756

CONSUMER LOAN COMPANIES

	2003	2004 **	2005 **	2006	2007
Companies	270	295	323	356	305
Branch Offices	811	966	1,152	1,309	1,020
Consumer Refunds	\$123,844	\$210,486	\$145,690	\$305,993	\$191,939
Consumer Complaints	359	224	266	273	455
RE* Loans Made During Period	86,315	215,118	134,738	166,334	49,719
Total Dollars in RE* Loans Made During Period	\$9,913,792,697	\$25,510,082,883	\$19,355,015,302	\$27,839,204,209	\$8,185,557,306

*Refers to real estate loans that use borrower's home as security for the loan

**Amended data from prior Annual Reports

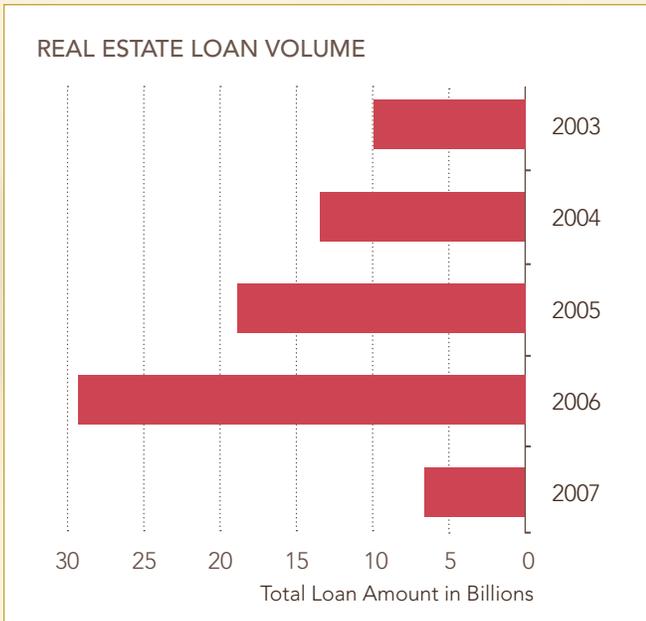
ESCROW

	2003	2004	2005	2006*	2007
Registered Escrow Offices	204	200	198	202	184
Registered Escrow Officers	347	334	341	342	23
Enforcement Actions	6	11	5	1	*
Consumer Services Actions	-	-	2	2	15
Consumer Services Complaints	-	-	3	43	77

*Escrow was previously licensed and regulated by the Division of Securities. On June 30, 2006 the Division of Consumer Services assumed these duties



DIVISION OF CONSUMER SERVICES, CONTINUED



CHECK CASHERS

	2003	2004	2005	2006	2007
Companies	139	144	162	177	193
Branch Offices	542	539	572	624	745
Consumer Complaints	1	6	10	8	8
Number of Checks Cashed	2,612,526	2,654,671	3,369,657	4,039,874	4,943,792
Dollar Amount of Checks Cashed	\$938,985,616	\$958,977,269	\$1,175,006,834	\$1,488,391,615	\$1,876,292,765

CHECK SELLERS

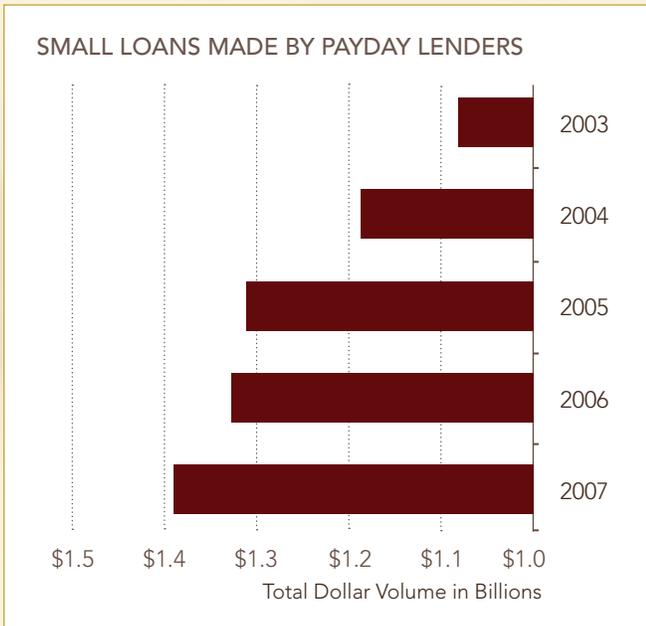
	2003	2004	2005	2006	2007
Companies	9	8	17	16	4
Branch Offices	8	5	6	7	11
Consumer Complaints	1	7	11	0	2
Number of Checks Sold*	1,158,438	806,108	2,299,566	2,120,322	2,097,309
Dollar Amount of Checks Sold*	\$226,641,820	\$158,664,508	\$512,674,993	\$430,933,339	\$631,587,266

*Includes checks sold as an agent of exempt company

PAYDAY LENDERS

2003	2004	2005	2006	2007
14	82	70	84	127

DIVISION OF CONSUMER SERVICES, CONTINUED



MONEY SERVICES

	2005	2006	2007
Companies	84	91	94
Delegates	5,712	7,200	8,634
Consumer Complaints	27	48	55
Volume	MT: \$15,330,265,462 CE: \$156,486,039	MT: \$16,036,785,677 CE: \$165,123,453	MT: \$15,750,681,644 CE: \$198,302,210
Fee Income	MT: \$54,673,884 CE: \$884,770	MT: \$65,478,414 CE: \$1,009,106	MT: \$74,248,063 CE: \$366,345

ENFORCEMENT STATISTICS

	2005	2006	2007
Statement of Charges	18	17	218
Summary Cease and Desist or Suspension	1	1	7
Final Order or Revocation	12	2	65
Consent Order	30	19	28
Total	61	39	318

	2003	2004	2005	2006	2007
Complaints*	1,025	948	1,088	1,336	2,184
Charges and Orders	52	123	61	39	318
Investigations Opened	29	68	80	87	354
Investigations Closed	93	64	47	39	91

*Includes complaints filed against non-licenses.



Division of Credit Unions

- LINDA JEKEL, DIRECTOR OF CREDIT UNIONS

The Division of Credit Unions was created in 1993. Before that, the Division of Savings and Loan Associations regulated state credit unions. Credit unions are nonprofit, cooperative associations organized to promote thrift among their members and create a source of credit for them at fair and reasonable rates. The Division seeks to protect the financial interests of credit union members, including depositors.

The Division examines credit unions at least every 18 months for unsafe and unsound practices and violations of statutes and rules. The Division uses a variety of examination and supervision tools to accomplish its mission. In addition, the Division processes a variety of applications from state credit unions such as merger and conversion applications. The Division also works with consumers regarding complaints against state credit unions.

Washington state chartered credit unions prospered in 2007. Washington credit unions are consolidating into fewer numbers due to competitive pressures from other financial service providers (such as banks, mortgage brokers, and consumer loan companies). A similar trend is evident nationally in the credit union industry. The remaining credit unions are healthy, with strong net worth for future growth and loss reserves. Net worth levels increased 11.79 percent to \$2.34 billion. Due to better marketing, credit union

membership continued to grow supporting and strengthening the credit union movement and resulting in more loans and deposits. Total loans grew 12.62 percent to \$17.31 billion, and total shares and deposits grew 12.99 percent to \$19.46 billion.

INDUSTRY FACTS AT A GLANCE

Number of state chartered credit unions	78
Total assets of state chartered credit unions	\$22.61 billion
Total state chartered credit union members	2.14 million

DIVISION MILESTONES AND ACCOMPLISHMENTS

NEW CREDIT UNION CHARTERS

- No new credit unions charters were issued in 2007.

CHARTER CONVERSIONS

- There were no charter conversions in 2007.

MERGERS

- Credit Union Northwest merged with Seattle Metropolitan Credit Union.

NAME CHANGES

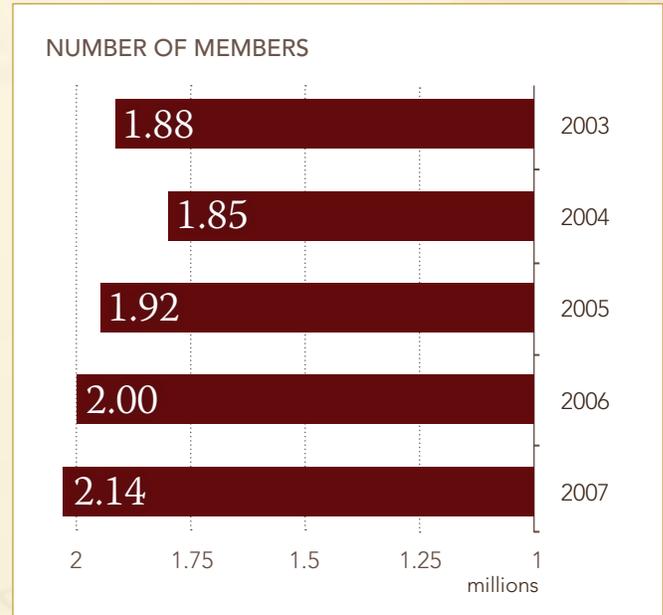
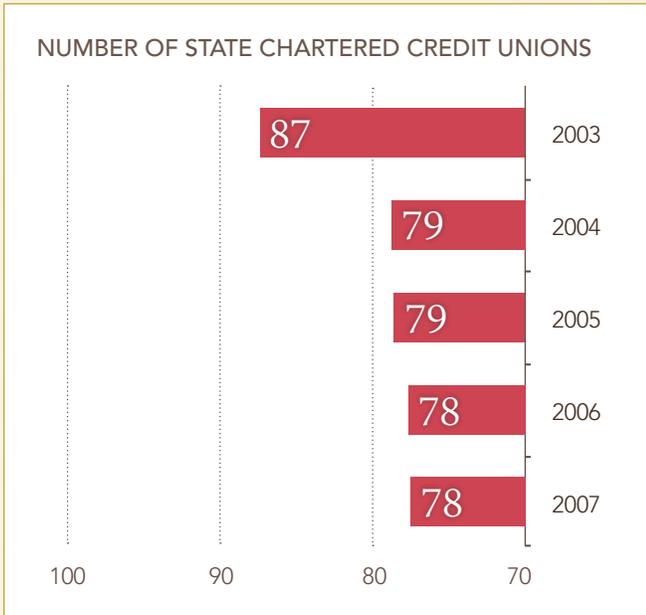
- B N West Credit Union became MilePost Credit Union.

STATUTES ADMINISTERED BY THE DIVISION OF CONSUMER SERVICES

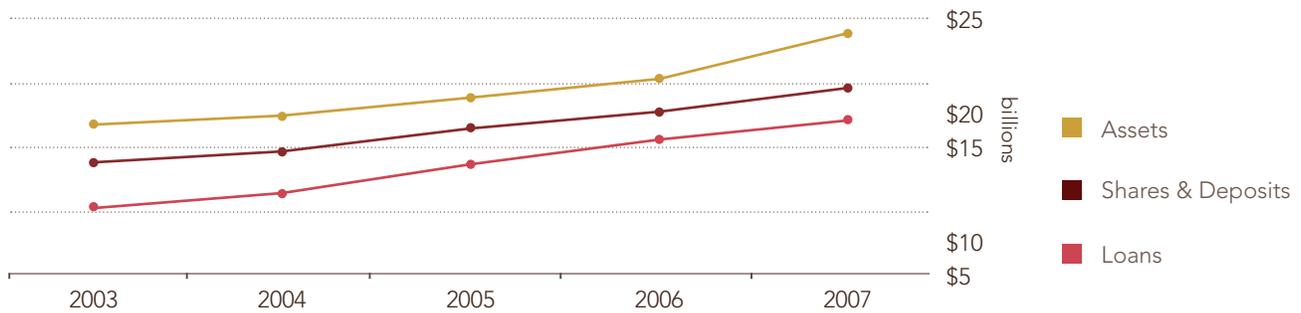
Chapter 31.12 RCW The Washington State Credit Union Act
 Chapter 31.13 RCW The Corporate Credit Union Act

DIVISION OF CREDIT UNIONS, CONTINUED

STATE CHARTERED CREDIT UNION INFORMATION



STATE CHARTERED CREDIT UNIONS END-OF-YEAR STATISTICS



STATE CHARTERED CREDIT UNION FINANCIAL INFORMATION

	2003	2004	2005	2006	2007
Loans & Contracts	\$10,553,569	\$11,857,264	\$13,665,692	\$15,370,220	\$17,308,049
Total Assets	\$16,239,395	\$16,898,268	\$18,528,470	\$20,229,811	\$22,613,102
Shares & Deposits	\$14,129,834	\$14,622,907	\$15,882,061	\$17,220,000	\$19,456,444
Net Worth	\$1,577,682	\$1,687,204	\$1,873,269	\$2,088,955	\$2,343,904
Net Income	\$149,457	\$153,628	\$184,649	\$208,284	\$183,810
Net Worth to Total Assets Ratio	9.71%	9.98%	9.98%	10.32%	10.36%

All numbers are end of year figures in thousands (000)



Division of Securities

- MICHAEL STEVENSON, DIRECTOR

The Division of Securities regulates the offer and sale of investments to Washington State residents. Regulation encompasses registration of security, franchise, and business opportunity offerings, and licensing and examination of securities broker-dealers, and investment advisers.

The Securities Division provides technical assistance to small businesses, responds to customer complaints, undertakes investigations based upon complaints and undercover work, and brings appropriate administrative, civil and criminal cases. In 2007, the Division licensed over 120,000 individuals and firms providing securities investments and advice to our citizens and oversaw more than \$3 trillion of securities products offered to Washington investors.

The Securities Division conducted a series of seminars in 2007 for registered investment advisers covering key investment adviser registration and compliance issues. The seminars started with presentations in Tumwater and Silverdale in April 2007; continued in May with presentations in Spokane, Kennewick, Vancouver, and Tacoma; and concluded in June with presentations in Seattle, Bellevue, and Bellingham. A total of 182 industry members attended seminars in the

series. For those who could not attend, the slide show for the presentation was posted on the DFI website.

The Division works directly with the entities it regulates through examinations and market surveillance activity in an effort to assure the public of adequate protection for their investments.

INDUSTRY FACTS AT A GLANCE

Registered Securities Salespersons	121,695
Registered Securities Broker-Dealers	2,115
Branch Offices of Broker-Dealers	3,891
Regulated Investment Advisers	1,807
Investment Adviser Representatives	8,532
Registered Franchises	1,127

STATUTES ADMINISTERED BY THE DIVISION OF SECURITIES

- Chapter 19.100 RCW - Franchise Act
- Chapter 19.110 RCW - Business Opportunity Act
- Chapter 21.20 - Securities Act
- Chapter 21.30 - Commodities Act



DIVISION OF SECURITIES, CONTINUED

In 2007, the Securities Division took 85 enforcement actions that resulted in respondents being ordered to cease unlawful conduct, and to pay restitution, fines and costs. As a result of the Division's enforcement actions, the Department collected more than \$277,000 in fines and recovered costs of more than \$203,000. Victims were paid more than \$5 million in restitution as a result of the Division's enforcement actions. The Securities Division referred cases for criminal prosecution to county prosecuting attorneys in four counties (King, Pierce, San Juan, and Spokane) and referred three cases to the U.S. Attorney for the Western District of Washington.

ENFORCEMENT

TOLAN FURUSHO

In November 2007, Bellevue attorney Tolan Furusho pleaded guilty in U.S. District Court in Seattle to conspiracy to commit securities fraud and two counts of failing to file federal income tax returns. Furusho's conduct related to the investigation of "pump and dump" securities fraud schemes in the trading of public company stock. The Securities Division worked with the U.S. Attorney's Office, FBI, IRS and Postal Inspection Services in the investigation of the case.

MCUBE PETROLEUM, INC., LARAMIE PETROLEUM, INC., ET AL.

The Securities Division entered a Final Order in April 2007 against MCube Petroleum, Inc.; Laramie Petroleum, Inc.; Diski Petroleum, LLC; Baslam Petroleum, LLC; Halmahera – Rembang, LLC; George Atwater; and Robert Miracle. The Respondents offered over \$33 million worth of investment opportunities in oil and gas ventures located in Malaysia or Indonesia through the sale of promissory notes, common stock or Limited Liability Company units to at least 238 investors. The Securities Division ordered Respondents to cease and desist from violating the securities registration, broker dealer, securities salesperson registration and anti-fraud provisions of the Securities Act of Washington. MCube paid \$92,000 in fines.

GERALD SHERMAN

In May 2007, Gerald Sherman of Mercer Island, Washington, was sentenced to seven years in prison, three years of supervised release and was ordered to pay \$1,374,417 in restitution in U.S. District Court in Seattle. Sherman's conviction involved four counts of securities fraud, fifteen counts of wire fraud and two counts of mail fraud. Sherman had raised funds through a number of investment opportunities offering investors exceptionally high rates of return. The bulk of the money raised was used to support

youth hockey teams and leagues and for living expenses. The Securities Division worked with the U.S. Attorney's Office, Postal Inspection Service, and the FBI in the investigation of the case.

LARRY HARRISON AND CHARLENE WHITE

In August 2007, Laurence A. Harrison of Las Vegas, Nevada, and Charlene White of Vancouver, Washington, was sentenced in King County Superior Court. Harrison was sentenced to 68 months incarceration and White was sentenced to 43 months. In May 2007, Harrison pleaded guilty to twenty counts of securities fraud in King County Superior Court and agreed to pay restitution of \$954,375. Harrison's former wife and business partner Charlene White, who had previously been charged with twenty-one counts of securities fraud, had pleaded guilty in February 2007 to 10 counts of securities fraud. From 2000 through 2002, Harrison and White offered investments in companies called Consumer Benefits Association and National Care Corp. telling investors that the money was to be used for the development of a discount healthcare card and that their investments would be worth millions. Harrison and White used some of the funds received from investors to sustain their failing restaurant in Bothell, Washington, as well as for their own living expenses.

OPPENHEIMERFUNDS DISTRIBUTOR, INC.

In February 2007, the Securities Division entered into a Consent Order with OppenheimerFunds Distributor, Inc. ("OFDI"), a registered broker-dealer headquartered in Colorado and New York. The Division alleged that OFDI entered into written agreements allowing select broker-dealers and investment advisers to make bulk exchanges between specific OppenheimerFunds mutual funds for client accounts. Other firms could not make bulk exchanges unless they were the broker of record on the accounts. Additionally, the Division alleged that the agreements were not disclosed in fund prospectuses or other documents distributed in the state of Washington, and that from 2000 through 2003, the bulk exchanges resulted in dilution of mutual fund returns. In settling the matter, OFDI neither admitted nor denied the allegations, but consented to cease and desist from future violations of the Securities Act and to terminate the agreements. OFDI paid \$394,500 in restitution to the impacted mutual funds, paid a \$100,000 fine, and reimbursed the department for \$175,000 in investigative costs.

DIVISION OF SECURITIES, CONTINUED

FEDERAL SAVINGS, LLC; FIRST BANCSHARES, INC.; JMA NORTHWEST INVESTMENTS, LLC; AND JEREMY M. STAMPER

In the settlement of a King County Superior Court case brought by the Securities Division, 219 investors from 37 states received the return of their investments plus interest totaling more than \$4.7 million from Federal Savings, LLC, and Jeremy Stamper of Seattle. The Division had alleged that Federal Savings was selling investments via the internet to investors who may have thought they were buying certificates of deposit from an FDIC insured bank. Federal Savings was not a state or federally chartered bank and was not FDIC insured. DFI alleged that these actions violated the Washington State Securities Act for the sale of unregistered securities, offering and selling securities while not registered, and securities fraud. In a related administrative case, Federal Savings LLC and Stamper entered into a consent order with the Division and reimbursed the department for \$4,500 in investigative costs.

CONSUMER OUTREACH

In 2007, DFI staff members joined forces with the AARP to launch the "InvestWise Washington" campaign, focusing on our state's aging population. The principle of the campaign is to teach investors how to avoid scams and make better investment decisions. Along with the Governor, DFI staff members participated in making an educational video for the campaign to promote wise investing. Investor Outreach programs were held in Spokane, Pasco, Lynnwood and Vancouver.

Securities Division staff appeared on the KCTS "About the Money" television show to provide consumers with information and tips on how to avoid investment scams, and in the KCTS production of "Mad About Money," a program about financial education that is directed towards middle school students.

MICHAEL STEVENSON- MEMBERSHIPS

Mr. Stevenson is a member of the Board of Directors of the North American Securities Administrators Association (NASAA), the Uniform Securities Act Committee and the Corporate Governance Committee. NASAA is the voice of the state securities agencies whose mission is protecting consumers in the purchase of securities and investment advice. He serves as an alternate member of the Board of Directors for the National White Collar Crime Center (NW3C). NW3C provides support for the prevention, investigation, and prosecution of high tech and economic crime to more than 2,000 federal, state and local law enforcement agencies and operates through grants from the United States Department of Justice.



DIVISION OF SECURITIES, CONTINUED

REGULATED INSTITUTIONS

SECURITIES	2004	2005	2006	2007
Dollar Amount of Securities Permits, Notifications and Exemptions Authorized	\$507,503,462,029	\$625,721,157,829	\$832,653,224,434	\$3,154,713,867,287*
Registered Securities Broker-Dealers	2,072	2,085	2,124	2,115
Registered Investment Advisers	403	412	418	433
Investment Adviser Notice Filers	1,068	1,145	1,273	1,374
Registered Securities Salespersons	101,834	106,630	113,373	121,695
Registered Investment Adviser Representatives	6,358	6,860	7,582	8,832
Branch Offices of Broker-Dealers	2,285	3,755	3,772	3,891
Active Enforcement Cases	149	137	128	163
Enforcement Actions	72	85	82	54

*This workload data does not include information on registrations or licenses that terminate or fail to renew during the year.

FRANCHISES	2004	2005	2006	2007
Registered Franchises	872	966	1,065	1,127
Registered Franchise Brokers	139	210	143	147
Active Enforcement Cases	16	17	17	22
Enforcement Actions	5	3	12	10

BUSINESS OPPORTUNITIES	2004	2005	2006 <small>*until June 30</small>	2007
Registered Business Oppertunites	33	27	31	22
Active Enforcement Cases	14	15	7	17
Enforcement Actions	7	2	7	5

COMMODITIES	2004	2005	2006	2007
Active Enforcmnt Cases	2	1	0	2
Enforcmnt Actions	0	0	0	0

DIVISION OF SECURITIES, CONTINUED

REGISTRATION AND LICENSING ACTIVITY TOTALS FOR 2006

REGISTRATIONS, EXEMPTIONS & NOTIFICATIONS			
	2007 NEW	2007 RENEW	2007 AMEND
Investment Companies (Mutual Funds)	3,554	17,484	17,377
Small Business Filings (SB-2s)	6	1	0
Other Coordination Filings	35	32	34
Qualifications	16	6	4
SCOR (Small Company Offering Registration)	1	0	0
Franchises	213	842	315
Exemptions	2,729	0	0
Opinions	16	0	0
Franchise Exemptions	30	130	0
Business Opportunities	7	11	6
TOTAL	6,607	18,506	17,736

FIRMS & ENTITIES		
	2007 NEW	2007 RENEW
Securities Broker-Dealers	159	2,115
Investment Advisers	289	2,244
Franchise Brokers	53	117
TOTAL	501	4,476

REPRESENTATIVES & SALESPERSONS*		
	2007 NEW	2007 RENEW
Investment Adviser Representatives	2,493	8,532
Intrastate Securities Salespersons	14	21
Agents of Issuers	4	3
Securities Salespersons	35,335	121,395
Salespersons with Disclosure History	3,697	N/A
TOTAL	44,543	130,251

*This workload data does not include information on registrations or licenses that terminate or fail to renew during the year.

DIVISION OF SECURITIES, CONTINUED

EXAMINATION AND ENFORCEMENT ACTIVITY TOTALS FOR 2007

EXAMINATION STATISTICS

	2004	2005	2006	2007
Broker-Dealer Exams Completed	67	108	126	171
Investment Adviser Exams Completed	60	121	63	69
Mortgage Broker-Dealer & Debenture Company Exams Completed	4	3	4	2
TOTAL	161	275	232	242

ENFORCEMENT STATISTICS

Types of orders entered in 2006	Statement of Charges	Summary of Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent Order	TOTAL
Securities					
Issuers	21	3	11	13	48
Broker Dealers and Investment Advisers	5	2	2	6	15
Franchises	4	n/a	n/a	5	9
Business Opportunities	2	1	n/a	3	6
Commodities	n/a	n/a	n/a	n/a	n/a
TOTAL ACTIONS	32	6	13	27	78

	2004	2005	2006	2007
Complaints Received	597	486	503	461
Orders Issued	78	95	92	74
Warning Letters Issued	142	98	106	69
Cases Opened	74	153	154	219
Cases In Process	307	276	176	63
Cases Closed	159	184	159	156
Subpoenas Issued	221	220	160	119
Criminal Referrals	7	2	2	14
Criminal Charges	8	1	1	10
Criminal Convictions	7	3	2	4
Criminal Sentencing	7	11	5	4



2007 ANNUAL REPORT

The Washington State Department of Financial Institutions

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