



**2002 ANNUAL
REPORT**

The Department of Financial Institutions

Administration Banks Consumer Services Credit Unions Securities

State of Washington



A Message from the Governor

As governor of the state of Washington, I am pleased to share with you the 2002 Annual Report for the Department of Financial Institutions (DFI). This report will help you understand the vital role that the agency plays in our economy by regulating and supporting our state's financial services industry.

The DFI 2002 Annual Report contains information about banks, credit unions, and related financial institutions doing business in Washington, as well as facts about the burgeoning loan industry and the securities and investment market.

Washington's economic future depends to a great extent on the continued economic health and stability of our state's financial services providers. This industry remains strong and healthy in Washington thanks in part to the watchfulness of DFI. The agency also has assumed a growing role in helping consumers understand how to use financial services properly and to guard against illegal or unethical practices by the unscrupulous few within the industry.

As governor, I cannot emphasize enough the importance of protecting consumers through the proper regulation of our state's financial services industry. I hope you find this report useful.

Sincerely,

A handwritten signature in blue ink that reads "Gary Locke". The signature is fluid and cursive, with the first name "Gary" and last name "Locke" clearly legible.

Gary Locke
Governor



To Governor Locke and The People of Washington

Since assuming my duties as director of the Department of Financial Institutions, my appreciation of the agency's role in maintaining and promoting our state's economic vitality and protecting the public in financial transactions has grown immensely.

The department regulates Washington financial service providers including banks, credit unions, mortgage brokers, consumer loan companies, and securities brokers, issuers, and salespeople. Every day, I am more impressed by the outstanding professionalism and dedication of the agency's staff in meeting their daily obligations in the increasingly complex world of finance.

A big part of the agency's mission is consumer protection—something that as an attorney and advocate I can truly relate to and appreciate. However, our state, like most others, cannot afford to invest enough resources in enforcement to completely eliminate abuses such as predatory lending and investment fraud. Through consumer education efforts we also are working to better equip Washingtonians of all ages to manage their finances, know their rights, and avoid being victimized in financial matters.

Within these pages you will find a wide range of information relating to the work of this agency and the condition of the financial service providers we regulate. On behalf of the 139 dedicated employees at DFI, this report is respectfully presented.

Sincerely,

A handwritten signature in blue ink that reads "Helen P. Howell". The signature is fluid and cursive, written in a professional style.

Helen P. Howell
Director

Department of Financial Institutions

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Department of Financial Institutions

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 is composed of five divisions (Administration, Banks, Consumer Services, Credit Unions, and Securities) and is self-supporting. Fees paid by regulated institutions fund all agency activities. No funding is received from the state General Fund or other tax revenues.

DFI regulates our state's depository institutions and trust companies. This responsibility includes examining and supervising state-chartered commercial banks, credit unions, savings and loan associations, savings banks, and foreign banks. The total combined assets for these institutions in Washington were more than \$102 billion in 2002.

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. More than 100,000 firms and individuals provide securities investments and advice to our citizens, and more than \$579 billion of securities were offered to Washington investors in 2002.

The department also regulates consumer loan companies and check cashers and sellers (which include payday lenders) as well as mortgage brokers and escrow agents and officers operating in this state. Consumer loan licensees made more than \$5 billion in real estate secured loans to Washington consumers in 2002, while payday lenders made over \$873 million in relatively small, short-term loans during the same period.

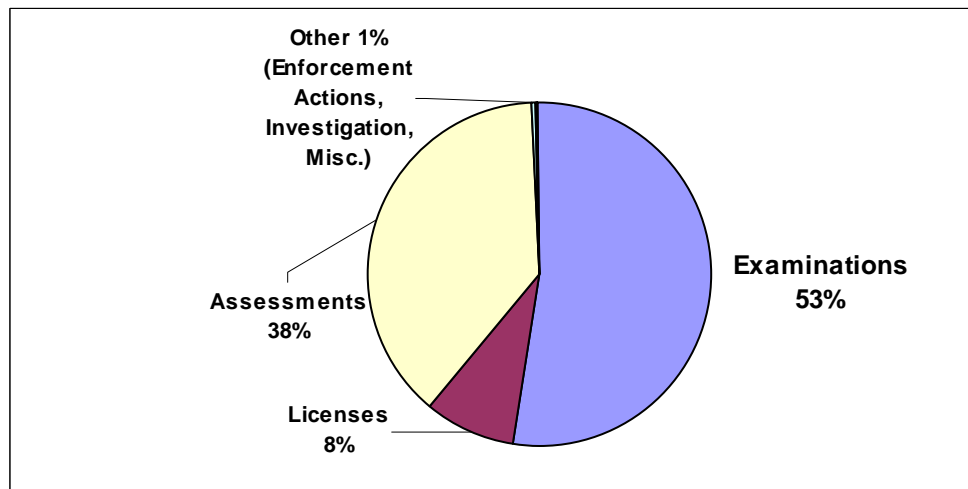
The department handled 1,428 consumer complaints in 2002 and imposed \$887,476 in fines and penalties. The amount of money ordered returned to consumers during the year amounted to \$26,107,515.

Through its Division of Securities, DFI collects significant revenues in connection with its primary functions of registration, licensing, field examinations 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. For fiscal year 2002, the Division of Securities contributed more than \$23 million to the General Fund.

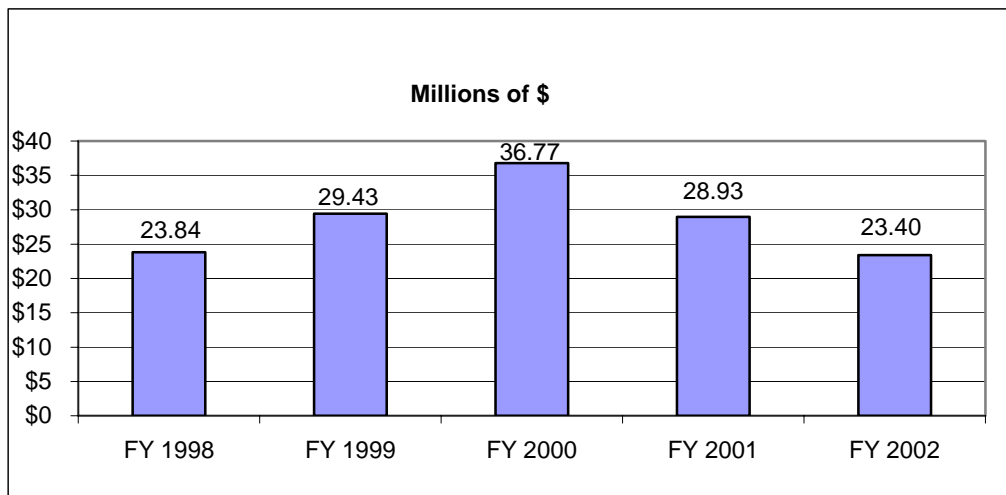
DFI Facts at a glance

- Total budgeted staff: **139**
- Staff composition by gender: **54% female, 46% male**
- Total biennial agency budget: **\$24.4 million**
- Ethnic composition of workforce: **26% is racially diverse**
- Number of complaints processed: **1,428**
- Amount of fines and penalties assessed: **\$887,476**
- Number of enforcement actions: **128**
- Amount of money ordered returned to consumers: **\$26,107,515**
- Consumer education presentations given: **100 in 15 counties**
- Number of citizens reached by consumer outreach: **11,807**
- Amount of money contributed to the General Fund: **more than \$23 million**

DFI Revenues by Category



DFI Contributions to the General Fund



(* Revenues fluctuate significantly depending on stock market activity)



Department of Financial Institutions

DFI Vision

Promote public confidence and trust in the financial services industry.

DFI Mission

We regulate our state's financial services industry to promote economic vitality and protect consumers.

DFI Values

At the Department of Financial Institutions we will:

- Treat employees as our most valuable resource and provide them with skills, knowledge, and opportunities to be successful.
- Empower employees with authority and accountability.
- Respect and promote diversity.
- Treat all individuals and regulated institutions fairly and with respect.
- Respect and support the mission of every division.
- Promote consensus in departmental decision-making.
- Deliver quality services with professionalism and integrity.

DFI MANAGEMENT TEAM



Helen P. Howell
Director, Department of
Financial Institutions



Gloria Papiez
Director, Division of
Administration




David G. Kroeger
Director, Division of
Banks



Mark Thomson
Director, Division of
Consumer Services



Linda Jekel
Director, Division of
Credit Unions



Deborah Bortner
Director, Division of
Securities

Department of Financial Institutions

DFI Milestones and Accomplishments

The 2002 calendar year was notable for many initiatives in consumer protection and financial institution regulation. It was also a year that saw marked change in the administration of the agency.

Appointments

- Governor Locke appointed his deputy chief of staff, Helen Howell, to be director of DFI and a member of his executive cabinet. (September 2002)
- Director Helen Howell named Linda Jekel to be the new director of the Division of Credit Unions. (December 2002)

Enforcement Actions

- A DFI investigation helped initiate the \$484 million Household International predatory lending settlement—the largest such settlement in the nation’s history. Household also agreed to pay millions of dollars in costs and administration expenses and comply with 24 separate restrictions on their business practices. (December 2002)
- DFI participated in the negotiation of a \$100 million settlement with Merrill Lynch on behalf of all 50 states arising from an investigation into analyst conflicts that alleged improper influence over research analysts from the investment bankers in the firm. (April 2002)
- DFI was appointed “lead state” for the US Bancorp Piper Jaffray investigation. Piper Jaffray agreed to settle by paying \$32.5 million, \$25 million of which constitutes fines and penalties for allowing the firm’s investment bankers to have improper influence over its research analysts resulting in tainted research reports and recommendations. (December 2002)
- Century Mortgage, Inc. of Spokane was charged with violating the state’s Mortgage Broker Practices Act by allegedly overvaluing properties and falsifying papers to defraud borrowers and lenders. Also charged were three co-owners and six loan officers. (August 2002)
- Based on an investigation by DFI, an Everett woman was convicted and sentenced to 46 months in prison for defrauding 120 investors of more than \$6 million in an elaborate Ponzi scheme (using new money to pay old investors). (January 2002)
- A securities salesman at Merrill Lynch entered into a Consent Order with DFI for alleged violations of the Washington Securities Act. The case involved 32 investors and \$6 million. (January 2002)
- DFI assisted in investigating a Tacoma father and son insurance sales team who were later charged in California with state securities law violations. The Resource Development International case involved 1,300 investors and \$98 million. (July 2002)

DFI Milestones and Accomplishments

Enforcement Actions *continued*

- Information gathered by DFI during an investigation led to the indictment and arrest of a Bainbridge Island man and others in the Health Maintenance Centers - Znetix Inc. fraud case involving 5,000 investors and \$91 million. (August 2002)
- DFI took enforcement action against a Grays Harbor County escrow company for the theft of approximately \$500,000 in client money. (April 2002) This was one of four similar escrow theft cases coming to the department's attention in 2002.

New Charters

- Four new banking institutions were chartered by DFI during 2002. (See page 10)
- One credit union charter conversion was approved by DFI in 2002. (See page 17)

Legislative Accomplishments

- Legislation (SB 6483, Chapter 65, Laws of 2002) allowing securities regulators in Washington state to handle complaints from investors about variable annuities passed both houses of the Legislature unanimously. The Governor signed the bill in March and it became effective June 13, 2002.

Digital Government

- The department adopted digital online licensing for escrow officer license renewals; the first of several online transactions planned for various licensees and regulated businesses. (December 2002)
- DFI initiated the use of electronic filing of forms over the Internet to register investment advisers with the national Investment Adviser Registration Depository (IARD). (May 2002)
- The public's use of DFI's Internet pages during 2002 increased by more than 30 percent.

Consumer Education

- During 2002, thousands of citizens benefited from the department's educational presentations and materials. Nearly 12,000 residents in 15 counties attended 100 events. In addition, the department partnered with school districts to distribute personal finance and investor educational materials to nearly 3,000 students.

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. In addition, the division manages the department's quality program and the DFI Web site.

Division accomplishments for 2002

- The department hired its first communications director and its first policy director, thereby centralizing these functions. (December 2002)
- The agency established its first internally developed, Internet-based licensing application, allowing Escrow Officers to renew their licenses on the Internet using a credit card. The new system allows instant renewals (for license renewals without problems) and erases the two-week turnaround time formerly required. (December 2002)
- A web-based electronic travel system was created that provides electronic processing of travel vouchers for staff, including electronic approval and routing through e-mail and automatic calculations of per diem and mileage. The new system streamlines the travel reimbursement process, saving time and money. (December 2002)
- An agency Intranet was established to serve as a communication and information tool for staff. The Division of Administration's portion of the Intranet provides a "one-stop shopping" location for staff to access critical administrative support information, forms, and policies. (February 2002)
- A new, integrated enforcement database system for the Securities and Consumer Services divisions was implemented. This new system replaces antiquated databases and allows for tracking of information on enforcement cases across both divisions. (July 2002)
- Secure connectivity for DFI staff working in the field was achieved. DFI staff can now access DFI securely from almost any Internet connection. As a result, field staff can stay much more connected to the agency and its systems. (October 2002)
- Workforce planning efforts continued to ensure that staffing levels and required skills and competencies for the agency would meet future requirements. Gap analyses and succession planning were completed, and required skills and competencies were incorporated into staff development and evaluation processes. (December 2002)
- The number of page views on the agency's web pages during 2002 increased by more than 30 percent, despite national trends that show home Internet use growing each year by three to four percent and work use growing at about 12 percent annually.

Division 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, and alien banks 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.

Washington state chartered banks had good earnings, improved net interest margins, positive loan and deposit growth, and stable operations in 2002. Banks strengthened their underwriting standards and improved their equity and reserve levels. Core deposit growth and improved liquidity resulted from continuing weakness in the equity markets. It was another record-setting year for mortgage lending activity spurred on by historically low interest rates. Commercial real estate and commercial lending was strong and offset declines in consumer loans.

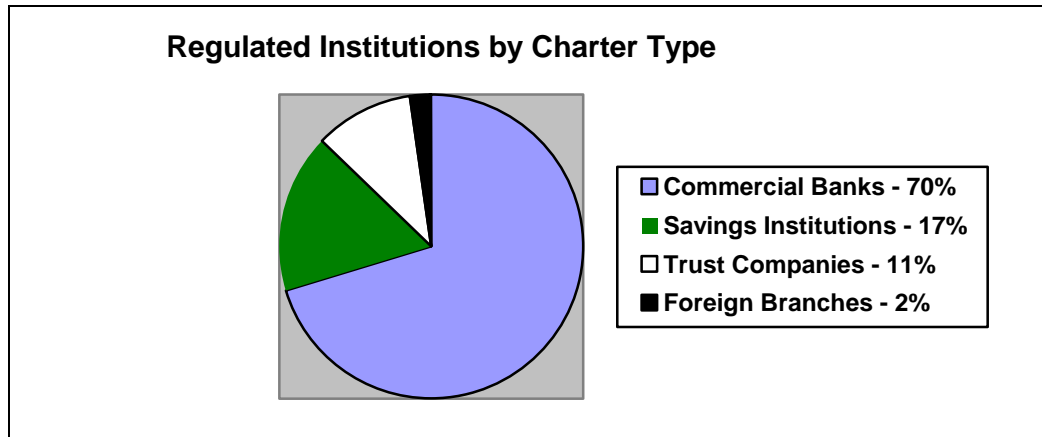
Statutes Administered by the Division of Banks

Chapter 30 RCW	Banks and Trust Companies
Chapter 31.24 RCW	Industrial Development Corporations
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

Industry Facts at a glance

- Institutions Regulated by the Division of Banks
 - Commercial Banks 66
 - Savings Institutions 16
 - Trust Companies 10
 - Branches of foreign banks 2
- Total assets of banks and trust companies \$87 billion

Division of Banks



Division Milestones and Accomplishments

- The division chartered four new banks in 2002.
- Four state chartered institutions were involved in merger transactions during 2002.
- The division completed work on its examination efficiency task force recommendations and began implementing the task force's suggestions to help examiners better identify risks and streamline the examination process. (July 2002)
- The division completed scheduled examinations within their statutory timeframe with assistance from the Federal Deposit Insurance Corporation and the Federal Reserve Board.

Division of Banks

New Banks and Trust Companies

- Washington Business Bank, Olympia (March 2002)
- Regal Financial Bank, Seattle (April 2002)
- Northwest Commercial Bank, Lakewood (July 2002)
- MarinerBank, Port Townsend (December 2002)

Charter Conversions

- First Savings Bank of Renton converted from a state chartered mutual savings bank to a state chartered stock savings bank. (September 2002)

Mergers and Liquidations

- Northwest Trust and Investors Advisory Company, Seattle, merged into Harris Seattle, Inc. (March 2002)
- Harbor Bank, N.A., Gig Harbor, merged into First Community Bank, Lacey. (September 2002)
- Bank of the Northwest, Portland, Oregon, merged into Pacific Northwest Bank, Seattle. (November 2002)
- Harris Trust Company, Seattle, merged into Harris Bank, N.A., Scottsdale, Arizona. (December 2002)

Name Changes

- Harris Seattle Inc., Seattle, changed its name to Harris Trust Company. (March 2002)

Key Statistics	1999	2000	2001	2002
Number of State Chartered Commercial Banks	64	65	62	66
Number of State Chartered Savings Institutions	15	16	16	16

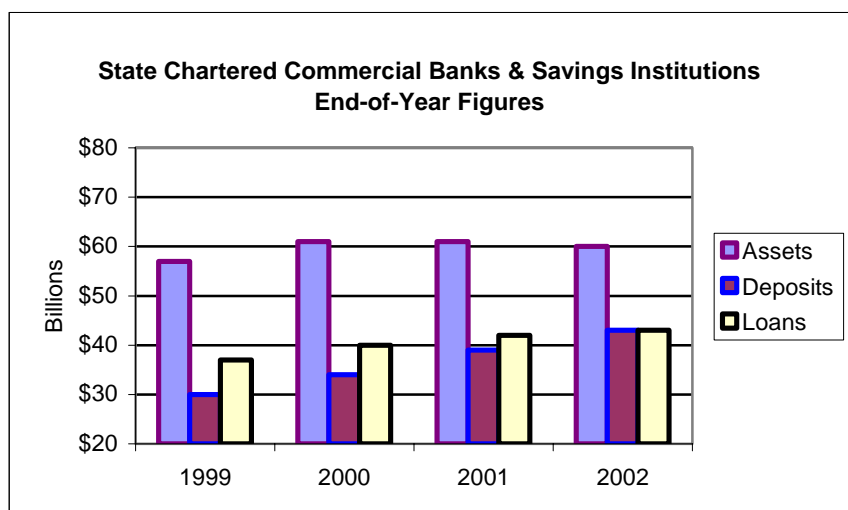
Division of Banks

State Chartered Banks' Financial Information

Commercial Banks and Savings Institutions

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

	1999	2000	2001	2002
Assets	\$57,320,919	\$60,681,325	\$61,420,119	\$60,319,174
Deposits	\$29,579,791	\$33,513,225	\$38,698,270	\$43,495,732
Loans	\$36,948,510	\$40,330,554	\$42,171,392	\$43,033,713
Net Income	\$ 607,140	\$ 524,675	\$ 896,159	\$ 696,116



Commercial Banks	1999	2000	2001	2002
Assets	\$11,852,303	\$17,662,563	\$20,046,062	\$22,561,305
Deposits	\$9,717,263	\$13,603,608	\$15,427,455	\$17,852,336
Loans	\$8,682,816	\$12,821,970	\$15,002,515	\$16,286,426
Net Income	\$ 156,285	\$ 206,902	\$ 206,471	\$ 248,614

Savings Institutions	1999	2000	2001	2002
Assets	\$45,468,616	\$43,018,762	\$41,374,057	\$37,757,869
Deposits	\$19,862,528	\$19,909,617	\$23,270,815	\$25,643,396
Loans	\$28,265,694	\$27,508,584	\$27,168,877	\$26,747,287
Net Income	\$ 450,855	\$ 317,773	\$ 689,688	\$ 447,502

Division of Consumer Services

The Division of Consumer Services regulates the business activities of consumer loan companies, mortgage brokers, escrow agents and officers, check cashers, check sellers and payday lenders. The division reviews license applications, issues licenses, examines the books and records of licensees for compliance with state and federal law, investigates consumer complaints against licensees, and initiates enforcement actions against licensees who violate the law.

Changes in the economy in 2002, most notably increased refinancing activity associated with low interest rates, were reflected in the mortgage and lending industries. The competitive nature of the industry also led to increased license and enforcement activity. The agency also participated in multi-jurisdictional efforts to curb predatory lending.

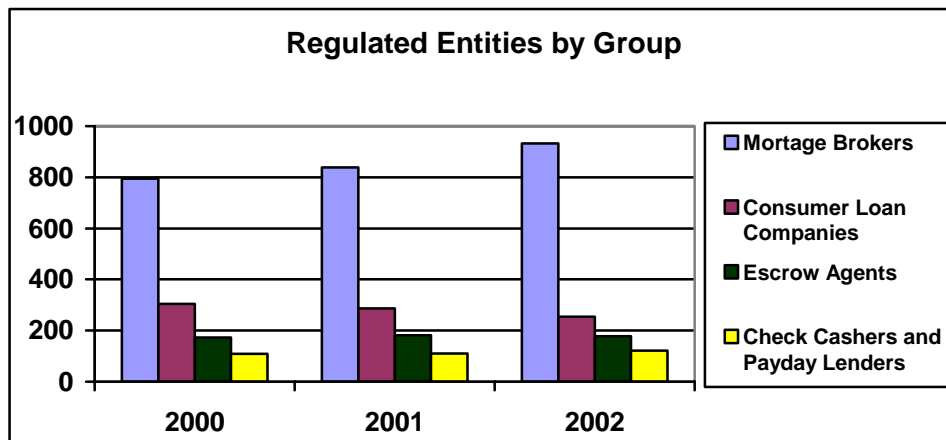
Statutes Administered by the Division of Consumer Services

Chapter 31.04 RCW
 Chapter 31.45 RCW
 Chapter 19.146 RCW
 Chapter 18.44 RCW

Consumer Loan Act
 Check Cashers and Sellers Act
 Mortgage Broker Practices Act
 Escrow Agent Registration Act

Industry Facts at a Glance

- Mortgage Broker Licenses 933
- Mortgage Broker Branch Office Licenses 441
- Consumer Loan Company Licenses 254
- Consumer Loan Company Branch Office Licenses 720
- Escrow Agent Licenses 178
- Escrow Agent Branch Licenses 37
- Active Escrow Officer Licenses 287
- Check Cashier/Seller Licenses 129
- Payday Lender Licenses 110



Division of Consumer Services

Division Milestones and Accomplishments

- A total of \$978,000 in fee overcharges was refunded to Washington borrowers from Household Finance Corporation and Beneficial Washington, Inc. Violations of the state's Consumer Loan Act were uncovered during routine examinations of the companies. (May 2002)
- DFI, the Office of the Attorney General, and the Office of the Insurance Commissioner entered into a formal settlement with Household International Corporation (Household Finance, Beneficial Finance, and Household Realty) through a consent judgment filed in King County Superior Court. The settlement, the first of its kind and part of the largest predatory lending settlement in history, recovered \$484 million for consumers nationwide, including more than \$21 million for Washington consumers. (December 2002)
- Refund checks totaling more than \$79,000 from Unicor Funding, Inc., a California-based mortgage lender, were sent to 242 Washington consumers by the division. The refunds were for inappropriate charges and fees collected. (February 2002)
- The division issued a temporary cease and desist order against Ocean Shores Escrow, Inc. of Grays Harbor County and Cornerstone Escrow, Inc. of Thurston County and their owner after approximately \$500,000 of consumers' money was missing from the companies' escrow accounts. (April 2002)
- Six public meetings on proposed legislation to license and regulate money transmitters and money wire services were held around the state, paving the way for new consumer protections in Washington. (August - September 2002)
- Charges were entered against Century Mortgage, Inc. of Spokane for allegedly overvaluing properties and falsifying papers to defraud borrowers and lenders. (August 2002)

Division of Consumer Services

Regulated Institutions

Mortgage Brokers	2000	2001	2002
Companies	795	839	933
Branch Offices	337	350	441
Consumer Complaints	152	185	295

Escrow Agents & Officers	2000	2001	2002
Agent Licenses	173	181	178
Escrow Agent Branch Licenses	31	32	37
Active Escrow Officer Licenses	247	309	287
Inactive Escrow Officer Licenses	104	210	153
Consumer Complaints	35	29	57

Consumer Loan Companies	2000	2001	2002
Companies	304	287	254
Branch Offices	599	617	720
Consumer Refunds	\$1,034,795.78	\$213,784.77	\$1,229,552.40
Consumer Complaints	328	195	333
RE* Loans Made During Period	43,254	59,836	71,743
Total Dollars in RE* Loans Made During Period	\$1,611,485,003	\$2,270,449,440	\$5,137,363,495

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

Check Cashers	2000	2001	2002
Companies	109	110	121
Branch Offices	306	365	392
Consumer Complaints	4	0	0
Checks Cashed During Period	1,354,427	1,839,397	6,454,950
Dollar Amount of Checks Cashed During Period	\$575,991,499	\$593,882,580	\$834,735,294

Check Sellers	2000	2001	2002
Companies	10	8	8
Branch Offices	9	8	7
Consumer Complaints	0	1	0
Checks Sold During Period*	1,325,117	1,426,531	**550,329
Dollar Amount of Checks Sold During Period*	\$252,827,536	\$263,592,037	\$133,239,667

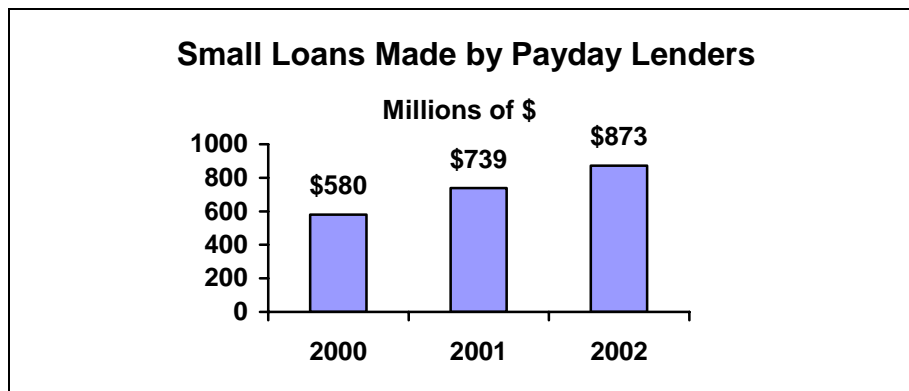
*Includes checks sold as an agent of exempt company

**Decrease due to change in money order reporting requirements

Division of Consumer Services

Regulated Institutions *continued*

Payday Lenders	2000	2001	2002
Companies	90	96	110
Branch Offices	287	286	317
Consumer Complaints	0	3	6
Small Loans Made During Period	1,832,782	2,186,333	2,337,359
Total Amount of Small Loans Made During Period	\$580,535,734	\$739,540,654	\$873,339,989



Enforcement Statistics

2002 orders entered	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent order	Total
Actions	4	2	6	6	18

	2000	2001	2002
Complaints	420	481	842
Orders Issued	15	22	18
Investigations Opened	14	18	43
Investigations Closed	8	18	104

Division 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 societies 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 2002. 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 approximately 10 percent. 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 7.8 percent to \$9.8 billion, and total shares and deposits grew 10.9 percent to \$13.2 billion.

Statutes Administered by the Division of Credit Unions

Chapter 31.12 RCW
Chapter 31.13 RCW

The Washington State Credit Union Act
The Corporate Credit Union Act

Industry Facts at a glance

- Number of state chartered credit unions 92
- Total assets of state chartered credit unions \$15.1 billion
- Total state chartered credit union members 1,848,645

Division of Credit Unions

Division Milestones and Accomplishments

- DFI Director Helen Howell appointed Linda Jekel as Director of Credit Unions. (December 2002)
- The field of membership rules (WAC 208-472) were modified, giving credit union boards more flexibility in determining their own direction. (February 2002)
- Electronic submission of quarterly financial reports was adopted, thereby eliminating paper report requirements. (June 2002)
- Regulatory flexibility for small credit unions was adopted (WAC 208-424), providing wider latitude for special and board meetings. (July 2002)
- Fees were reduced for small credit unions. (June 2002)
- Information service exams were revised to emphasize stronger policies and controls. (June 2002)
- Risk-focused safety and soundness examinations were implemented to provide examiners in charge with greater authority to exercise judgment on which risks to focus their time and attention. (November 2002)
- Guidance was provided on changes affecting the funding of the allowance for loan and lease loss (ALLL) account based on generally accepted accounting principles. Credit unions use the ALLL account to reserve for expected losses. (October 2002)

Charter Conversions

- NW Federal Credit Union converted from a federal to a state charter. (December 2002)

Mergers

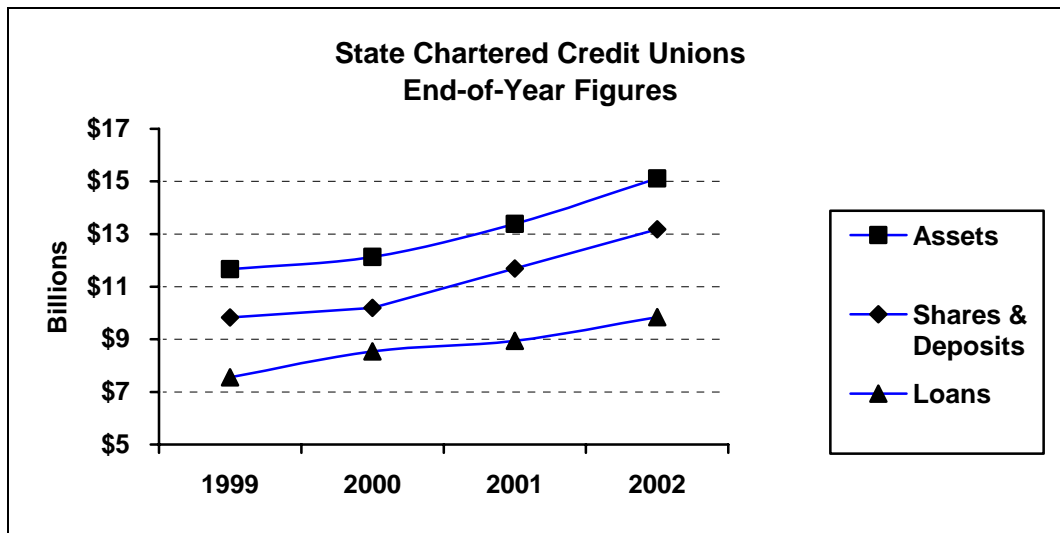
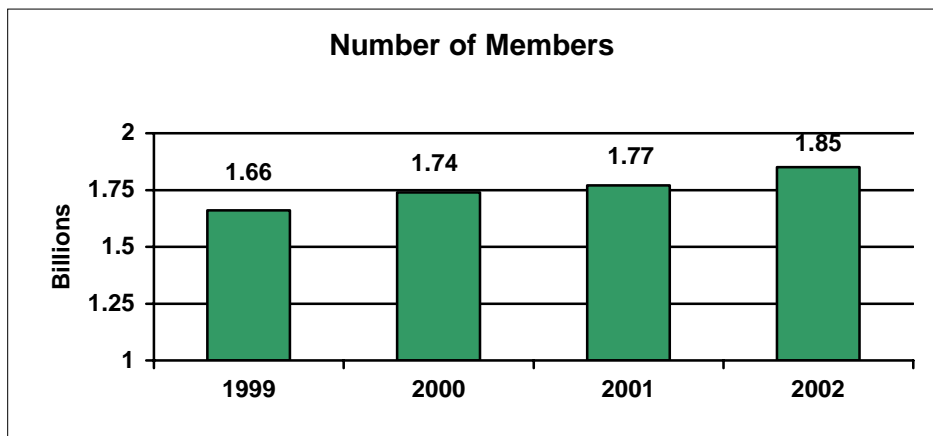
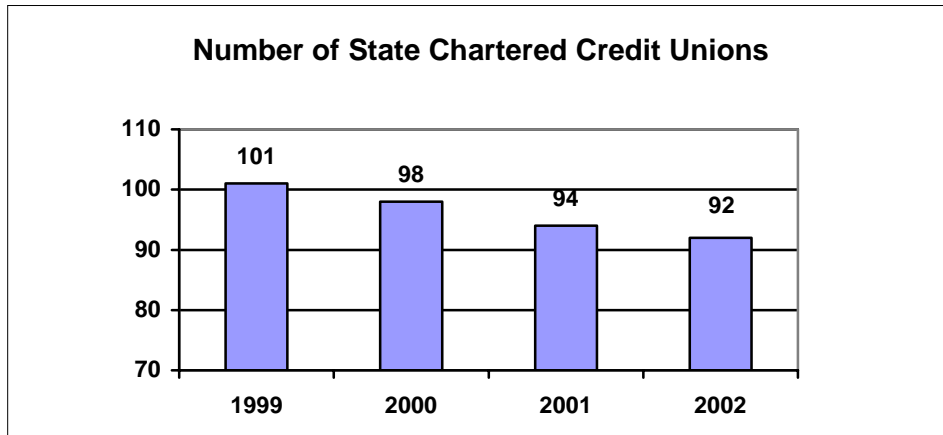
- Heritage Credit Union merged into City Employees of Clark County Federal Credit Union. (April 2002)
- Westop Credit Union merged into Sound Credit Union. (October 2002)
- Western Kraft Employees of Oregon merged into Weyerhaeuser Employees' Credit Union. (October 2002)

Name Changes

- Washington School Employees Credit Union changed its name to School Employees of Washington. (July 2002)
- Seattle Telco Credit Union changed its name to Watermark Credit Union. (December 2002)
- NW Federal Credit Union changed its name to Verity Credit Union. (December 2002)

Division of Credit Unions

State Chartered Credit Union Information



Division of Credit Unions

State Chartered Credit Union Financial Information

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

	1999	2000	2001	2002
Loans & Contracts	\$7,552,358	\$8,537,673	\$8,947,804	\$9,843,563
Total Assets	\$11,665,932	\$12,134,688	\$13,388,339	\$15,109,748
Shares & Deposits	\$9,828,088	\$10,200,011	\$11,692,689	\$13,183,696
Net Worth	\$1,113,779	\$1,201,927	\$1,263,772	\$1,458,360
Net Income	\$90,630	\$85,206	\$86,715	\$160,768
Net Worth to Total Assets Ratio	9.54%	9.89%	9.43%	9.65%

Division of Securities

The Division of Securities regulates the offer and sale of investments to Washington state residents. This is accomplished using a variety of regulatory and enforcement tools, including registration requirements for securities, franchise and business opportunity offerings, and licensing and exams of broker-dealers and investment advisers.

The 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. Over 100,000 firms and individuals provide securities investments and advice to our citizens, and more than \$579 billion of securities products were offered to Washington investors in 2002.

The division works directly with the entities it regulates through exam and market surveillance activity in an effort to assure the public of adequate protection for their investments. A total of 110 enforcement actions were taken this year, and the division assisted in the preparation of nine criminal cases. The division is also actively engaged in providing consumer education presentations and distributing basic personal finance and investor educational materials.

Statutes Administered by the Division of Securities

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

Industry Facts at a Glance

• Registered Securities Salespersons	97,982
• Registered Securities Broker-Dealers	2,104
• Branch Offices of Broker-Dealers	2,138
• Regulated Investment Advisors	1,364
• Investment Adviser Representatives	5,450
• Registered Franchises	721

Division of Securities

Division Milestones and Accomplishments

- The Division of Securities has been an active participant in two national task forces investigating conflicts of interest by Wall Street research analysts. (April 2002) The first task force reached a global settlement with Merrill Lynch in the amount of \$100 million in costs and penalties. The second task force, in which the Division of Securities acted as a lead state, reached a national “settlement in principle” with ten of the country’s largest securities brokers for violations by research analysts, who recommended stocks due to improper influence from investment bankers in the firms. The brokerage firms agreed to pay a total of \$1.4 billion in fines, restitution, independent research and funding for investor education. (December 2002)
- The Division of Securities investigated Sandra Christ, an Everett woman, in a matter involving investments in real estate loans. The investigation, which uncovered an elaborate Ponzi scheme defrauding 120 investors of more than \$6 million, was referred to the U.S. Attorney’s Office for the Western District of Washington. She was sentenced to 46 months in prison for mail fraud. (January 2002)
- The Division of Securities initiated an investigation of Health Maintenance Centers and Znetix Inc., one of the largest stock frauds in the history of Washington. To date, the investigation – that now includes the FBI, the IRS, and the Securities and Exchange Commission – has resulted in grand jury indictments of six persons who were charged with crimes arising from the sale of over \$80 million of securities. (August 2002)
- The Division of Securities partnered with the SEC in investigating violations by Resource Development International of Tacoma, Washington, doing business through corporations in the State of Nevada and the West Indies. The investigation revealed that more than 1,300 investors nationwide were victims of a “prime bank” scheme targeting retirement funds. The division continues to investigate the matter.
- The Division of Securities successfully completed a two-year project to migrate more than 5,000 investment adviser firms and salespersons onto the new Investment Adviser Registration Depository. This national database streamlines the registration process for advisers by providing a single, Internet-based, electronic application process, and improves investor protection by providing the public and division staff with better access to investment adviser registration and disciplinary information. (May 2002)
- The division’s licensing staffs reviewed more than 15,000 disciplinary events involving broker-dealer and investment adviser representatives registered or applying for registration in Washington, resulting in more than 50 withdrawals or terminations, 100 instances requiring heightened supervision, and 20 negotiated conditional registrations.
- The division’s examination team completed more than 240 field exams, including 32 cause exams and seven specialized examinations of mortgage brokers and debenture companies. As a result, 32 referrals were sent to enforcement. The exam team completed three enforcement-directed examination sweeps of firms with four or more branches having regulatory problems.

Division of Securities

Statistics Related to Statutes Administered by the Division of Securities

Securities	2000	2001	2002
Dollar Amount of Securities Permits, Notifications and Exemptions Authorized	\$587,647,972,893	\$489,215,823,523	\$579,056,623,456
Registered Securities Broker-Dealers	2,287	2,124	2,104
Registered Investment Advisers	459	416	424
Investment Adviser Notice Filers	809	894	940
Registered Securities Salespersons	104,970	101,783	97,982
Registered Investment Adviser Representatives (Federal)	4,456	4,495	4,813
Registered Investment Adviser Representatives (State)	672	672	637
Branch Offices of Broker-Dealers	2,048	2,158	2,138
Active Enforcement Cases	137	121	132
Enforcement Actions	57	71	84

Franchises	2000	2001	2002
Registered Franchises	716	689	721
Registered Franchise Brokers	56	74	78
Active Enforcement Cases	6	12	17
Enforcement Actions	10	10	12

Business Opportunities	2000	2001	2002
Registered Business Opportunities	35	40	37
Active Enforcement Cases	49	28	17
Enforcement Actions	14	11	13

Commodities	2000	2001	2002
Active Enforcement Cases	3	1	3
Enforcement Actions	0	2	1

Division of Securities

Registration and Licensing Activity Totals for 2002

Registrations, Exemptions & Notifications

	NEW	RENEW	AMEND
Investment Companies	2,274	14,120	7,643
Small Business Filings (SB-2s)	16	4	4
Other Coordination Filings	40	33	17
Qualifications	40	17	46
SCOR (Small Company Offering Registration)	6	0	0
Franchises	173	556	230
Exemptions	1,300	0	0
Opinions	18	0	0
Franchise Exemptions	14	78	0
Business Opportunities	25	18	9
TOTAL	3,907	14,826	7,949

Firms & Entities

	NEW	RENEW
Securities Broker-Dealers	182	2,075
Investment Advisers	78	388
Franchise Brokers	37	24
Investment Advisor Notices	154	925
TOTAL	451	3,412

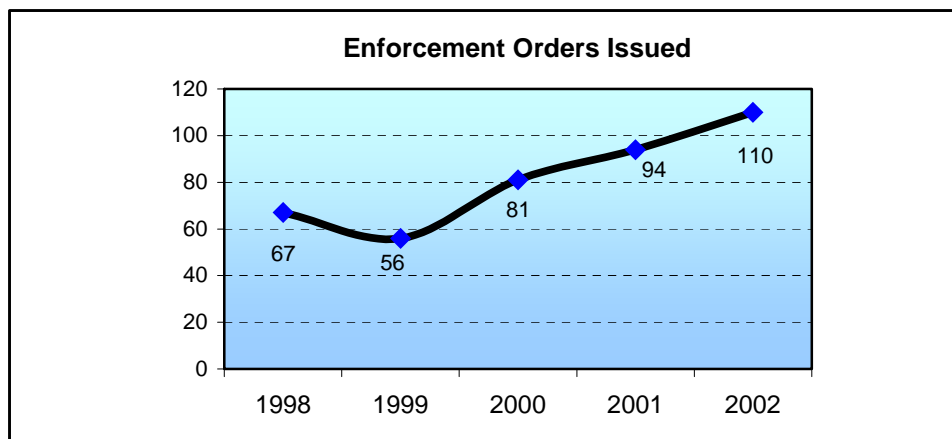
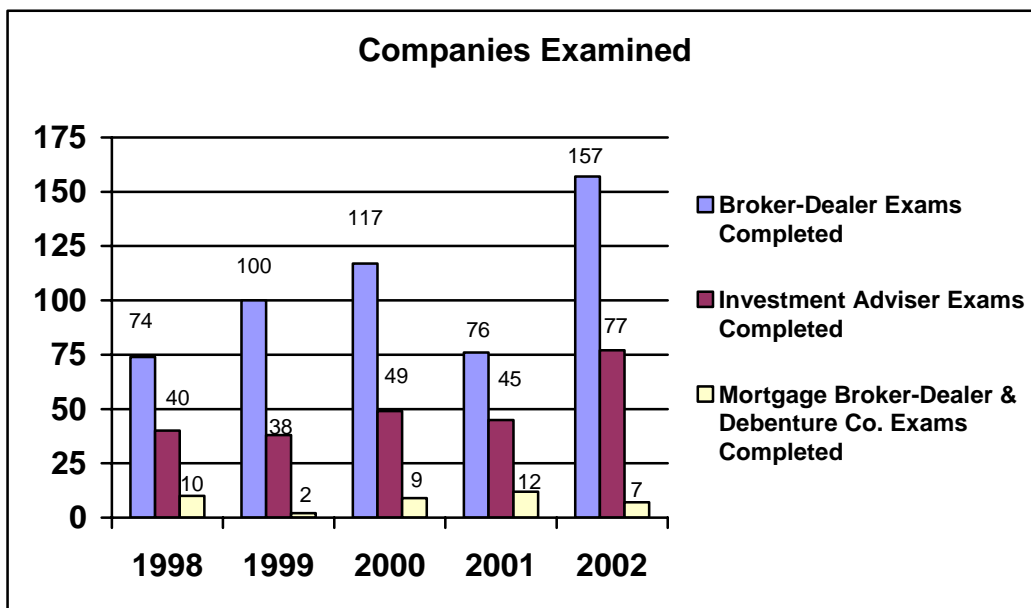
Representatives & Salespersons

	NEW	RENEW
Investment Adviser Representatives	1,395	5,407
Intrastate Securities Salespersons	18	24
Agents of Issuers	15	12
Securities Salespersons	30,540	97,879
Salespersons with Disclosure History	3,667	0
TOTAL	35,635	103,322

Division of Securities

Examination Statistics

	2000	2001	2002
Broker-Dealer Exams Completed	117	76	157
Investment Adviser Exams Completed	49	45	77
Mortgage Broker-Dealer & Debenture Company Exams Completed	9	12	7
TOTAL	175	133	241

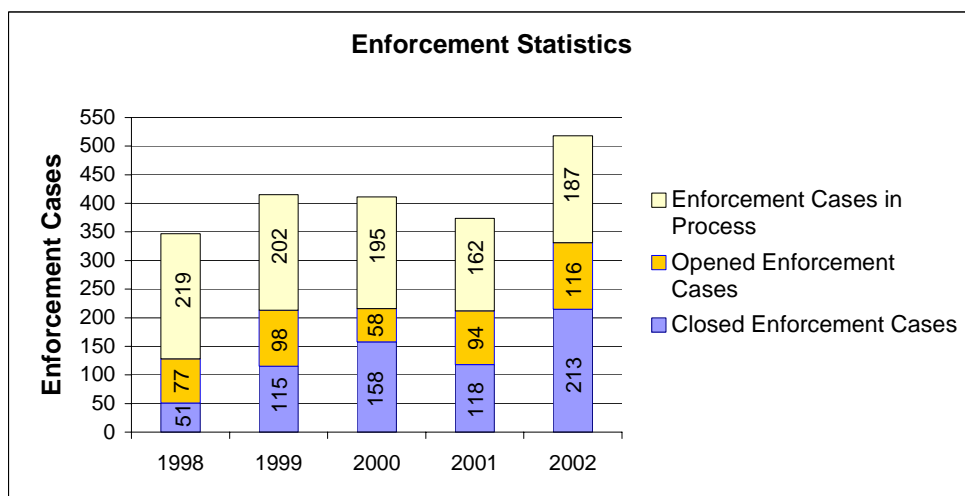


Division of Securities

Enforcement Statistics

2002 types of orders entered	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent Order	Total
Securities					
Issuers	5	18	14	28	65
Broker Dealers and Investment Advisers	4	1	1	13	19
Franchises	0	2	1	9	12
Business Opportunities	0	7	6	0	13
Commodities	0	0	0	1	1
Total Actions	9	28	22	51	110

	2000	2001	2002
Complaints	495	490	496
Orders Issued	81	74	110
Warning Letters	54	50	61
Cases Opened	58	94	116
Cases In Process	195	162	187
Cases Closed	158	118	213
Subpoenas Issued	223	343	375
Criminal Referrals	4	3	10
Criminal Charges	1	3	8
Criminal Convictions	4	3	5
Criminal Sentencings	3	3	2





To receive this report in an alternative format, contact:

Department of Financial Institutions
PO Box 41200
Olympia, Washington 98504-1200
(360) 902-8700 or (360) 664-8126 TDD