



dfi

2003 Annual Report

A Message from the Governor



As governor of Washington State, I am pleased to present the Department of Financial Institution's (DFI) 2003 Annual Report. In it you will see the vital role that DFI plays in our state economy by regulating and supporting the financial services industry in Washington. You will also find useful information about banks, credit unions, and related financial institutions doing business in our state,

plus data on the burgeoning loan industry and securities and investment markets.

Our state's economic future depends to a great extent upon the continued stability of financial services providers. Washington's industry remains strong and healthy in this regard, thanks largely to the watchfulness of DFI.

In addition, DFI has become increasingly proactive in helping the public understand how to use financial services properly. One of its most important functions is protecting consumers against possible illegal or unethical activities through proper industry regulation. This is good for families and good for business statewide.

I am confident that you will find this report to be a valuable and informative resource.

Sincerely,

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

Gary Locke
Governor

To Governor Locke and The People of Washington



I am pleased to present our 2003 annual report highlighting the record and accomplishments of the Washington State Department of Financial Institutions.

The Department regulates Washington financial service providers including banks, credit unions, mortgage brokers, consumer loan companies, and securities brokers, issuers, and salespeople. As improvements in technology and the introduction of new products rapidly change the industry, I continue to be impressed with the Agency's staff and their ability to adapt and embrace the complexities of today's environment. Undoubtedly, the level of commitment and expertise found at DFI goes unmatched.

As DFI works to promote economic vitality and preserve integrity in our state's financial market, our role in protecting the public from fraud has grown significantly. The consumer's access to credit is larger than ever before – an opportunity carrying increased risk to those unaware of the potential for abuse. Although enforcement is one way to eliminate fraudulent activities, I believe that we are more effective by coupling enforcement with a proactive approach to educating consumers. With this in mind, the Department took steps to provide consumers with the tools necessary to making better-informed financial decisions.

One of the most serious challenges the Department faces in the near future comes from the Federal government. In 2003, the Comptroller of Currency introduced rules that, if passed, would preempt state lending and deposit laws for national banks. The consequences would, in effect, shield nationally chartered banks from the Department's ability to enforce the consumer protection laws established in Washington State. DFI has been vocal about the dangers this legislation presents to the state's regulatory system and will continue advocating for the rights of Washingtonians.

We continue to strengthen our relationships with fellow regulators and government agencies. Across the nation, we are known as leaders with a proactive, efficient, and innovative approach to regulation. The experience of our enforcement team is routinely called upon to lead nationwide investigations – succeeding in returning millions of restitution dollars to Washington victims. As a result of the dedication of our employees, the reputation of Washington State's financial regulator is strong.

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.

Helen P. Howell
Director

2003 Annual Report

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Our Mission

DFI regulates our State's financial services industry to protect the public, promote economic vitality, and preserve integrity in the marketplace.

Department Overview

The Department of Financial Institutions (DFI) was established in October 1993 by RCW 43.320. Its historic 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 comprised of five divisions: Administration, Banks, Consumer Services, Credit Unions, and Securities. DFI is self-supported primarily by fees and assessments paid by regulated entities. With regard to securities revenues, the department retains 13 percent of these revenues to fund its activities. By statute, the remaining 87 percent is transferred to the General Fund to support general government operations. The department receives no federal or general fund monies to support its operations.

The Department of Financial Institution's mission is to regulate our state's financial services industry to protect the public, promote economic vitality, and preserve integrity in the marketplace. The Department conducts four core programmatic activities:

CHARTERING, LICENSING AND REGISTRATION

The Department of Financial Institutions evaluates and approves, for banks and credit unions, new applications, mergers, conversions, branches, and corporate governance changes. The Department also conducts licensing, registration and exemption activities for the following financial entities and persons: broker dealers, broker dealer representatives, investment advisers, investment adviser representatives, securities issuers, franchises, franchise brokers, business opportunities, escrow agents, escrow officers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, and consumer loan companies.

EXAMINATIONS

The Department performs several types of examinations. The three primary examinations are: (1) Compliance and for cause examinations of securities broker dealers, mortgage brokers, mortgage broker-dealers, investment advisers, escrow agents, escrow officers, debenture companies, check cashers and sellers (payday lenders), consumer loan companies, money transmitters, and currency exchangers; (2) safety and soundness examinations of banks, credit unions, debenture companies, money transmitters, trust companies, Small Business Association (SBA) lenders, industrial development corporations; and (3) information system examinations of banks and credit unions.

ENFORCEMENT

The Department conducts various types of supervisory, surveillance and enforcement activities to detect and take corrective action for violations of the regulatory and anti-fraud statutes applicable to financial institutions. Activities include: complaint processing, investigation, and appropriate action against securities issuers and brokers, investment advisers, mortgage brokers, check cashers and sellers (payday lenders), money transmitters, currency exchangers, consumer loan companies and escrow agents; and investigation and appropriate actions against banks and credit unions. Coordination and assistance to other law enforcement agencies and prosecutors, and providing testimony in courts of law are additional activities associated with enforcement.

EDUCATION AND PUBLIC OUTREACH

The Department conducts consumer education and outreach activities, and provides technical assistance and regulatory guidance to banks, credit unions, securities and consumer lending industry participants. Activities include: presentations, town meetings, press conferences, technical assistance, advisory letters and bulletins, and other related activities that provide education and information to assist consumers.

DFI Facts at a Glance

Total budgeted staff	147.5
Staff composition by gender	55.5% female, 44.5% male
Total biennial agency budget	\$30 million
Ethnic composition of workforce	29% is racially diverse
Number of complaints Resolved	2,078
Total fines and penalties collected	\$1,049,401
Number of enforcement actions	173
Depository institutions & trust companies combined assets	Over \$107 billion
Amount of loans made by payday lenders	\$1,069,097,758
Total assets of state chartered credit unions	\$16.2 billion
Amount of money ordered returned to consumers	\$113,224,653.26
Consumer education presentations given	95
Amount of money contributed to the General Fund	more than \$24 million

1% OTHER
ENFORCEMENTS, INVESTIGATIONS, ETC.

42% EXAMINATIONS

49% ASSESSMENTS

8% LICENSES



DFI REVENUES BY CATEGORY



DFI CONTRIBUTIONS TO THE GENERAL FUND

(*REVENUES FLUCTUATE SIGNIFICANTLY DEPENDING ON STOCK MARKET ACTIVITY)-

The year was notable for many initiatives in consumer protection and financial institution regulation. In addition, the Department administered technical and procedural changes that benefited DFI staff and Washington consumers.

DFI MOVES TO NEW FACILITY

In order to improve working conditions for its staff, DFI successfully completed an agency move to a new facility in Tumwater, Washington.

FIRST NEW CREDIT UNION CHARTERED IN TEN YEARS

The first new Washington state chartered credit union started since 1993 opened for business in December. TULIP (Thurston Union Low Income People) Credit Union is also the first low-income designated credit union, with the purpose of serving individuals who typically do not have an account at a financial institution.

HOUSEHOLD FINANCE SETTLEMENT

In December 2003, restitution checks totaling just over \$21 million were mailed to 10,419 Washington consumers who were overcharged for home loans by Household International. This settlement provided the largest direct consumer restitution ever in a state or federal case. DFI led the national investigation effort.

2003 Highlights

DFI ANALYST CASES

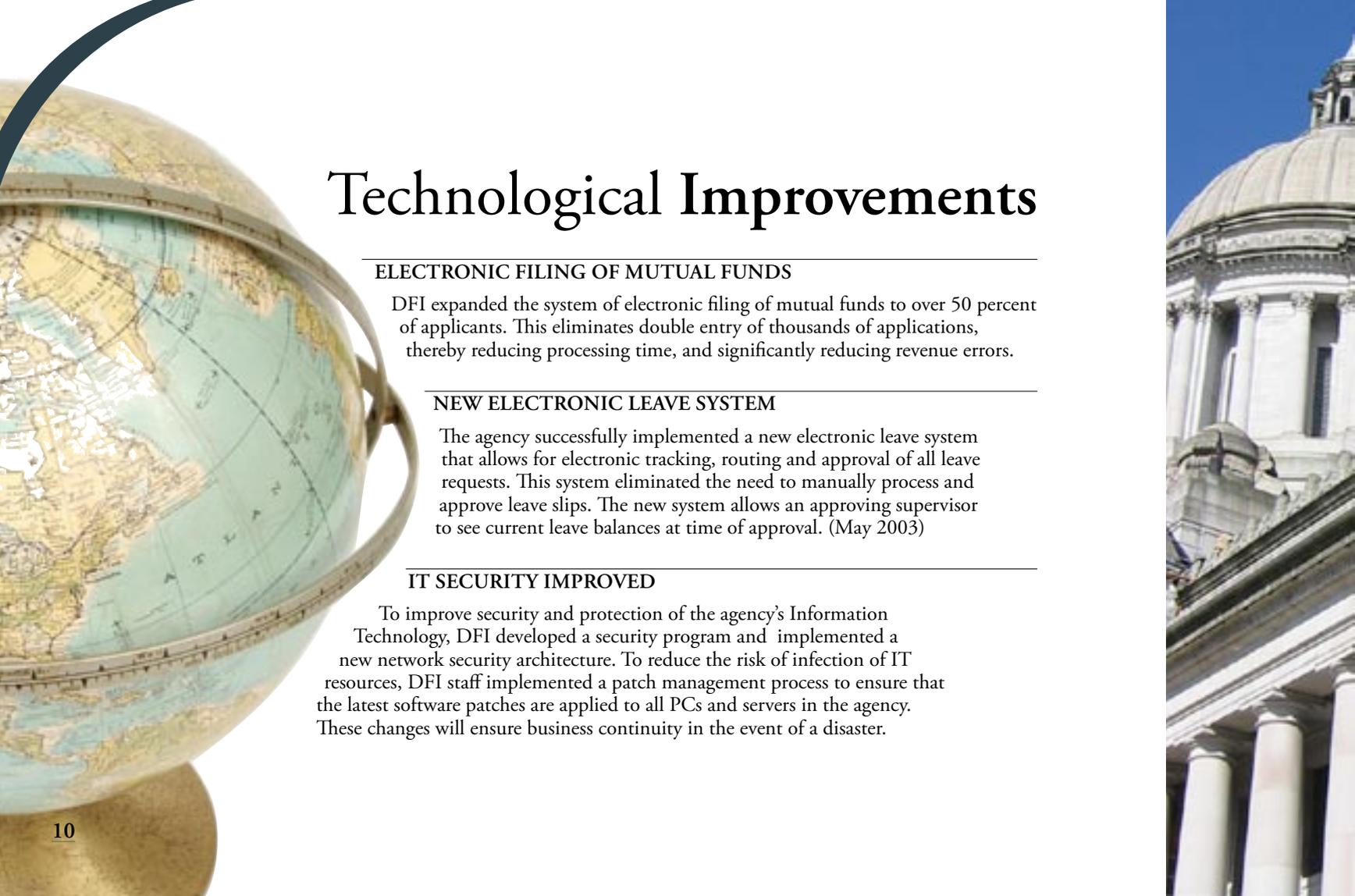
DFI generated over \$5.6 million in fines and penalties that were transferred to the State General Fund through its role as a lead state in the settlement of the Wall Street investment analyst cases.

OVERDRAFT PROTECTION EXAM QUESTIONNAIRE

The Department issued an exam questionnaire to state-chartered banks, thrifts, and credit unions asking about their practices on bounce protection programs. DFI published Guidance and Best Practices for Overdraft Protection Programs for use by the industry to ensure the programs are being administered consistently and to give consumers added protection.

ENFORCEMENT ACTIONS AGAINST NATIONSCAPITAL MORTGAGE

The Department issued a final order against Nationscapital Mortgage Company, resulting in almost \$2 million in restitution to consumers and fines against the company and individuals for a number of deceptive practices.



Technological Improvements

ELECTRONIC FILING OF MUTUAL FUNDS

DFI expanded the system of electronic filing of mutual funds to over 50 percent of applicants. This eliminates double entry of thousands of applications, thereby reducing processing time, and significantly reducing revenue errors.

NEW ELECTRONIC LEAVE SYSTEM

The agency successfully implemented a new electronic leave system that allows for electronic tracking, routing and approval of all leave requests. This system eliminated the need to manually process and approve leave slips. The new system allows an approving supervisor to see current leave balances at time of approval. (May 2003)

IT SECURITY IMPROVED

To improve security and protection of the agency's Information Technology, DFI developed a security program and implemented a new network security architecture. To reduce the risk of infection of IT resources, DFI staff implemented a patch management process to ensure that the latest software patches are applied to all PCs and servers in the agency. These changes will ensure business continuity in the event of a disaster.



Legislative Highlights

SHB 1081 – MORTGAGE LENDING FRAUD PROSECUTION FUND

The passage of SHB 1081 created a mortgage lending fraud prosecution fund comprised of monies collected by county auditors. A \$1 fee will be charged for each recording of a deed of trust. Those fees become the fraud prosecution fund, held by the State Treasurer and managed by DFI. The Agency works with the Attorney General and the Washington Association of County Prosecutors to develop a management plan for the distribution of funds to local prosecutors.

SHB 1219 – ENHANCEMENTS TO THE SECURITIES ACT OF WASHINGTON

The passage of SHB 1219 provides a number of enhancements to the Securities Act of Washington and the enforcement tools available to DFI. The new legislation creates a prosecution fund to aid local prosecutors of securities fraud and other investment fraud related cases. The legislation makes it a crime for any person who knowingly alters, destroys, shreds or conceals documents to prevent their use in civil or criminal proceedings under the Securities Act. The legislation also increases all fines and penalties and makes violation of a DFI cease and desist order of the Division subject to a specific fine of \$25,000. New remedies available in actions include obtaining an accounting, disgorgement of illegal profits, and restitution to investors.

SHB 1455 – UNIFORM MONEY SERVICES ACT

The passage of SHB 1455 requires all companies offering money transmitter or currency exchange services to be licensed and examined by the Department of Financial Institutions. Legislation establishes a state system of licensure and regulation to ensure the safe and sound operation of money transmission and currency exchange businesses, to ensure that these businesses are not used for criminal purposes, to promote confidence in the state's financial system, and to protect the public interest.

SSB 5452 – AN UPDATE TO PAYDAY LENDING PROVISIONS

The passage of SSB 5452 made changes to the laws relating to check cashers and sellers (payday lenders). In brief, the legislation increased the maximum amount of a small loan from \$500 to \$700, and extended the loan time period to a maximum of 45 days. Among other changes, consumers have the option of negotiating a repayment plan when they have had four consecutive loans with a company and are in risk of default on the last loan. The legislation also exempts trade secrets contained in licensee annual reports from public disclosure. During an examination, the Department may now require the production of original books, accounts, records, files, or other information.

A Leader Among States

The Department of Financial Institutions is recognized as a leader among regulators across the country.

The Department continues to develop innovative approaches to regulation and is regularly represented on the national front in a variety of projects.

OCC PREEMPTION

DFI submitted a letter of opposition to the Office of the Comptroller of the Currency (OCC) in response to a proposal that would preempt state laws for national banks and their state licensed subsidiaries. DFI challenged the OCC's call for preemption on the grounds that it would:

- undermine the protection of consumers against predatory lending and other unfair and deceptive practices.
- impede the positive role of the state government in regulating consumer financial services.
- usurp the authority of Congress through attempted lawmaking rather than rule making.

DFI joined the National Governors' Association, the National Association of Attorneys General, the National Conference of State Legislatures, the Conference of State Bank Supervisors (CSBS), the North American Securities Administrators Association, the American Association of Residential Mortgage Lenders, and the National Association of Consumer Credit Administrators in opposition to the OCC's preemption proposals.

As a result of DFI's proactive stand, Director Howell was invited to speak in Washington D.C. at the Women in Housing and Finance Seminar Symposium.

Text from her speech was reprinted in several trade magazines and mentions were made in the American Banker.

OVERDRAFT PROTECTION INQUIRY

DFI led the country in issuing an exam questionnaire to state-chartered financial institutions to determine how Overdraft Protection Programs were being administered. The Department presented the general findings of the examination to the House Financial Institutions and Insurance Committee.

The examination questionnaire covered numerous issues relevant to the way financial institutions offer overdraft protection programs including: ; advertising and marketing ; availability and notice ; third party vendors ; disclosure ; dollar limits ; pay/no pay decisions ; overdraft charges ; available balance issues ; ATM issues; and whether the option to be included or not included in the program was offered.

DFI found that most Washington institutions act reasonably and responsibly in offering these programs to consumers. However, there are areas where our institutions can improve. The Department moved forward to publish guidance and best practices for overdraft protection programs. The industry will use these to ensure consistent program administration and offer consumers added protection. Being one of the first states to address this issue – state and federal regulators referenced the Department's actions to curtail abuses as standards were developed across the country. DF's proactive approach was featured in both local and national newspapers and trade magazines.

National Board and Committee Participation

HELEN HOWELL – FFIEC STATE LIAISON COMMITTEE

The Federal Financial Institutions Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The State Liaison Committee is composed of five representatives of state agencies that supervise state-chartered financial institutions. www.ffeic.gov

DEB BORTNER - BOARD OF DIRECTORS, NASAA AND TRUSTEE, IPT

The North American Securities Administrators Association (NASAA) is an international organization devoted to investor protection. In the United States, NASAA is the voice of the 50 state securities agencies responsible for efficient capital formation and grass roots investor protection. www.nasaa.org The Investor Protection Trust serves as an independent source of non-commercial investor education materials. IPT operates programs under its own auspices and uses grants to underwrite important initiatives carried out by other organizations.

CHUCK CROSS – BOARD OF DIRECTORS, AARMR

The America Association of Residential Mortgage Regulators (AARMR) promotes the exchange of information among executives and employees of various states who are charged with the responsibility for administration and regulation of residential mortgage lending, servicing and brokering. www.aarmr.org

LINDA JEKEL – BOARD OF DIRECTORS, NASCUS

The National Association of State Credit Union Supervisors (NASCUS) represents state-chartered credit unions. NASCUS' mission is to advocate for a strong and innovative state credit union system that benefits state credit union regulatory agencies and state credit unions. www.nascus.org

DAVE KROEGER – CSBS SUPERVISORY COMMITTEE

The Conference of State Bank Supervisors (CSBS) bring all state banking departments together to present a unified voice in Washington DC. It is considered a clearinghouse for ideas to solve common problems of state bank regulators and works to encourage competitive chartering options, efficient and effective supervision, and a lower cost of regulation for all banks. www.csbs.org
www.investorprotectiontrust.org

Consumer Outreach & Media

Financial Literacy and Consumer Education

A key component of DFI's strategy to protect consumers is to develop education and information resources. Resources are designed to assist consumers in making better-informed financial decisions. The more consumers know about financial transactions, the more likely they are to make smarter choices.

When over 12,000 Washington consumers became victims in the largest predatory lending case in our nation's history, Household Finance, DFI recognized the need to make a greater difference in this arena. Evidence suggests that informed consumers can better protect themselves from predatory lenders and others who seek to take advantage of them financially. However, reaching consumers before they enter into financial transactions is key.

WSU RESEARCH

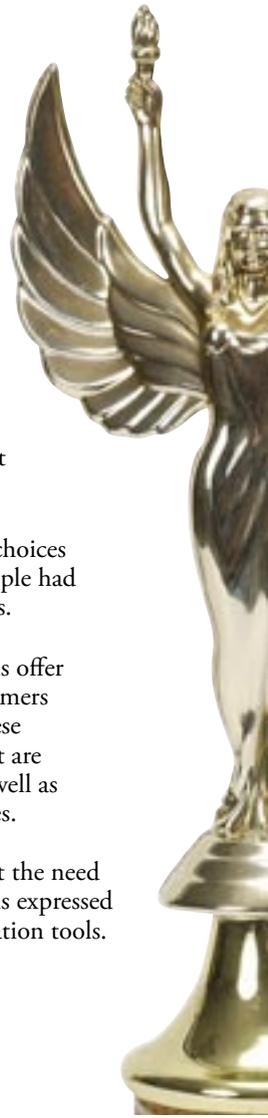
DFI engaged the services of the Social and Economic Sciences Research Center at Washington State University (WSU) to conduct a consumer study. WSU interviewed 891 Washington consumers who were victims of predatory lending, and 532 Washington consumers from the general population to determine differences in characteristics or

behaviors. This research showed that victims of predatory lending have a tendency to engage in risky financial behaviors on a regular basis such as: taking advances on credit cards, using payday lenders, and using pawnshops. Significant consumer findings included:

- Fifty-percent enter into financial transactions in a moment of desperation or as a response to an emergency; they need the money quickly and sign loan agreements without understanding how much they are paying in interest or fees.
- The victims are not confident in their ability to make suitable choices about their financial futures. Twenty-eight percent of these people had taken out two or more consolidation loans in the past five years.

The research also indicated that although many financial institutions offer financial literacy programs, less than 1% of Washington state consumers (either from the victim pool or the general population pool) use these resources. Consumers want objective money management tools that are available through the Internet, computer programs, and videos, as well as through informational seminars provided by state or federal agencies.

The conclusions from this study are significant and strongly support the need for financial education in Washington State. To address the concerns expressed by consumers, DFI is developing more effective outreach and education tools.





RAISING THE AWARENESS OF DFI

The Department committed to expanding its communication and outreach in 2003. The program took a proactive approach by providing a variety of investor education and fraud prevention presentations aimed at senior citizens and students. Activities throughout the year included visits to high schools and senior centers, exhibits at consumer fairs, and DFI subject expert presentations to various organizations and associations. DFI partnered with other state and federal agencies and local consumer advocate groups to maximize its opportunities to reach Washingtonians. DFI was represented at 95 public functions and gave 95 financial fraud training seminars in 2003.

In an effort to give consumers 24-hour access to financial documents and consumer tips, the staff worked to expand and organize the content of the Department's website. The increased outreach efforts resulted in a total of 116,249 page views to the consumer education portion of the web site.

Reporters from local and national newspapers contacted the Department regularly for quotes and comments on a variety of stories. In the last six months of 2003 alone, DFI handled over 100 requests from reporters.

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 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 website.

DIVISION ACCOMPLISHMENTS FOR 2003

- In order to improve working conditions for its staff, DFI successfully completed an agency move to a new facility in Tumwater, Washington. (March 03)
- The agency successfully implemented a new electronic leave system that allows for electronic tracking, routing and approval of all leave requests. This system eliminated the need to manually process and approve leave slips. The new system allows an approving supervisor to see current leave balances at time of approval. (May 2003)
- To improve security and protection of the agency's Information Technology, DFI developed a security program and implemented a new network security architecture. To reduce the risk of infection of IT resources, DFI staff implemented a patch management process to ensure that the latest software patches are applied to all PCs and servers in the agency. This planning resulted in major renovations of the DFI network to ensure business continuity in the event of a disaster.
- A disaster recovery plan was developed and tested. These changes will assure business continuity in the event of a disaster.

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.

In 2003, Washington State chartered banks had good earnings, strong loan and deposit growth, and improving asset quality. Chartering activity slowed, but mergers and acquisitions picked up. The Division chartered one new trust company and one commercial bank changed from a national bank to a state charter. The Division's fiscal condition remains sound. Emphasis continued to be placed on training and development of employees, and remaining responsive to changes in the financial services markets.

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 **65**

Savings Institutions **15**

Trust Companies **11**

Branches of foreign banks **1**

Total assets of banks and trust companies **\$105 billion**

1% FOREIGN BRANCHES

12% TRUST COMPANIES

16% SAVINGS INSTITUTIONS

71% COMMERCIAL BANKS

REGULATED INSTITUTIONS BY CHARTER TYPE

DIVISION MILESTONES AND ACCOMPLISHMENTS

- The division chartered one new trust company in 2003.
- The division completed scheduled examinations within their statutory timeframe with assistance from the Federal Deposit Insurance Corporation and the Federal Reserve Board.

NEW BANKS AND TRUST COMPANIES

- BECU Trust Company, Tukwila (February 2003)

CHARTER CONVERSIONS

- Northstar Bank, N.A., Seattle, converted from a national bank to a state chartered commercial bank. (June 2003)
- Rainier Pacific Savings Bank, Fife, converted from a mutual savings bank to a stock savings bank.

MERGERS AND LIQUIDATIONS

- Valley Bank, Auburn, merged into Puyallup Valley Bank, Puyallup. (January 2003)
- Empire Federal Bancorp, Inc., a Delaware Corporation, merged into Sterling Financial Corporation. (February 2003)
- Bank of Latah, St. Maries, Idaho, merged into AmericanWest Bank, Spokane. (March 2003)
- Today's Bank, Vancouver, and Today's Bancorp, Inc., Vancouver, merged into Riverview Community Bank, Vancouver, and Riverview Bancorp, Inc., Vancouver. (July 2003)
- United Savings and Loan Bank, Seattle, merged into Washington Federal Savings

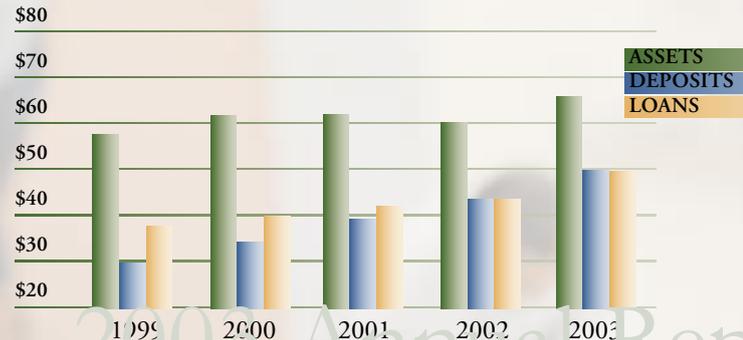
and Loan Association, Seattle. (August 2003)

- Klamath First Bancorp, Inc., Klamath Falls, Oregon, and its subsidiaries, merged into Sterling Financial Corporation, Spokane. (September 2003)
- Oregon Trail Financial Corporation, Baker City, Oregon, merged into FirstBank NW Corporation, Clarkston. (October 2003)
- Pioneer Bank, Baker City, Oregon, merged into FirstBank Northwest, Clarkston. (October 2003)

NAME CHANGES

- Puyallup Valley Bank, Puyallup, changed its name to Valley Bank. (January 2003)
- Northwest International Bank, Seattle, changed its name to Northwest Business Bank. (February 2003)
- First Community Bank, Lacey, changed its name to Venture Bank. (February 2003)

STATE CHARTERED COMMERCIAL BANKS & SAVINGS INSTITUTIONS END-OF-YEAR FIGURES



Division of Banks: Key Statistics

	1999	2000	2001	2002	2003
Number of State Chartered Commercial Banks	64	65	62	66	65
Number of State Chartered Savings Institutions	15	16	16	16	15

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

	1999	2000	2001	2002	2003
Assets	\$57,320,919	\$60,681,325	\$61,420,119	\$60,319,174	\$65,893,648
Deposits	\$29,579,791	\$33,513,225	\$38,698,270	\$43,495,732	\$49,240,749
Loans	\$36,948,510	\$40,330,554	\$42,171,392	\$43,033,713	\$48,905,974
Net Income	\$ 607,140	\$ 524,675	\$ 896,159	\$ 696,116	\$ 898,519

STATE CHARTERED BANKS' FINANCIAL INFORMATION

Commercial Banks	1999	2000	2001	2002	2003
Assets	\$11,852,303	\$17,662,563	\$20,046,062	\$22,561,305	\$24,364,645
Deposits	\$9,717,263	\$13,603,608	\$15,427,455	\$17,852,336	\$19,048,551
Loans	\$8,682,816	\$12,821,970	\$15,002,515	\$16,286,426	\$17,263,526
Net Income	\$156,285	\$ 206,902	\$ 206,471	\$ 248,614	\$ 272,098
Savings Institutions	1999	2000	2001	2002	2003
Assets	\$45,468,616	\$43,018,762	\$41,374,057	\$37,757,869	\$41,529,003
Deposits	\$19,862,528	\$19,909,617	\$23,270,815	\$25,643,396	\$30,192,198
Loans	\$28,265,694	\$27,508,584	\$27,168,877	\$26,747,287	\$31,642,448





Division of Consumer Services

COMMERCIAL BANKS & SAVINGS INSTITUTIONS

The Division of Consumer Services regulates the business activities of consumer loan companies, mortgage brokers, money transmitters and currency exchangers, 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.

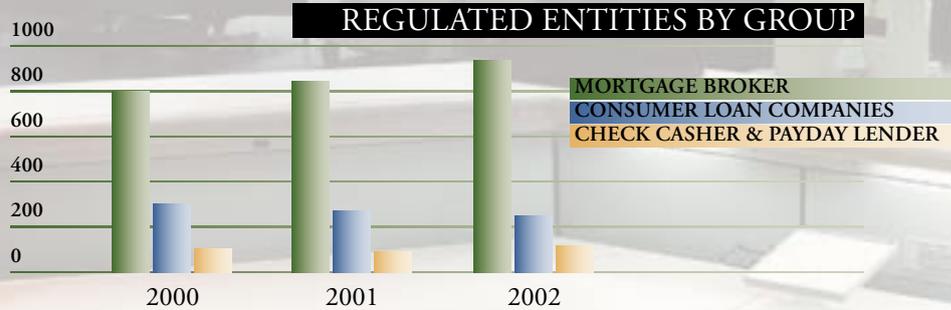
DIVISION MILESTONES AND ACCOMPLISHMENTS

- Worked closely with the Attorney General and the Insurance Commissioner on the Household/Beneficial settlement to identify damages and award amounts to consumers in the largest predatory lending settlement in U.S. history. In December 2003, checks totaling more than \$21 million were mailed to 10,419 Washington customers of Household who were eligible for restitution under the settlement.
- Assisted in passage of SHB 1081 creating a mortgage lending fraud prosecution fund for county prosecutors comprised of monies collected by county auditors, held by the State Treasurer and managed by DFI.
- Issued a final order against Nationscapital Mortgage Company resulting in almost \$2 million in restitution to consumers and fines against the company and individuals for a number of deceptive practices.

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

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
Money Transmitter and Currency Exchange Offices	23
Active Escrow Officer Licenses	287
Check Casher/Seller Licenses	129
Payday Lender Licenses	110

Regulated Institutions

Mortgage Brokers	2000	2001	2002	2003
Companies	795	839	933	1,192
Branch Offices	337	350	441	629
Consumer Complaints	152	185	295	402

Consumer Loan Companies	2000	2001	2002	2003
Companies	304	287	254	270
Branch Offices	599	617	720	811
Consumer Refunds	\$1,034,795	\$213,784	\$1,229,552	359
Consumer Complaints	328	195	333	359
RE* Loans Made During Period	43,254	59,836	71,743	87,655
Total Dollars in RE* Loans Made During Period	\$1,611,485,003	\$2,270,449,440	\$5,137,363,495	\$10,130,167,294

*REFERS TO REAL ESTATE LOANS THAT USE BORROWER'S HOME AS SECURITY FOR THE LOAN

Check Cashers	2000	2001	2002	2003
Companies	109	110	121	139
Branch Offices	306	365	392	542
Consumer Complaints	4	0	0	1
Checks Cashed During Period	1,354,427	1,839,397	6,454,950	2,612,526
Dollar Amount of Checks Cashed During Period	\$575,991,499	\$593,882,580	\$834,735,294	\$938,985,616

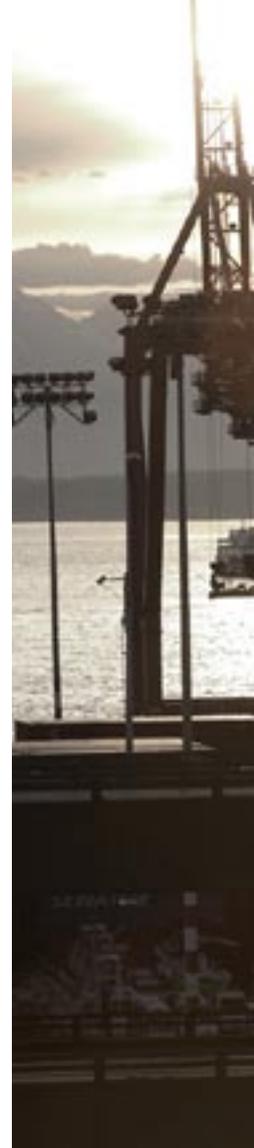
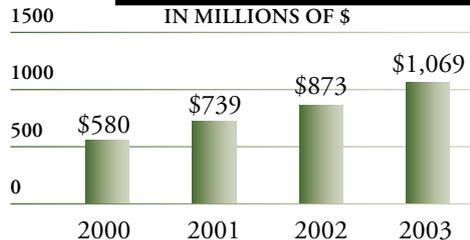
Check Sellers	2000	2001	2002	2003
Companies	10	8	8	9
Branch Offices	9	8	7	8
Consumer Complaints	0	1	0	1
Checks Sold During Period*	1,325,117	1,426,531	**550,329	1,141,061
Dollar Amount of Checks Sold During Period*	\$252,827,536	\$263,592,037	\$133,239,667	\$222,651,086

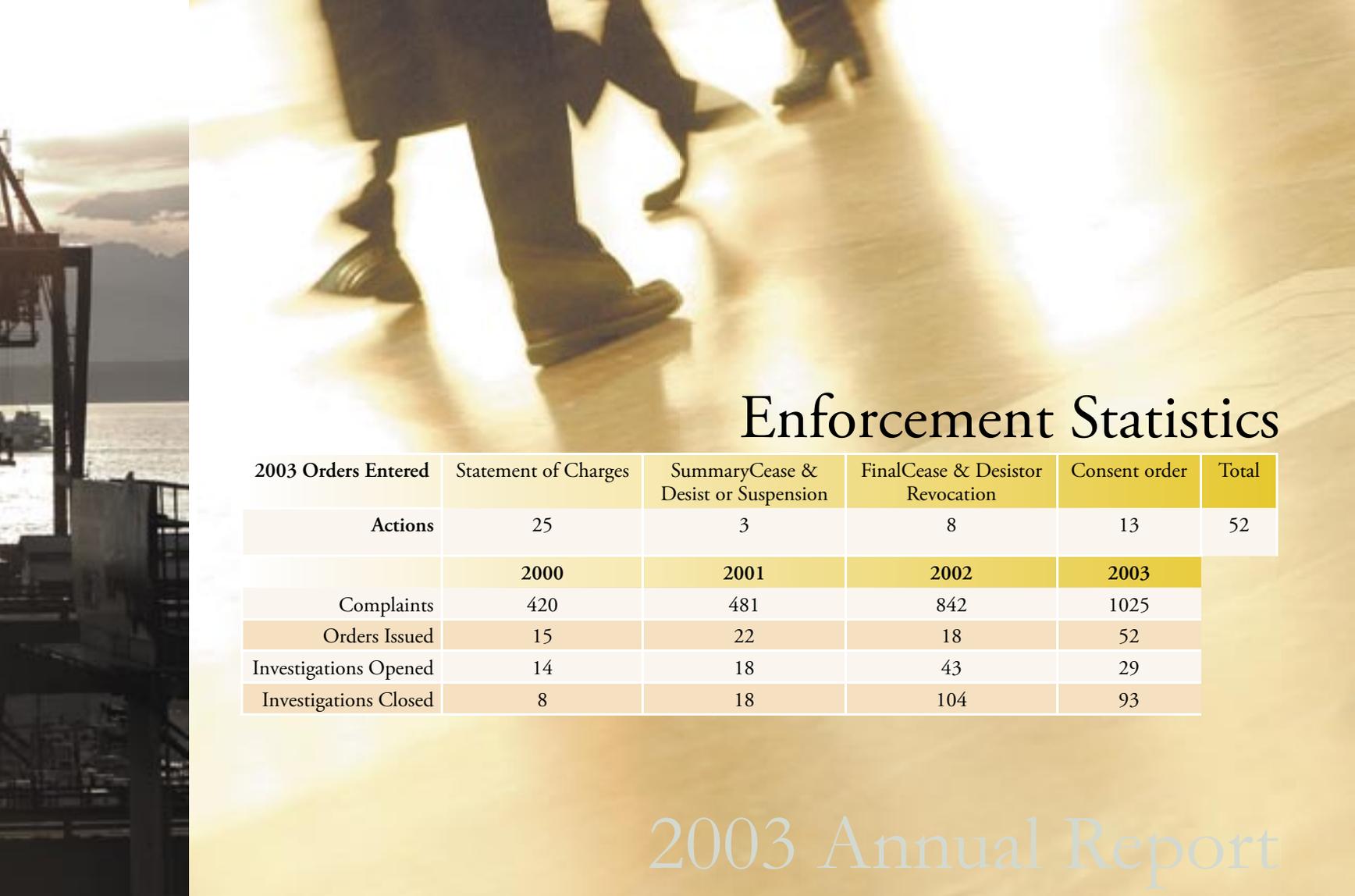
*INCLUDES CHECKS SOLD AS AN AGENT OF EXEMPT COMPANY

**DECREASE DUE TO CHANGE IN MONEY ORDER REPORTING REQUIREMENTS

Payday Lenders	2000	2001	2002	2003
Companies	90	96	110	124
Branch Offices	287	286	317	378
Consumer Complaints	0	3	6	8
Small Loans Made During Period	1,832,782	2,186,333	2,337,359	1,965,289
Total Amount of Small Loans Made During Period	\$580,535,734	\$739,540,654	\$873,339,989	\$1,069,097,758

SMALL LOANS MADE BY PAYDAY LENDERS





Enforcement Statistics

2003 Orders Entered	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent order	Total
Actions	25	3	8	13	52
	2000	2001	2002	2003	
Complaints	420	481	842	1025	
Orders Issued	15	22	18	52	
Investigations Opened	14	18	43	29	
Investigations Closed	8	18	104	93	

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Division of Credit Unions

Statutes Administered by the Division of Credit Unions

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

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 2003. 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 9.6 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 6.7 percent to \$10.6 billion, and total shares and deposits grew 7.2 percent to \$14.1 billion.

Number of state chartered credit unions	87
Total assets of state chartered credit unions	\$16.2 billion
Total state chartered credit union members	1,880,700

Industry Facts at a Glance



DIVISION MILESTONES AND ACCOMPLISHMENTS

- Mike Delimont was appointed as Program Manager for Division of Credit Unions (DCU). (February 2003)
- Trust CC hired to perform information services examinations. (July 2003)
- Examined all credit unions within the requirements of the RCWs, using risk-focused scheduling.
- Strengthened procedures for working with credit unions with chronic problems.
- Initiated outreach to learn of credit union competitive needs through onsite visits to 75% of credit union league chapters.
- TULIP Credit Union, the first new chartered credit union in ten years, opened their doors to begin operation. (December 2003)

NEW CREDIT UNION CHARTERS

- TULIP Credit Union granted a new credit union charter. (October 2003)

CHARTER CONVERSIONS

- Credit Union of the Pacific converted to a federal thrift charter. (January 2003)
- Quimper Credit Union converted to a federal credit union charter. (June 2003)

MERGERS

- Valley Community Federal Credit Union merged into Sound Credit Union. (April 2003)
- Washington State Bar Association Credit Union merged into Credit Union Northwest. (February 2003)
- North Central Credit Union merged into Numerica Credit Union. (June 2003)
- Teamsters Credit Union merged into Seattle Metro Credit Union. (August 2003)
- Metro Pacific Credit Union merged into Qualstar Credit Union. (October 2003)
- Tradition Credit Union merged into Evergreen Postal Employees Credit Union. (October 2003)

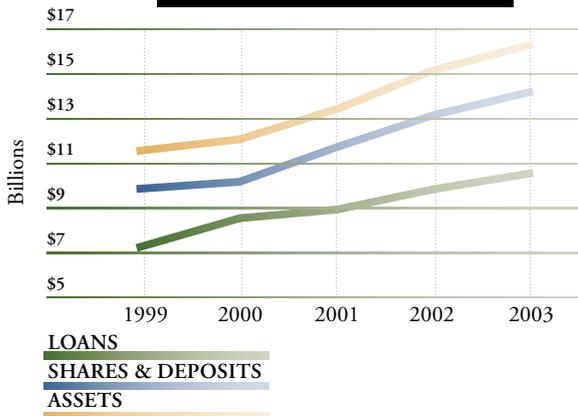
NAME CHANGES

There were no name changes for credit unions in 2003.

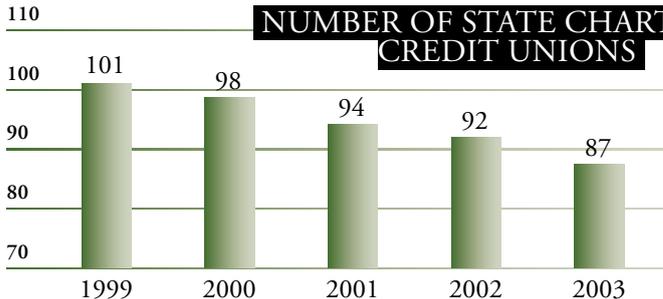
All numbers are end of year figures in thousands (000)

	2000	2001	2002	2003
Loans & Contracts	\$8,537,673	\$8,947,804	\$9,843,563	\$10,553,569
Total Assets	\$12,134,688	\$13,388,339	\$15,109,748	\$16,239,395
Shares & Deposits	\$10,200,011	\$11,692,689	\$13,183,696	\$14,129,834
Net Worth	\$1,201,927	\$1,263,772	\$1,458,360	\$1,577,682
Net Income	\$85,206	\$86,715	\$160,768	\$149,457
Net Worth to Total Assets Ratio	9.89%	9.43%	9.65%	9.71%

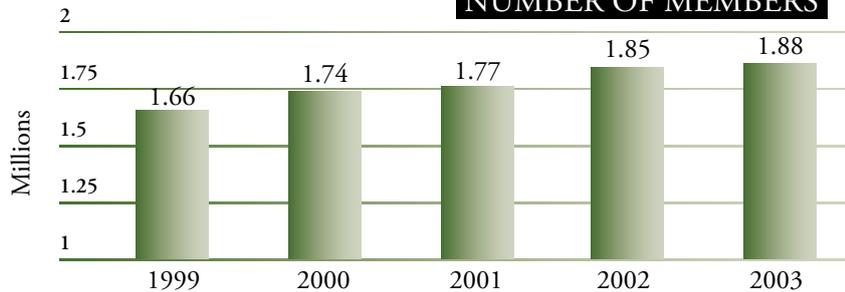
STATE CHARTERED CREDIT UNIONS END-OF-YEAR FIGURES



NUMBER OF STATE CHARTERED CREDIT UNIONS



NUMBER OF MEMBERS



Division of Securities

The Division of Securities regulates the offer and sale of investments and escrow services to Washington state residents. The Division used a variety of regulatory and enforcement tools including registration requirements for securities, franchise and business opportunity offerings, and licensing and examination of securities broker-dealers, investment advisers, and escrow agents and officers.

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. More than \$519 billion of securities products were offered to Washington investors in 2003.

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 115 enforcement actions were taken this year, and the Division assisted in the preparation of nine criminal cases.

Statutes Administered by the Division of Securities

- > Chapter 18.44 RCW Escrow Agent Registration Act
- > Chapter 19.100 RCW Franchise Act
- > Chapter 19.110 RCW Business Opportunity Act
- > Chapter 21.20 RCW Securities Act
- > Chapter 21.30 RCW Commodities Act

Industry Facts at a Glance

Registered Securities Salespersons	97,609
Registered Securities Broker-Dealers	2,106
Branch Offices of Broker-Dealers	2,125
Regulated Investment Advisers	1,478
Investment Adviser Representatives	5,824
Registered Franchises	777
Registered Escrow Agents	204
Registered Escrow Officers	347

DIVISION MILESTONES AND ACCOMPLISHMENTS

- The Division expanded the system of electronic filing of mutual funds to over 50 percent of applicants. This eliminates double entry of thousands of applications – reducing processing time, and significantly reducing revenue errors.
- In July 2003, the Division implemented a scan-store-retrieve imaging system for registration, licensing and field exams. This system improves staff access to documents, facilitates group review of complex and sensitive applications, streamlines our public disclosure request process, and eliminates the need to store paper documents after they are scanned.
- In September 2003, the Division took over licensing, examination and enforcement of escrow agents and officers from our Division of Consumer Services. The staff is working with the escrow commission and industry groups to resolve interpretive and policy issues, and updating databases to better track escrow related licensing and compliance information.
- In the summer of 2003, the Division played a significant role in the investigation and settlement of the Wall Street research analyst cases. Under the terms of the settlement, the State of Washington received almost \$6.7 million in fines and penalties and the Securities Division itself recovered over \$340,000 of its costs to investigate and participate in the cases.





- During the three-year investigation of Znetix/HMC, DFI spent an estimated 12,000 hours uncovering the largest Ponzi scheme in Washington history. DFI worked with federal prosecutors to uncover a maze of domestic and offshore accounts used to conceal investor funds totaling close to \$100 million. The case involved over 5,000 investors from 36 states and several foreign countries.
- The passage of SHB 1219 provides a number of enhancements to the Securities Act of Washington and the enforcement tools available to DFI. The new legislation creates a prosecution fund to aid local prosecutors in the bringing of securities fraud and other investment fraud related cases. The legislation makes it a crime for any person who knowingly alters, destroys, shreds or conceals documents to prevent their use in civil or criminal proceedings under the Securities Act. The legislation also increases all fines and penalties and makes violation of a DFI cease and desist order of the Division subject to a specific fine of \$25,000. New remedies available in actions include obtaining an accounting, disgorgement of illegal profits, and restitution to investors.

Securities	2001	2002	2003
Dollar Amount of Securities Permits, Notifications and Exemptions Authorized	\$489,215,823,523	\$579,056,623,456	\$519,368,524,783
Registered Securities Broker-Dealers	2,124	2,104	2,106
Registered Investment Advisers	416	424	522
Investment Adviser Notice Filers	894	940	956
Registered Securities Salespersons	101,783	97,982	97,609
Registered Investment Adviser Representatives	5,167	5,450	6,082
Branch Offices of Broker-Dealers	2,158	2,138	2,125
Active Enforcement Cases	121	132	115
Enforcement Actions	71	84	88
Complaints	-	-	369

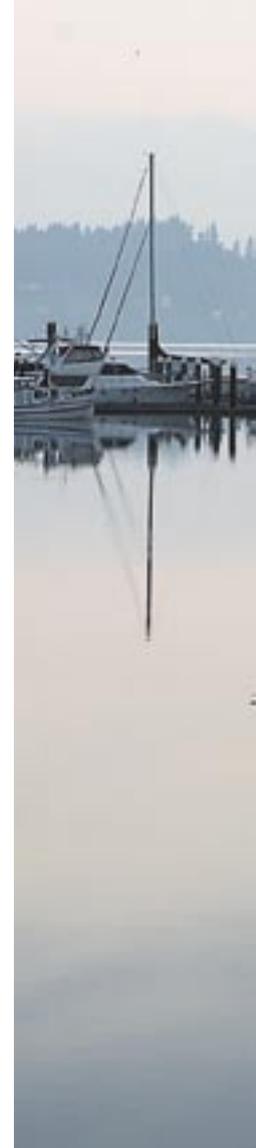
STATISTICS RELATED TO STATUTES ADMINISTERED BY THE DIVISION OF SECURITIES

Commodities	2001	2002	2003
Active Enforcement Cases	1	3	2
Complaints			2

Franchises	2001	2002	2003
Registered Franchises	689	689	777
Registered Franchise Brokers	74	74	86
Active Enforcement Cases	12	12	12
Enforcement Actions	10	10	10
Complaints			38

Escrow	2001	2002	2003
Registered Escrow Offices			204
Registered Escrow Officers			347
Active Enforcement Cases			12
Enforcement Actions			6
Complaints			46

Business Opportunities	2001	2002	2003
Registered Business Opportunities	40	37	30
Active Enforcement Cases	28	17	9
Enforcement Actions	11	13	10
Complaints			46



REGISTRATION AND LICENSING ACTIVITY TOTALS FOR 2003

NEW

RENEW

AMEND

REGISTRATIONS, EXEMPTIONS & NOTIFICATIONS

Investment Companies	2,124	14,678	10,218
Small Business Filings (SB-2s)	11	3	1
Other Coordination Filings	53	33	52
Qualifications	35	8	27
SCOR (Small Company Offering Registration)	1	0	0
Franchises	165	613	265
Exemptions	1,404	1	0
Opinions	22	0	0
Franchise Exemptions	10	80	0
Business Opportunities	18	14	3
TOTAL	3,843	15,430	10,566

FIRMS & ENTITIES

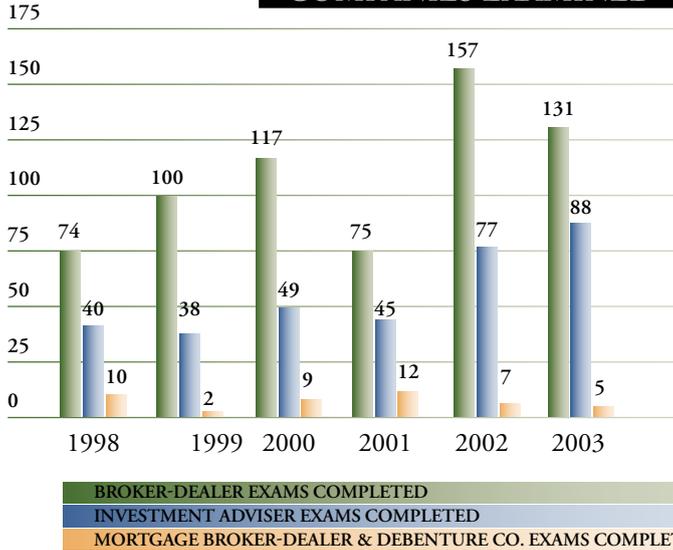
Securities Broker-Dealers	171	2,038	
Investment Advisers	200	1,308	
Franchise Brokers	123	92	

REPRESENTATIVES & SALESPERSONS

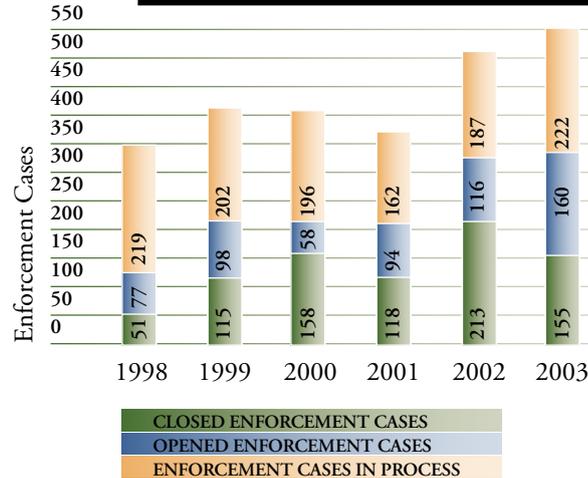
Investment Adviser Representatives	1,754	5,809	
Intrastate Securities Salespersons	8	44	
Agents of Issuers	9	10	
Securities Salespersons	29,304	97,599	
Salespersons with Disclosure History	3,239	0	
TOTAL	34,314	103,462	

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COMPANIES EXAMINED



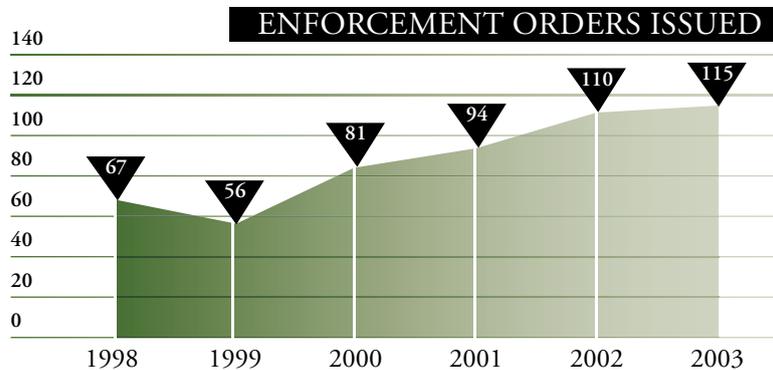
ENFORCEMENT STATISTICS



EXAMINATION STATISTICS

	2000	2002	2003
Broker-Dealer Exams Completed	76	157	131
Investment Adviser Exams Completed	45	77	88
Mortgage Broker-Dealer & Debenture Company Exams Completed	12	7	5
TOTAL	133	241	224

2003 types of orders entered	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent Order	Total
Securities					
Issuers	4	20	11	16	51
Broker Dealers and Investment Advisers	12	7	5	14	38
Franchises	0	4	1	4	9
Business Opportunities	1	3	3	3	10
Escrow	5	0	0	1	6
Commodities	0	1	0	0	1
Total Actions	22	35	20	38	115



	2001	2002	2003
Complaints	490	496	501
Orders Issued	74	110	115
Warning Letters	50	61	98
Cases Opened	94	116	180
Cases In Process	162	187	222
Cases Closed	118	213	155
Subpoenas Issued	343	375	230
Criminal Referrals	3	10	8
Criminal Charges	3	8	8
Criminal Convictions	3	5	7
Criminal Sentencing	3	2	5