



dfi

2006 Annual Report

A Message From The Director



I am pleased to present the 2006 annual report on behalf of the hard-working staff at the Washington State Department of Financial Institutions (DFI). This document emphasizes a few of the accomplishments of which this agency is most proud.

Each employee at DFI is devoted to creating a safe and reliable financial services environment for both consumers and stakeholders. Keeping in mind our mission to protect the public and promote economic vitality, the department regulates financial services in our state — including 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.

With risks to consumers increasing daily due to fraud or lack of financial education, the department expanded financial literacy outreach efforts to reach a variety of communities throughout Washington State.

DFI staff works diligently to ensure our licensees understand how legislative changes affect the way they do business in Washington State. Our education and enforcement role ensures that those we license and regulate understand and adhere to the law.

Together and individually, 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 improving service to Washington's consumers and our stakeholders.

Sincerely,

Scott Jarvis,
Director





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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.

Legislative Summary: 2006 Session

HB 2338 – In 2003, the Legislature created the Mortgage Lending Fraud Prosecution Account (Account), a specific fund to aid in the prosecution of consumer fraud in the mortgage lending process. The Account is administered by the Department of Financial Institutions (DFI). The DFI uses the Account to reimburse county prosecutors and the Attorney General for costs related to the investigation and prosecution of mortgage fraud cases. The Account was due to expire on June 30, 2006. HB 2338 delays the expiration date of the Account until June 30, 2011.

EHB 2340 – The bill provides for an annual expiration of mortgage broker licenses and creates a renewal process. It also expands the time-frame during which the Director of the Department of Financial Institutions (DFI) may conduct compliance examinations of mortgage broker licensees. The bill requires licensing of loan originators, and applies prohibited practice standards to loan originators.

SSB6168 – SSB6168 establishes “Business Development Corporations” (BDCs) in statute in order to promote economic development in Washington State. Minimum requirements for the charter are set forth, along with specific, expanded corporate powers, and corporate governance standards. The Department of Financial Institutions (DFI) has broad regulatory oversight and rule making authority. The bill provides that DFI will perform confidential examinations to ensure safety and soundness, and sets standards for capital, surplus, and investment caps.

Communications and Consumer Outreach

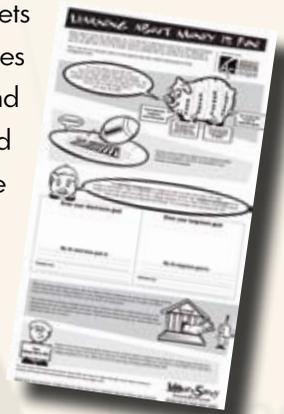
– *Scott Kinney, Director of Communications*

In addition to meeting the agency's internal and external communication needs with press releases, media outreach and stakeholder newsletters, the Washington State Department of Financial Institutions' Communications department found new ways to reach out to Washingtonians with vital information.

Recognizing that better informed consumers make better informed financial decisions, the Communications department amplified the agency's commitment to financial education.

Through the expansion of outreach — including in-person events, advertising campaigns, partnerships and financial support of financial education programs in Washington schools — the department shared financial education information with thousands of Washington residents of all ages.

- The Money Savvy programs, activity booklets and Newspaper in Education activity pages reached an estimated 3,000 students and teachers in the classroom and an estimated 10,000 Washington residents through the Seattle Medium pages.
- DFI distributed more than 27,000 Guide to Home Loan CD-ROMs throughout the state, helping consumers get the information they need to make educated decisions about one of the most important purchase they will make in their lifetime.
- Work began on a Spanish language version of the Guide to Home Loans CD-ROM in hopes of reaching a burgeoning Washington population with much-needed information.



COMMUNICATIONS AND CONSUMER OUTREACH, CONTINUED

- Reaching out to middle school students in an engaging format they found entertaining, DFI brought the bi-lingual Mad About Money live-theatre financial education program to more than 1,000 students and teachers throughout Washington. The Mad About Money presents the program and workbooks in both English and Spanish.

"Thank you National Theatre for Children and DFI. The presentation targets middle schoolers and gives them tools to be life long savers. It focuses on credit which is complex giving them ways to use credit wisely as they grow."

*Marilyn O'Lammey-Hicke
Mason Middle School, Tacoma*

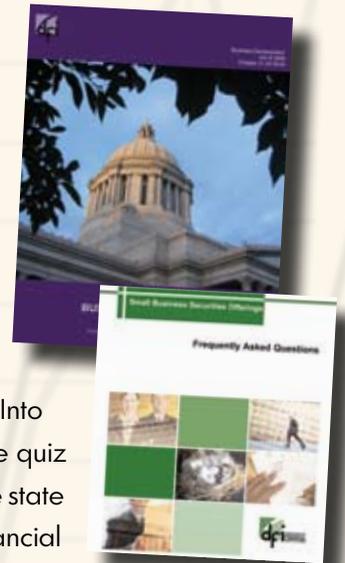
- DFI joined McDonald's in sponsoring Seattle's annual event celebrating the African American community: Soul Fest. The event drew more than 10,000, many of whom attended the agency-sponsored Youth Rally featuring Reverend Al Sharpton.



- The department continued its commitment to being an active participant on the State's legislative-developed Financial Literacy Public Private Partnership (FLPPP) and the Pierce County Asset Building Coalition.
- DFI sponsored Consumer University's outreach and Washington Business Week through an Investor Protection Trust (IPT) grant, bringing financial education to thousands of high school students.
- DFI partnered with AARP, using an IPT grant for additional funding, to develop an in-person outreach program to reach Washington's senior citizens.
- The Communications team expanded advertising into new territories — including The Seattle Medium, The Seattle Metro Homemaker, Tacoma True Citizen, Queen Anne Times, the Seattle Gay News and Colors Magazine NW — reaching demographics often ignored by traditional media.



- DFI continued its partnership with the Washington Realtors Association and the Department of Licensing to create handouts about the home buying process and how to avoid becoming a victim of predatory lending. The agency expanded efforts to include television, radio and print outreach mediums.
- Two brochures regarding Small Business Development, providing information for small businesses interested in creating investment opportunities.
- The department created the Check Into Savings Quiz and challenge, taking the quiz to public outreach events throughout the state to engage citizens of all ages in financial literacy discussion.
- DFI understands that not all Washington residents speak English as their native language. The agency expanded payday lending and money transmitter education materials to include Spanish and Russian media and work began on translating consumer information on DFI's Web site (www.dfi.wa.gov) into Spanish.
- Outreach resulted in an increase of nearly 25,000 Web site visitors for a three-month comparison period (May, June and July).
- Industry peers recognized the work of DFI's Communications Department:
 - Two International Communicator Awards:
 - Award of Excellence: Government Annual Report – 2003 Annual Report
 - Honorable Mention: Educational Brochure – Right on the Money
 - The League of American Professionals:
 - Gold Vision Award: Government Annual Report – 2003 Annual Report
 - The Public Relations Society of America Awards:
 - Certificate of Excellence: New Technologies – DFI's Guide to Home Loans



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.

DFI FACTS AT A GLANCE

- Total budgeted staff: FY 2006 160.7
- Staff composition by gender: 53% female, 47% male
- Total biennial agency budget: 2005-2007 Biennium \$40,881,597
- Racial diversity of workforce: 27%
- Number of complaints resolved: 1,952
- Total fines and penalties collected: FY 2006 \$416,324
- Number of enforcement actions: 130
- Depository institutions and trust companies combined assets: Over \$87 billion
- Amount of loans made by payday lenders: \$1,1330,738,136
- Total assets of state chartered credit unions: \$20.23 billion
- Amount of ordered restitution to consumers: \$1,020,640.29



SIGNIFICANT HIGHLIGHTS

DFI implemented the new statewide Personnel/Payroll system on July 1, 2006. This was the first new personnel and payroll system in 40 years.

TECHNOLOGY IMPROVEMENTS

Designed, constructed and implemented an online Loan Originator licensing application that was used by 8,013 customers in the first 6 weeks and over 13,000 to date.

The agency continues to extend the use of imaging for document management and is making strong headway in implementing workflow for the routing and tracking of electronic documents.

Implemented powerful search tools that use Optical Character Recognition (OCR) to read our imaged documents and provides full text searching on any document that has been imaged by our Securities Division.

Implemented a system that automates our forensic accounting analysis function.

Implemented an automated payment system utilizing Automated Clearinghouse process for collecting quarterly assessments from our Credit Unions.

Implemented enterprise anti-virus, personal firewall, and anti-spyware for all PCs in the agency.

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 2006, Washington State chartered banks had good earnings, strong loan and deposit growth, and good asset quality. Chartering of new institutions was at historic levels and merger activity continues to remain strong. The division chartered seven new commercial banks, and one new savings bank. 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	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



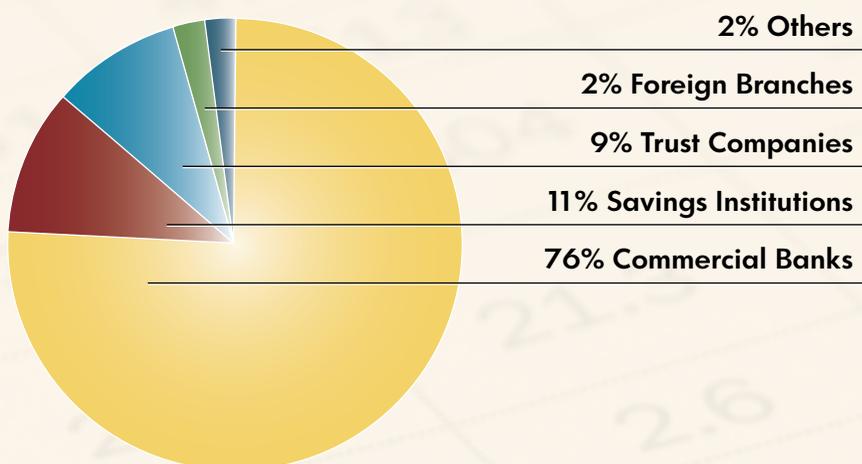
INDUSTRY FACTS AT A GLANCE

Institutions Regulated by the Division of Banks

Commercial Banks	72
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

REGULATED INSTITUTIONS BY CHARTER TYPE



DIVISION MILESTONES AND ACCOMPLISHMENTS

- The division chartered seven new commercial banks and one new savings bank in 2006.
- The division completed scheduled examinations within their statutory timeframe with assistance from the Federal Deposit Insurance Corporation and the Federal Reserve Board.

NEW BANKS

- RiverBank, Spokane (May 2006)
- Plaza Bank, Seattle (June 2006)
- Bank of Everett, Everett (June 2006)
- Mountain Pacific Bank (July 2006)
- Bank Reale, Pasco (September 2006)
- UniBank, Lynnwood (November 2006)
- Commencement Bank, Tacoma (December 2006)
- Fortune Bank, Seattle (December 2006)

DIVISION OF BANKS, CONTINUED

NEW FOREIGN BRANCHES

- Taiwan Cooperative Bank, Seattle (June 2006)

CHARTER CONVERSIONS

- Bank of Everett, Everett, converted from a state-chartered savings bank to a state-chartered commercial bank. (June 2006)

MERGERS AND LIQUIDATIONS

- NorthStar Bank, Seattle, merged into Frontier Bank, Everett. (January 2006)
- Columbia Trust Bank, Pasco, merged into AmericanWest Bank, Spokane. (March 2006)
- Washington State Bank, National Association, Federal Way, merged into Heritage Savings Bank, Olympia. (June 2006)
- FirstBank Northwest, Clarkston, merged into Sterling Savings Bank, Spokane. (November 2006)
- MarinerBank, Port Townsend, merged into Kitsap Bank, Port Orchard. (November 2006)

ACQUISITIONS

- Community Trust Company, Bainbridge Island, was acquired by Pacific Portfolio Trust Company, Seattle. (February 2006)

NAME CHANGES

- The Seattle Branch of The Bank of Tokyo-Mitsubishi, Ltd. changed its name to The Bank of Tokyo-Mitsubishi UFJ, Ltd. upon the merger of The Bank of Tokyo-Mitsubishi, Ltd. and UFJ Bank Limited, both subsidiaries of Mitsubishi UFJ Financial Group, Inc. (January 2006)
- Frank Russell Trust Company, Tacoma, changed their name to Russell Trust Company. (July 2006)

KEY STATISTICS	2002	2003	2004	2005	2006
Number of State Chartered Commercial Banks	66	65	64	67	72
Number of State Chartered Savings Institutions	16	15	13	11	10



Division of Consumer Services

– CHUCK CROSS, DIRECTOR OF CONSUMER SERVICES

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

The division reviews applications for financial institution 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 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 violations and crimes.

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 Acct.
Chapter 19.265 RCW	Refund Anticipation Loan

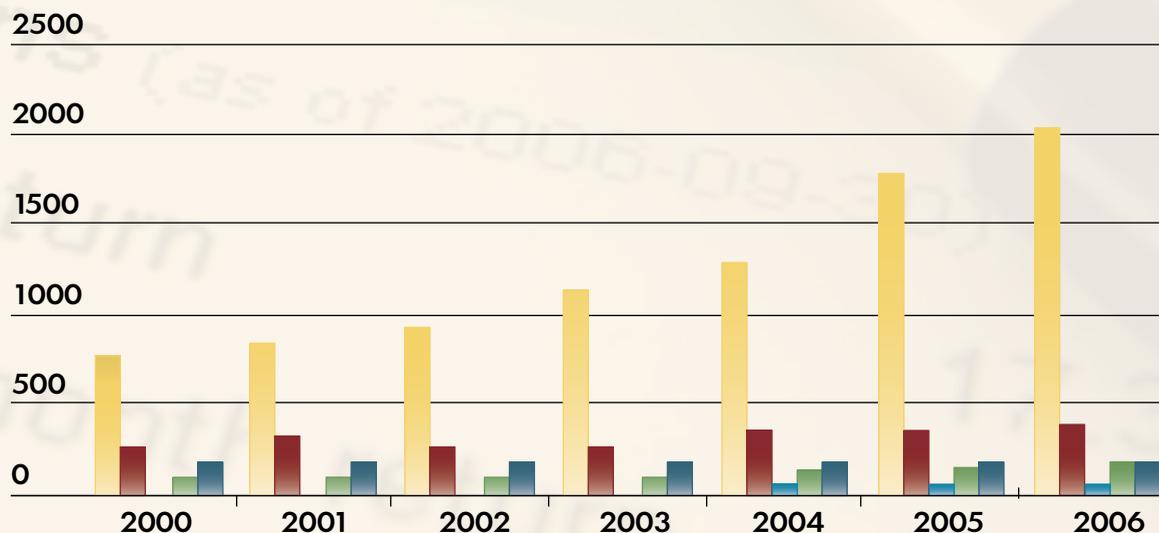
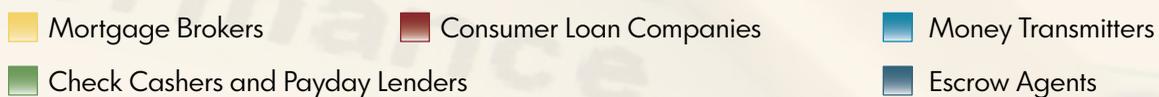


INDUSTRY FACTS AT A GLANCE

Mortgage Broker Licenses	2,038
Mortgage Broker Branch Office Licenses	1,335
Consumer Loan Company Licenses	356
Consumer Loan Company Branch Office Licenses	1,309
Money Transmitter and Currency Exchange Offices	91
Money Transmitter Delegates	7,200
Check Casher Company Licenses*	177
Check Casher Branch Office Licenses	624
Check Seller Company Licenses*	16
Check Seller Branch Office Licenses	7
Payday Lender Endorsement Licenses*	130
Payday Lender Endorsement Branch Office Licenses	612
Escrow Agents	173
Escrow Agent Branch Offices	24
Escrow Officers	374
Tax Refund Anticipation Loan Facilitators	261
Tax Refund Anticipation Loan Facilitator Branches	308

* 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.

REGULATED ENTITIES BY GROUP



DIVISION OF CONSUMER SERVICES, CONTINUED

- The Division fostered the creation of the Guide to Home Loans CD in Spanish
- The Division in coordination with Attorney General Rob McKenna and five other lead states reached a \$325 million nationwide settlement with Ameriquest Mortgage Company. The agreement resolves allegations of widespread fraud by the company as part of a high-pressure scheme to sell mortgages that trapped consumers into debt and put them at risk of losing their homes. Thousands of Washington homeowners will share about \$6.5 million in restitution. The Attorney General's Office and Division will also receive \$2.5 million for legal and investigative costs -- the majority, of which, will be funneled to consumers. Ameriquest also agreed to provide full disclosure to consumers, revise its compensation system, limit prepayment penalty periods, not encourage borrowers to falsify income sources, not solicit customers with refinancing offers within 24 months of their original loan, use independent loan closers and appraisers, adopt policies to facilitate reporting of improper conduct, and pay for an independent monitor to oversee compliance with the settlement terms during the next five years.
- The Court of Appeals Division II affirmed the Division's predatory lending charges against Nationscapital and Chisick. Penalties include fines totaling \$457,575, revocation of license, lengthy bans from the industry, restitution of \$712,527 to over 120 consumers, and reimbursement of investigation costs.
- The Division took action against payday lender, Check 'N Go of Washington, Inc. alleging the company collected multiple checks from borrowers to secure single small loans, charged excessive fees, and collected personal identification numbers without the borrowers' knowledge. Sanctions sought include revocation of Check 'N Go's license, fines of \$333,700, restitution, and reimbursement of investigation costs.
- The Division settled the charges and temporary cease and desist order issued against unlicensed payday lender Expressit, Inc. Expressit charged fees and made loans in excess of legal limits and allowed borrowers to "roll" loans by making payments of interest only while repaying the principal of existing loans with proceeds





from additional small loans. The owners agreed to a lifetime ban from the industry and from applying for a license or from serving as an officer or employee of any payday lending establishment, to pay restitution of over \$304,000 to over 350 consumers, and to reimburse DFI for the cost of the investigation.

- The Consumer Services Division held 11 public meetings to allow public comment on the rules adopted under the Mortgage Broker Practices Act (MBPA). The MBPA was significantly amended in the 2006 legislative session, giving DFI loan originator licensing and expanded examination and investigation authorities.
- The Consumer Services Division started routine examinations of Mortgage Brokers in October 2006, with volunteer mortgage brokers. Our findings prior to the January 1, 2007 official implementation date have been sobering. Some of the potentially serious violations include among others:
 - o Bait and Switch Practices (disclosing costs that are different than what was disclosed at inception of loan)
 - o Failure to make proper disclosures such as:
 - Good Faith Estimates of Costs (GFE)
 - Annual Percentage Rates (APR)
 - Equal Credit Opportunity (ECOA) when credit is denied
 - Rate Locks whether rates are locked or not
 - US Patriot Act Customer Identification Program (CIP) to prevent Money Laundering and Combating terrorist financing
- The mortgage industry as whole, including our Mortgage Brokers and Consumer Loan Companies (Mortgage Bankers) may pose challenges in coming 2007 and beyond because of the tightening of credit availability in the sub-prime market.
- 195 exams were completed in 2006 the goal for one year which is 100. The processing turnaround time was 39 days.

DIVISION OF CONSUMER SERVICES, CONTINUED

REGULATED INSTITUTIONS

MORTGAGE BROKERS	2002	2003	2004	2005	2006
Companies	933	1,192	1,316	1,771	2,038
Branch Offices	441	629	787	963	1,335
Consumer Complaints	295	402	317	484	696

CONSUMER LOAN COMPANIES	2002	2003	2004	2005	2006
Companies	254	270	295	323	356
Branch Offices	720	811	966	1,152	1,309
Consumer Refunds	1,229,552.40	123,844	210,486	145,690	N/A
Consumer Complaints	333	359	224	266	273
RE* Loans Made During Period	71,743	86,315	17,184,567	132,678	N/A
Total Dollars in RE* Loans Made During Period	5,137,363,495	9,913,792,697	13,286,542,367	18,260,160,100	N/A

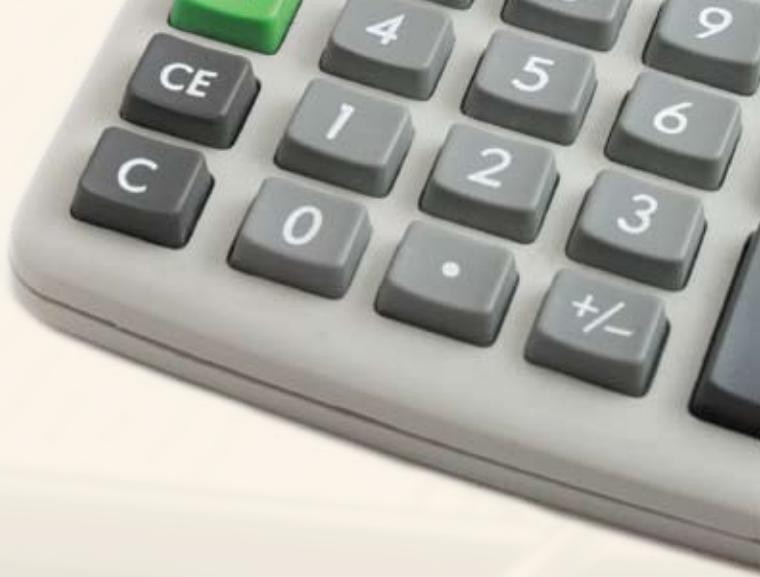
*Refer to real estate loans that use borrowers home for the loan

CHECK CASHERS	2002	2003	2004	2005	2006
Companies	121	139	144	162	177
Branch Offices	392	542	539	572	624
Consumer Complaints	0	1	6	10	8
Checks Cashed During Period	6,454,950	2,612,526	2,654,671	3,369,657	N/A
Dollar Amounts of Checks Cashed During Period	834,735,294	938,985,616	958,977,269	1,175,006,834	N/A

CHECK SELLERS	2002	2003	2004	2005	2006
Companies	8	9	8	17	16
Branch Offices	7	8	5	6	7
Consumer Complaints	0	1	7	11	0
Checks Sold During Period*	**550,329	1,158,438	806,108	2,229,566	N/A
Dollar Amounts of Checks Sold During Period*	133,239,667	226,641,820	158,664,508	512,674,993	N/A

*Includes checks sold as an agent of exempt company

**Decreases due to change in money order reporting requirements



PAYDAY LENDERS	2002	2003	2004	2005	2006
Companies	110	124	125	129	130
Branch Offices	317	378	456	582	612
Consumer Complaints	6	8	82	69	83
Small Loans Made During Period	2,337,359	2,983,477	3,150,425	3,593,873	N/A
Total Amount of Small Loans Made During	873,339,989	1,069,695,069	1,179,056,532	1,382,132,283	N/A

MONEY SERVICES	2004	2005	2006
Companies	60	84	91
Delegates	3,818	5,712	7,200
Consumer Complaints	25	27	48
Volume	\$14,608,275,401	MT:\$15,330,265,462 CE:\$156,486,039	N/A
Free Income	\$5,093,259,780	MT:\$54,673,884	N/A

* Licensing program began October 2003

SMALL LOANS MADE BY PAYDAY LENDERS (Millions of Dollars)





DIVISION OF CONSUMER SERVICES, CONTINUED

ENFORCEMENT STATISTICS

	Statement of Charges	Summary Cease & Desist	Final Order	Consent Order	Total
2005	18	1	12	30	61
2006	17	1	2	19	39

	2002	2003	2004	2005	2006
Complaints*	842	1,025	948	1,088	1,336
Charges and other Orders Issued	18	52	123	61	39
Investigation Opened	43	29	68	80	87
Investigation Closed	104	93	64	47	39

* Includes complaints filed against non-licensees.

Consumer Services took over the escrow program on July 1, 2006. The division received 43 complaints and issued a Statement of Charges against Ocean Shores and a Consent Order against Liberty Escrow.



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 2006. 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 11.52 percent to \$2.09 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 12.5 percent to 15.37 billion, and total shares and deposits grew 8.8 percent to \$19.3 billion.

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



INDUSTRY FACTS AT A GLANCE

Number of state chartered credit unions	78
Total assets of state chartered credit unions	\$20.23 billion
Total state chartered credit union members	2.00 million

DIVISION MILESTONES AND ACCOMPLISHMENTS

NEW CREDIT UNION CHARTERS

No new credit unions charters were issued in 2006.

CHARTER CONVERSIONS

There were no charter conversions in 2006.

MERGERS

- Columbia Basin Federal Credit Union merged with Horizon Credit Union
- Evergreen Federal Credit Union merged with Social and Health Services Credit Union
- Chelan County PUD Credit Union merged with Numerica Credit Union

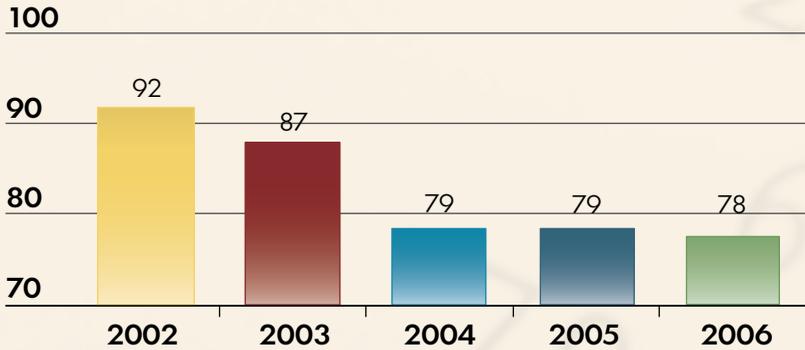
NAME CHANGES

- Kitsap County Public Employees Credit Union became Connection Credit Union
- Twin County Credit Union became TwinStar Credit Union
- King County Credit Union became Prevail Credit Union
- Social and Health Services Credit Union became Evergreen Direct Credit Union

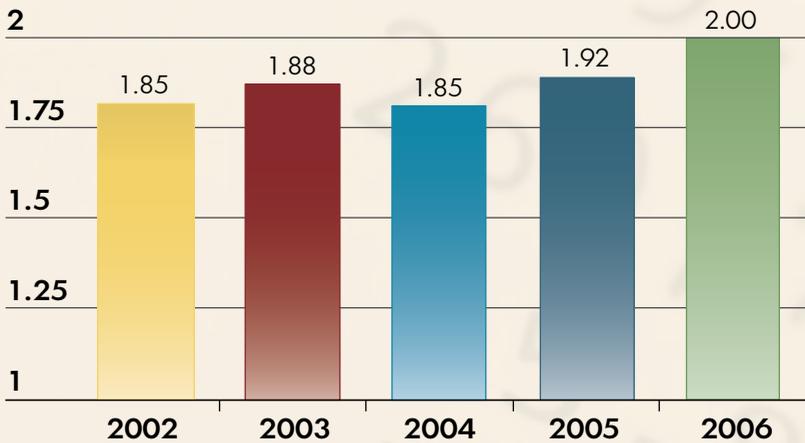
DIVISION OF CREDIT UNIONS, CONTINUED

STATE CHARTERED CREDIT UNION INFORMATION

NUMBER OF STATE CHARTERED CREDIT UNIONS



NUMBERS OF MEMBERS (MILLIONS)

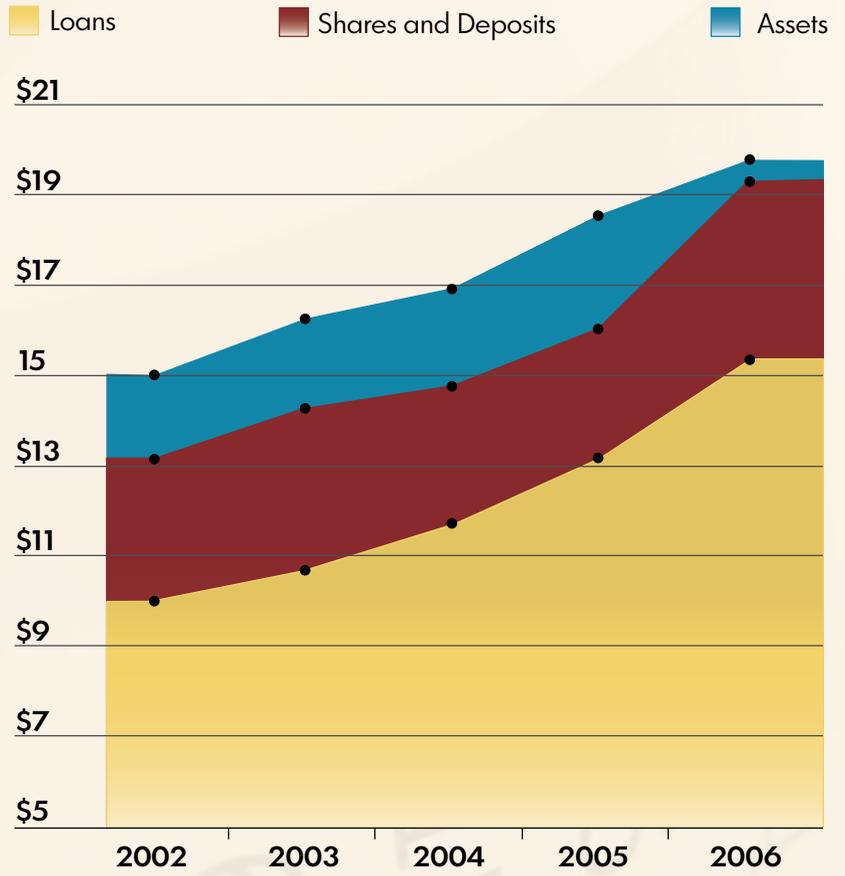


STATE CHARTERED CREDIT UNIONS

FINANCIAL INFORMATION (ALL NUMBERS ARE END OF YEAR FIGURES IN THOUSANDS)

	2002	2003	2004	2005	2006
Loans & Contracts	\$9,843,563	\$10,553,569	\$11,857,264	\$13,665,692	\$15,370,220
Total Assets	\$15,109,748	\$16,239,395	\$16,898,268	\$18,528,470	\$20,229,811
Shares & Deposits	\$13,183,696	\$14,129,834	\$14,622,907	\$15,882,061	\$17,218,951
Net Worth	\$1,458,360	\$1,577,682	\$1,687,204	\$1,873,269	\$2,088,955
Net Income	\$160,768	\$149,457	\$153,628	\$184,649	\$208,284
Net Worth to Total Assets Ratio	9.65%	9.71%	9.98%	9.98%	10.32%

STATE CHARTERED CREDIT UNIONS
 END OF YEAR STATISTICS (BILLIONS OF DOLLARS)



Division of Securities

– MICHAEL STEVENSON, DIRECTOR

SIGNIFICANT HIGHLIGHTS

In 2006, the Securities Division took 91 enforcement actions that resulted in respondents being ordered to cease unlawful conduct, pay restitution, fines and costs. The Securities Division also referred five cases to the offices of the King County Prosecutor and the U.S. Attorney. As a result of the numerous enforcement actions, more than \$531,000 has been paid to the Division in fines, over \$70,000 paid in cost recovery, and over \$169,000 paid to victims in restitution.

The Securities Division settled complex regulatory actions against Wachovia Capital Markets, LLC, and the Pacific Coast Investment Company. The Securities Division alleged that Wachovia had failed to reasonably supervise its research analysts and failed to maintain and produce required books and records. Pacific Coast Investment Company, in selling mortgage backed securities, was alleged to have failed to provide material information in connection with its sales of foreclosure properties. As a result of the Division's actions, Wachovia agreed to cease and desist from conflicts of interest involving its research analysts and to pay fines of almost \$400,000 in connection with its failure to supervise and to provide \$54,498 to be used for investor education. PCIC agreed to cease and desist from violations of the registration and anti-fraud provisions of the Securities Act. In consenting to cease and desist orders, Wachovia and PCIC neither admitted nor denied the allegations.

The Securities Division participated in a number of outreach efforts focusing on better educating our state's citizens. Securities Division staff took part in a national education campaign sponsored by the American Library Association, Kiplinger's Personal Finance Magazine and the Investor Protection Trust called the "Investor Education @ your library" program held at the downtown Seattle public library where investors received general and personalized advice from twenty five professional advisor volunteers. Teaching our investors how to avoid being scammed and making better investment decisions is an important mission of the Division.



SIGNIFICANT HIGHLIGHTS, CONTINUED

Throughout the year, Securities Division staff have been active in working with other regulators, Securities Exchange Commission representatives, prosecutors and law enforcement. The Division participated in the Western Washington Corporate Fraud Task Force, the Economic Crime Information Center, and the Washington Economic Crime Task Force Conference to name a few. The Division also continued to work closely with the Office of the Insurance Commissioner in an effort to protect consumers.

LEGISLATIVE HIGHLIGHTS

New Securities Act

Washington State's current Securities Act dates from 1959. In an effort to modernize the law, the National Conference of Commissioners on Uniform State Laws introduced the new Uniform Securities Act of 2002 in the 2006 legislative session. The Department, along with the Office of Insurance Commissioner, the Washington State Bar Association, the American Association of Retired Persons (AARP), and other consumer groups testified on the legislation, which the legislature will further study.

NATIONAL/STATE BOARD AND COMMITTEE

Michael Stevenson — Memberships

Mr. Stevenson's memberships include the North American Securities Administrators Association's (NASAA) Corporation Finance Committee, the Uniform Securities Act Project Group and the Corporate Governance Project Group. NASAA is the voice of state securities agencies whose mission is protecting consumers in the purchase of securities and investment advice. He is a 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 1,700 federal, state and local law enforcement agencies and operates through grants from the United States Department of Justice. www.nw3c.org

He is also a member of the securities committees of the Business Law Sections of the Washington State Bar Association and the American Bar Association.

DIVISION OF SECURITIES, CONTIUED

The Division of Securities regulates the offer and sale of investments to Washington State residents. Regulation includes registration of security, franchise, and business opportunity offerings, and licensing and examination of securities broker-dealers, investment advisers. The Division also regulated escrow agents and officers until the program was transferred July 1, 2006 to the Department's Consumer Services Division.

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. Over 100,000 individuals and firms provided securities investments and advice to our citizens, and more than \$832 billion of securities products were offered to Washington investors in 2006.

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.

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	113,373
Registered Securities Broker-Dealers	2,124
Branch Offices of Broker-Dealers	3,772
Regulated Investment Advisers	1,691
Investment Adviser Representatives	7,582
Registered Franchises	1,065
Registered Escrow Agents	202
Registered Escrow Officers	342

DIVISION OF SECURITIES STATISTICS

SECURITIES	2003	2004	2005	2006
Dollar Amount of Securities Permits, Notifications and Exemptions Authorized	\$519,368,524,783	\$507,503,462,029	\$625,721,157,829	\$832,653,224,434
Registered Securities Broker-Dealers	2,106	2,106	2,106	2,124
Registered Investment Advisers	522	403	412	418
Investment Adviser Notice Filers	956	1,068	1,145	1,273
Registered Securities Salespersons	97,609	101,834	106,630	113,373
Registered Investment Adviser Representatives	6,082	6,358	6,860	7,582
Branch Offices of Broker-Dealers	2,125	2,285	3,755	3,772
Active Enforcement Cases	115	149	137	128
Enforcement Actions	88	72	85	82

FRANCHISES	2003	2004	2005	2006
Registered Franchises	777	872	966	1,065
Registered Franchise Brokers	86	139	210	143
Active Enforcement Cases	12	16	17	17
Enforcement Actions	10	5	3	12

ESCROW	2003	2004	2005	2006*
Registered Escrow Offices	204	200	198	202
Registered Escrow Officers	347	334	341	342
Active Enforcement Cases	12	17	8	2
Enforcement Actions	6	11	5	1

* Until June 30th

DIVISION OF SECURITIES, CONTINUED

BUSINESS OPPORTUNITIES	2003	2004	2005	2006
Registered Business Opportunities	30	33	27	31
Active Enforcement Cases	9	14	15	7
Enforcement Actions	10	7	2	7

COMMODITIES	2003	2004	2005	2006
Active Enforcement Cases	2	2	1	0
Active Enforcement Cases	1	0	0	0



REGISTRATION AND LICENSING ACTIVITY TOTALS FOR 2006 STATISTICS

REGISTRATIONS, EXEMPTIONS & NOTIFICATIONS

	2006 NEW	2006 RENEW	2006 AMEND
Investment Companies (<i>Mutual Funds</i>)	3,002	16,656	15,614
Small Business Filings (<i>SB-2s</i>)	9	1	0
Other Coordination Filings	35	22	31
Qualifications	25	5	8
SCOR (<i>Small Company Offering Registration</i>)	2	0	0
Franchises	216	812	333
Exemptions	2,352	0	0
Opinions	41	0	0
Franchise Exemptions	15	111	0
Business Opportunities	21	11	2
TOTAL	5,718	17,618	15,988

FIRMS & ENTITIES

	2006 NEW	2006 RENEW
Securities Broker-Dealers	193	2,124
Investment Advisers	291	1,691
Franchise Brokers	54	159
Escrow Agents	4*	1*

* Until June 30th

DIVISION OF SECURITIES, CONTINUED

REPRESENTATIVES & SALESPERSONS*

	2006 NEW	2006 RENEW
Investment Adviser Representatives	2,054	7,582
Intrastate Securities Salespersons	8	35
Agents of Issuers	16	3
Securities Salespersons	35,448	113,373
Salespersons with Disclosure History	3,676	N/A
Escrow Officers	13*	134*
TOTAL	41,215	121,127

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

EXAMINATION STATISTICS

	2003	2004	2005	2006
Broker-Dealer Exams Completed	131	67	108	126
Investment Adviser Exams Completed	88	60	121	63
Mortgage Broker-Dealer & Debenture Company Exams Completed	5	4	3	4
Escrow Agent Exams Completed	0	30	43	37*
TOTAL	224	161	275	232

* Until June 30th

ENFORCEMENT STATISTICS

TYPES OF ORDERS ENTERED IN 2006	STATEMENT OF CHARGES	SUMMARY CEASE & DESIST OR SUSPENSION	FINAL CEASE & DESIST OR REVOCATION	CONSENT ORDER	TOTAL
Securities					
Issuers	21	10	9	21	61
Broker Dealers and Investment Advisers	1	4	1	11	17
Franchises	0	0	0	4	5
Business Opportunities	2	1	1	2	6
Escrow*	0	0	0	2	2
Commodities	0	0	0	0	0
Total Actions	25	15	11	40	91

* Until June 30th

	2003	2004	2005	2006
Complaints Received	492	597	486	503
Orders Issued	115	78	95	92
Warning Letters Issued	98	142	98	106
Cases Opened	180	74	153	154
Cases In Process	222	307	276	176
Cases Closed	155	159	184	159
Subpoenas Issued	230	221	220	160
Criminal Referrals	8	7	2	2
Criminal Charges	8	8	1	1
Criminal Convictions	7	7	3	2
Criminal Sentencing	5	7	11	5





2006 ANNUAL REPORT

The Washington State Department of Financial Institutions

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