

### Distribution of market share among the major industry players



Distribution of market share among the major industry players: IT & C and BN & T was 74% and 26% percent respectively. A further change in the economic situation in the market will be characterized by a more equal distribution of market share major players.

£ million

PERCENTAGE INCREASE - PBT SECURITIES MARKETS

CAGR (03 - 08)  
13%  
7%



### Solid results in a challenging market

H1 09 v H1 08  
Revenue (2%)  
PBT 4%

### Projected sales of main products in 2013



### Analysis of total income



## Letter from DFI Director Scott Jarvis

The following is the 2012-13 biennium report, submitted on behalf of the staff of the Washington State Department of Financial Institutions (DFI). This document details how each division of DFI serves our stakeholders and Washington residents.

DFI's nearly 200 employees are committed to maintaining an environment of safe and reliable financial services for Washington consumers and our licensees. A sound financial services industry is the foundation for economic development and improves the quality of life for the citizens of our state. Each day, we put into practice our mission — to protect and educate the public and promote economic vitality — through the regulation of financial services in our state. Our licensees include banks, credit unions, mortgage brokers, mortgage servicers, loan originators, payday lenders, franchise brokers, investment advisers and securities issuers, money transmitters, independent escrows, check cashers and check sellers.

As the state and nation slowly recover from the largest economic recession since the Great Depression, demand for our services continues to be high as the financial and mortgage sectors adjust to a newly shaping financial environment. Some industries are growing while others continue to consolidate. New payment and financing methods continue to emerge such as bitcoin and crowdfunding, posing challenges for regulators as to how to regulate them. The passage of I-502 has put pressure on depository institutions in determining how to bank this new industry. As these changes occur, there is increased risk of potential abuses as these new methods and industries take hold. DFI is working to ensure these new industries operate according to the law – and are financially safe and sound as Washington consumers begin doing business with them.

Experience in working with financial fraud victims tells us information is key when it comes to protecting consumers. DFI provides detailed information and outreach on financial topics ranging from how to verify the license of a mortgage broker, loan originator, payday lender or financial planner — to the basics of budgeting and credit, or how to avoid becoming victims of financial fraud, identity theft, or foreclosure prevention fraud.

Washington residents of all ages and backgrounds face an ever-increasing number of scams and schemes aimed at separating them from their hard-earned money. To counter these attacks, and better protect consumers, DFI continues to expand our network of financial education partners and increase outreach efforts to residents in communities large and small throughout Washington State.

DFI's employees also are devoted to providing regular and clear communication with our licensees, ensuring our licensees understand and adhere to the law and understand how new legislation affects how they do business in Washington State.

Collectively and independently, the department's five divisions — Securities, Consumer Services, Banks, Credit Unions and Administration — work to create a stronger, more secure financial environment for businesses and consumers. Together we're working to cultivate a stronger economic future for Washington residents and businesses alike.

We look forward to continuing serving Washington business and residents, and assisting our fellow state agencies in making our state an even greater place for all who choose to call it home.

Sincerely,  
Scott Jarvis, Director

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## Department Overview

*Gloria Papiez, Deputy Director*

The Department of Financial Institutions (DFI) was established in October 1993 by RCW 43.320. Its mission is to regulate financial services, to protect and educate the public, and promote economic vitality. The Department regulates: state-chartered depository institutions such as banks, credit unions, savings and loan associations, savings banks and foreign banks; the securities industry including securities broker-dealers, investment advisers and their agents, securities issuers, franchises, franchise brokers, and business opportunities; and non-depository institutions and persons including mortgage bankers, mortgage servicers, consumer loan companies, loan officers, check cashers and sellers (including payday lenders), money transmitters and currency exchangers, mortgage brokers and escrow agents and officers. The Department also registers entities that offer tax refund anticipation loans.

The Department conducts four core program activities: chartering, licensing and registration of the financial institutions and individuals listed above; examinations for safety and soundness, compliance and for cause; enforcement activities to detect and take corrective action for violations of the regulatory and anti-fraud statutes applicable to financial institutions; and education and public outreach activities including activities aimed at educating and protecting consumers of financial services, and technical assistance and guidance for regulated entities and individuals.

### DFI VISION

Safe, honest and reliable financial services.

### DFI MISSION STATEMENT

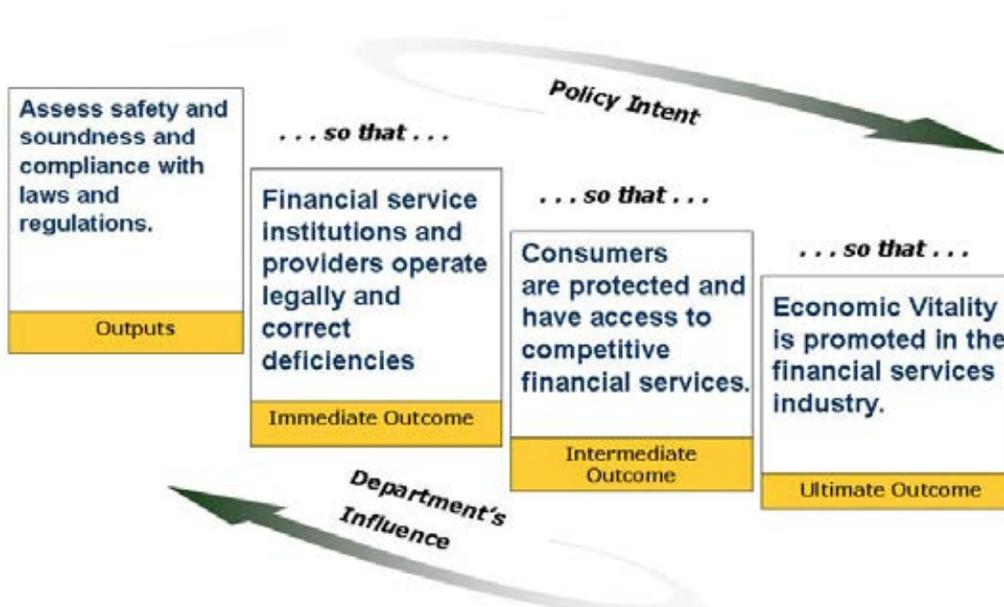
DFI regulates financial services to protect and educate the public and promote economic vitality.

### DFI VALUES

We value:

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

### DFI LOGIC MODEL



## Department Overview, Continued

### *Division of Administration 2012 and 2013 Data*

#### Budgeted Staff:

FY 12= 188

FY 13 = 188

11-13 Biennial Budget = \$45,089,212

#### Cash Fines and Penalties:

FY 12=\$1,917,475

FY 13 = \$1,490,762

#### Staff Composition by gender:

FY 12 = 49% female, 41% male

FY 13 = 59% female, 41% male

#### Racial Diversity of workforce:

FY 12 = 19%

FY 13 = 19%

## DFI Communications Outreach

*Lyn Peters, Director of Communications*

### 2011-2013 Communications Outreach

DFI's two-person Communications team strives to ensure continued expansion of the agency's financial education outreach and increased partnerships with the many organizations throughout Washington communities – and across the nation – committed to financial education.

With DFI's leadership, Washington participates in the national Money Smart Week, America Saves Week and Financial Literacy Month programs.

DFI again contracted with Money Savvy Generation ([www.msngen.com](http://www.msngen.com)) to offer financial education curriculum free of charge to Washington's elementary and middle school teachers and students throughout Washington State. Money Savvy meets state and federal education benchmarks as well as those of the National Jump\$tart Coalition and Common Core. The program is well received and surveys indicate an increase in knowledge not just in students, but the family at home as well.

Money Savvy Kids was provided to 180 elementary school classrooms and Money Savvy U provided to 118 middle school classrooms during the 2011-12 and 2012-13 school years.

In addition to contracting with organizations like Money Savvy Generation, the DFI Communications team continues to develop and expand financial education outreach through partnerships.

- With funding from the Investor Protection Trust (IPT), DFI championed Washington organizations' participation in the Investor Education In Your Workplace (IEYW) program in Spring 2012, Fall 2012, and Spring 2013. Washington's IEIYW program began with 693 participants from DFI and Washington chartered credit unions. Overall (national) program participants improved their investing knowledge by 34.25%. In Fall 2012 Washington IPT funds sponsored 134 participants and program participation improved investing knowledge (nationally) by 31.27%. In 2013, Washington IPT funds sponsored 19 organizations, with more than 1,100 employees signing up to participate. Nationally, participants improved their investing knowledge by 28.73%.
- Utilizing Washington's Investor Protection Trust (IPT) funds, DFI partnered with Consumer University to take the Investor Education In Your Community program (in 20 presentations) to community centers, libraries and service organizations throughout the state. The program provided free, unbiased investor education to residents of all ages in their own communities.
- DFI continued outreach regarding the Elder Investment Fraud and Financial Exploitation (EIFFE) prevention program in Washington State. The EIFFE Prevention Program educates healthcare professionals, family and community members to recognize when older residents may be vulnerable to or victims of financial abuse, particularly those residents with mild cognitive impairment, and then to refer these at-risk patients to State Securities Regulators, local adult protective services professionals or for further medical screening.



## DFI Communications Outreach, Continued

- Working with the Financial Education Public Private Partnership (FEPPP), DFI provides teacher trainings during two two-day teacher workshops. DFI shares information, curriculum and ideas to Washington teachers to take back to their classrooms and teach students throughout the school year.
- Through a partnership with AARP and the Financial Industry Regulatory Authority (FINRA) DFI provides Washington investors with tools and information necessary to avoid becoming victims of investor fraud – like the Fighting Fraud 101 brochure, in English and Spanish.
- Collaborating with federal, state, and local organizations, DFI assisted with foreclosure prevention outreach to help Washington residents connect to free counselors and non-profit organizations in their search for alternatives to foreclosure.
- DFI's Webmaster continues to update and improve the Washington State Financial Education Clearinghouse and the Washington Financial Education Calendar to help Washington residents, teachers, parents and students easily access financial education information and find financial education workshops in their communities.
- DFI funded assistance for 10 students in 2012 and 2013 to attend one of four Business Week Washington camps
- DFI partially funded the development of the statewide Bank On marketing program and continues to work with Bank On WA partners (Treasurer's office, Department of Commerce, Washington Asset Building Coalition) for a statewide launch.
- DFI partnered with AARP Washington to promote and provide "Decide. Create. Share." workshops for Washington women seeking to improve their financial stability.
- In 2013, DFI funded the YWCA financial education program for survivors of domestic violence for more than 50 women in the King County area.
- DFI's two-person Communications team participated in **67 outreach events in 2012**, and **70 outreach events in 2013**, including monthly events in partnership with the Department of Retirement Systems for state employees considering retirement.

Working with local organizations like the Financial Education Public Private Partnership ([www.feppp.org](http://www.feppp.org)), Jump\$tart Washington Coalition ([www.wajumpstart.org](http://www.wajumpstart.org)) Washington Asset Building Coalition ([www.washingtonabc.org](http://www.washingtonabc.org)), and Washington's AARP (<http://www.aarp.org/wa>) DFI continues to find new ways to increase and improve financial education throughout Washington State.

Information and knowledge are powerful tools. We are committed to making sure Washington residents have the tools they need to succeed in their pursuit of financial freedom.

## Division of Banks

*Richard M. Riccobono, Director of Banks*

The banking industry in Washington continued to recover from the recession and stabilize in 2012 and 2013. Asset quality improved and delinquent/nonperforming asset metrics are no longer concerning state-wide. Profitability improved, but the low interest rate environment put pressure on bank margins. Slow economic growth presented a challenge for banks to achieve quality loan portfolio growth. Capital levels improved as well and have contributed to greater stability in the industry. Consolidation among state chartered banks picked up considerably, including some out-of-state mergers and acquisitions.

The number of problem banks declined by 67% from year-end 2011 to year-end 2013. There were no bank failures in 2012, and one in early 2013. In 2012 and 2013, six Washington chartered institutions merged with other Washington chartered institutions, while one bank was sold to a non-Washington chartered institution. Additionally, four institutions acquired banks chartered nationally or in other states, and another four nationally chartered institutions converted to Washington state charters. As a result of the consolidation and conversions, assets under regulation by the Division of Banks increased. Total assets of Washington state chartered depository institutions increased from \$44.2 billion to \$45.4 billion in 2012, and further increased to \$53.4 billion in 2013.

Chartering activity has been slow. No new banks were chartered in 2012-2013, however, branching activity significantly increased during the biennium.

The Division's financial condition remained satisfactory during the biennium. Richard Riccobono continued to serve as Division Director since his appointment in August 2011.

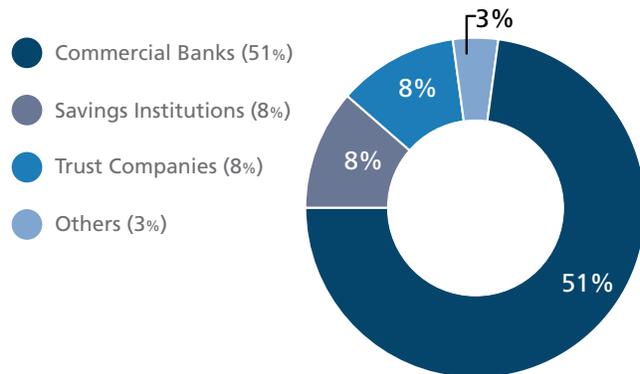
## Division of Banks, Continued

### Statutes Administered by the Division of Banks

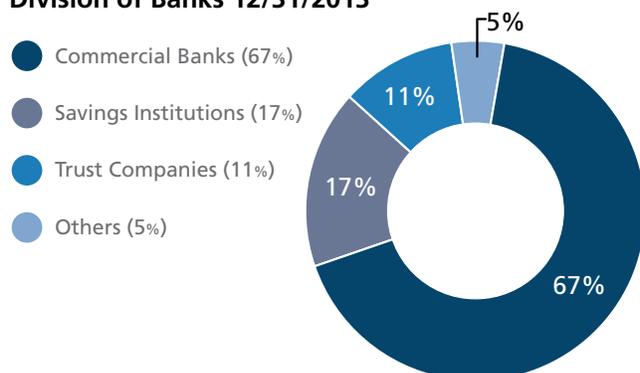
Chapter 30 RCW	Banks and Trust Companies
Chapter 31.24 RCW	Business Development Companies
Chapter 31.35 RCW	Agricultural Lenders, Loan Guaranty Program
Chapter 31.40 RCW	Federally Guaranteed Small Business Loans
Chapter 32 RCW	Mutual Savings Banks
Chapter 33 RCW	Savings and Loan Associations

Industry Facts at a Glance 12/31/2013	
Institutions Regulated by the Division of Banks	
Commercial Banks	<b>43</b>
Savings Institutions	<b>11</b>
Trust Companies	<b>7</b>
Branches of foreign banks	<b>1</b>
Business Development Corporations	<b>1</b>
SBA (7) A Lenders	<b>1</b>
Total assets of banks and trust companies	<b>\$ 95 billion</b>

### Division of Banks 12/31/2012



### Division of Banks 12/31/2013



## Division of Banks, Continued

### Conversions to State Charter

Sound Community Bank	(December 2012)
Raymond Federal Bank	(October 2012)
Olympia Federal Savings and Loan Association	(May 2013)
Yakima Federal Savings and Loan Association	(October 2013)

### Mergers and Acquisitions

AmericanWest Bank, Spokane, WA acquired Security Business Bank, San Diego, CA (July 2012)  
 AmericanWest Bank, Spokane, WA acquired Inland Community Bank, NA, Ontario, CA (November 2012)  
 Heritage Bank, Olympia, WA acquired Northwest Commercial Bank, Lakewood, WA (January 2013)  
 Pacific International Bank, Seattle, WA merged into BBCN, Los Angeles, CA (February 2013)  
 Sterling Savings Bank, Spokane, WA acquired Borrego Springs Bank, NA, La Mesa, CA (February 2013)  
 Columbia State Bank, Tacoma, WA acquired West Coast Bank, Lake Oswego, OR (March 2013)  
 AmericanWest Bank, Spokane, WA acquired PremierWest Bank, Medford, OR (April 2013)  
 Central Valley Bank, Toppenish, WA merged into Heritage Bank, Olympia, WA (June 2013)  
 Core Business Bank, Bellevue, WA merged into Puget Sound Bank, Bellevue, WA (June 2013)  
 Heritage Bank, Olympia, WA acquired Valley Bank, Puyallup, WA (July 2013)  
 Sterling Savings Bank, Spokane, WA acquired Commerce National Bank, Newport Beach, CA (October 2013)  
 HomeStreet Bank, Seattle, WA acquired Fortune Bank, Seattle, WA (October 2013)  
 HomeStreet Bank, Seattle, WA acquired Yakima National Bank, NA, Yakima, WA (October 2013)

### Bank Closures

Westside Community Bank, University Place, WA (January 2013)

Key Statistics	2009	2010	2011	2012	2013
Number of State Chartered Commercial Banks	71	57	50	50	43
Number of State Chartered Savings Institutions	9	7	8	8	11

## Division of Consumer Services

*Deborah Bortner - Director of Consumer Services*

About the Division of Consumer Services

The Division of Consumer Services works to protect consumers from illegal and fraudulent financial transactions. The Division accomplishes its responsibilities through licensing, examining the books and records of licensees, investigating consumer complaints, and enforcing state and federal law relating to financial services.

The Division regulates consumer loan companies, mortgage brokers, mortgage bankers, mortgage servicers, money transmitters and currency exchangers, independent escrow companies, and check cashers and sellers, which includes “payday lenders.” The Division regularly examines these companies for compliance with state and federal law. When a company is found to have violated the law, the Division pursues enforcement of the law which includes obtaining refunds and restitution for consumers when applicable.

The Division is entirely self-supporting, with funding provided by licensing, examining, and enforcement actions of the regulated businesses and individuals. No money is received from the state General Fund or other public revenue source.

In each of the Division’s Units (Licensing, Examination and Enforcement), there is a consistent focus on establishing and meeting key performance measures that help achieve the Division’s Mission and Goals. In addition the Division is actively involved in improving our business processes to make them more responsive to its consumers and licensees. By doing this the Division is promoting active compliance that better protects consumers while streamlining the regulatory process for businesses, with the overall impact of encouraging a safe and healthy financial services sector.

In a time when the need for heightened oversight of financial institutions is greater than ever and government resources are stretched to the limit, the Division is refining the regulatory process to make maximum use of technology and best practices. This will help fulfill the statutory mandates and meet the public’s expectation of a safe financial marketplace. In addition the Division continues to build partnerships across the industries with businesses, non-profits and other government agencies to reach out to consumers so they can protect themselves, identify “bad actors” and as quickly as possible stop them from harming consumers

### 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 43.320 RCW	Mortgage Lending and Fraud Prosecution Account
Chapter 19.265 RCW	Tax Refund Anticipation Loans
Chapter 19.144 RCW	Mortgage Lending and Homeownership

## Division of Consumer Services, Continued

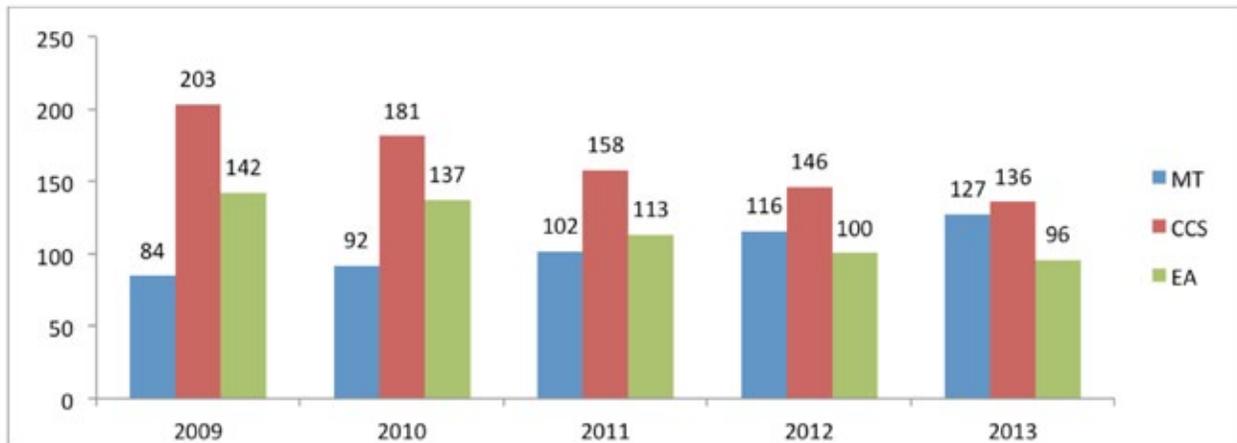
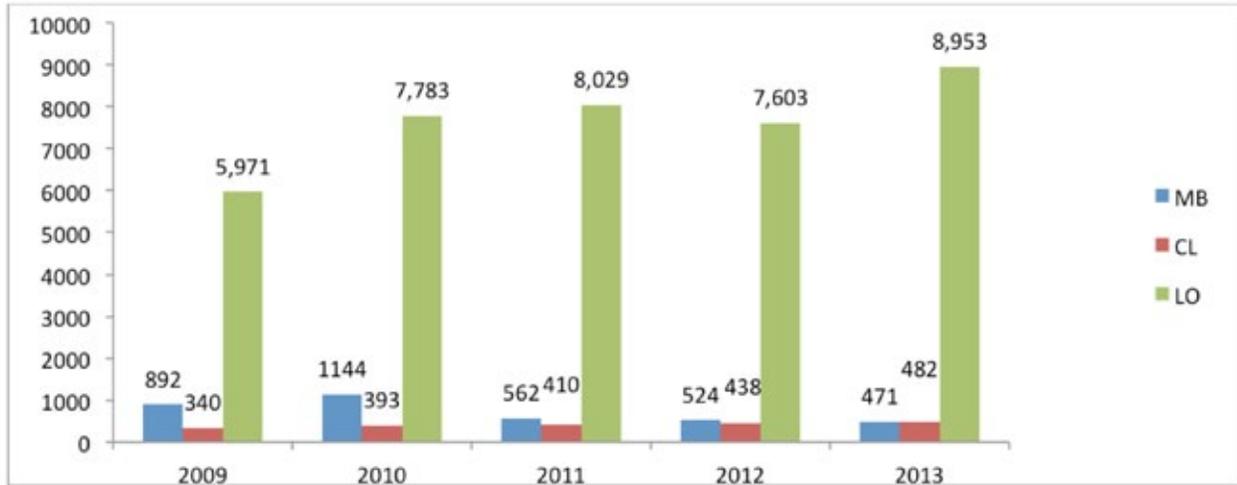
<b>Industry Facts at a Glance</b>	<b>2012</b>	<b>2013</b>
Mortgage Broker Licenses	367	322
Mortgage Broker Branch Office Licenses	157	149
Mortgage Loan Originators (Active)	7,603	8,953
Mortgage Loan Originators (Inactive)	1,262	2,664
Consumer Loan Company Licenses	438	482
Consumer Loan Company Branch Office Licenses	1,369	1,658
Money Transmitter and Currency Exchange Offices	116	127
Money Transmitter Delegates	11,427	11,959
Check Casher Company Licenses*	144	134
Check Casher Branch Office Licenses	415	522
Check Seller Company Licenses*	2	2
Check Seller Branch Office Licenses	0	0
Payday Lender Endorsement Licenses*	42	37
Payday Lender Endorsement Branch Office Licenses	146	121
Escrow Agents	87	80
Escrow Agent Branch Offices	13	16
Escrow Officers (Licensed/Inactive)	215	121
Tax Refund Anticipation Loan Facilitators	77	11

\*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.

## Division of Consumer Services, Continued

### Division Milestones and Accomplishments

#### Total Number of Licensees at Years' End



## Division of Consumer Services, Continued

Licensing Unit: During 2012, the Licensing Unit conducted the following activities:

- Processed more than 100 complex new licenses for companies including business plan analysis and background checks in an average of 13 days
- Assisted 24,000 existing licensees in maintaining their licenses
- Reviewed over 9,400 criminal and credit background checks to better protect consumers
- Conducted a Lean project on the process for one license type to reduce processing time by minimizing waste and points of contact
- Licensed more than 2,257 Mortgage Loan Originators with an average processing time of 11 days
- Educated and assisted in the rollout of the quarterly Mortgage Call Report, a federal requirement providing extensive financial data on licensees.

Licensing Unit: During 2013, the Licensing Unit conducted the following activities:

- Processed 300 complex new licenses for companies including business plan analysis and background checks in an average of 18 days
- Assisted 24,000 existing licensees in maintaining their licenses
- Reviewed over 6,100 criminal and credit background checks to better protect consumers
- Licensed more than 4,165 Mortgage Loan Originators with an average processing time of 14 days
- Transitioned 63 Money Transmitter licensees to a nationwide multi state licensing system to promote consistency of information and ease of filing
- Assisted 75 Escrow companies with requirements for updating their fidelity policies for the protection of consumers

Examination Unit:

Performed 200 examinations in 2012 with 86 percent of companies being rated satisfactory. Out of 200 examinations, 27 were multistate examinations with 12 as lead state. Eleven companies cited for egregious violations were referred to the Division's Enforcement Unit. The examinations resulted in refunds of \$84,335.31 to citizens of Washington.

Performed 209 examinations in 2013 with 79 percent of companies being rated satisfactory. Out of 209 examinations, 20 were multistate examinations with 9 as lead state. Twelve companies cited for egregious violations were referred to the Division's Enforcement Unit. The examinations resulted in refunds of \$40,963.82 to citizens of Washington.

Enforcement Unit:

Top Complaint Issues

Loan modification scams

Residential mortgage servicing, specifically foreclosure issues

Payday loan collection scams

Advance fee loan scams, a type of loan modification scam

## Division of Consumer Services, Continued

### Criminal Referrals in 2012 and 2013

During 2012 and 2013, DFI referred 12 cases for prosecution in King County.

### Legislative Activities

2012

#### **SHB 2255 - Concerning Nondepository Institutions Regulated by the Department of Financial Institutions**

*Effective Date: June 7, 2012*

This new law amends several statutes under the authority of the Department of Financial Institutions (DFI).

##### Consumer Loan Act - RCW 31.04

There is an exemption under the Consumer Loan Act for businesses conducting transactions covered by the Retail Installment Sales Act. The law amends the Consumer Loan Act to clarify that this exemption cannot be used if the transaction involves the sale of prepaid access devices. An exemption from loan originator licensing is created for an individual who offers or negotiates a residential mortgage loan secured by the individual's residence.

The new law gives the Director the authority to order refunds to consumers harmed as a result of a violation of CLA. It allows the Department to ban any person from participating in the affairs of a licensee if the person violates statutory provisions regarding the disclosure of fees and costs to a borrower, or if the person does not comply with reporting and recordkeeping requirements. The bill clarifies that the Director may informally settle complaints and enforcement actions, including requiring payment to DFI for the purposes of financial literacy and education.

##### Check Cashers and Sellers Act - RCW 31.45

The definition of licensee is clarified to specifically include a check casher or seller located in or outside the state of Washington. The new law clarifies that a licensee not only includes a check casher or seller who fails to obtain a license, but also a check casher or seller who fails to obtain a small loan endorsement. It is a prohibited practice for a check casher or check seller to sell prepaid access devices in a retail installment loan under the Retail Installment Sales Act; advertise a statement that is false, misleading, deceptive, or that omits material information; fail to pay annual assessments by due date; or fail to pay other monies due the Director. The Director may issue a statement of charges for omitting material information on an application; knowingly or negligently omitting material information in an exam or investigation; failing to pay an assessment or failing to maintain the required bond; or violating any applicable federal or state law. The law also states that the Director may require applicants for a license to obtain a license or transition an existing license using a multistate licensing system. The Director may informally settle complaints and enforcement actions including requiring payment to the Department of Financial Institutions for the purposes of financial literacy and education.

##### Mortgage Brokers Practices Act - RCW 19.146

The new law provides that for mortgage brokers, the Director may informally settle complaints and enforcement actions, which may include requiring payment to DFI for the purposes of financial literacy and education.

## Division of Consumer Services, Continued

### Escrow Agents - RCW 18.44, and Uniform Money Services Act - RCW 19.230

The Director may require escrow agent licensees to obtain a license or transition an existing license using a multistate licensing system. The Director may informally settle complaints and enforcement actions which may include requiring payment to DFI for the purposes of financial literacy and education.

### Mortgage Lending - RCW 19.144

Current law states that in addition to any other requirements under federal or state law, a residential mortgage loan may not be made unless a disclosure summary of all material terms, as adopted by DFI by rule, is placed on a separate sheet of paper and has been provided by a financial institution to the borrower within three business days following receipt of a loan application. The new law provides that disclosures that comply with the federal Real Estate Settlement Procedures Act are deemed to be compliant with disclosures required under state law.

### **SB 6218: Escrow Licensing, Chapter 124, Laws of 2012**

*Effective Date: June 7, 2012*

The new law clarifies the exemption from escrow agent licensure for attorneys practicing law. A person licensed to practice law in Washington is exempt from the escrow licensing requirements if all escrow transactions are performed by the attorney while engaged in the practice of law; or by an employee of the law practice under direct supervision of the attorney while engaged in the practice of law. In addition all escrow transactions must be performed under a legal entity publicly identified and operated as a law practice; and all escrow funds are deposited into, maintained in, and disbursed from a trust account in compliance with the state supreme court's rules governing the conduct of lawyers.

### **SSB 6354, Requiring State Agencies to Offer Electronic Filing for Business Forms, Chapter 127, Laws of 2012**

*Effective Date: June 7, 2012*

A state agency that requires a business to submit a document, form, or payment in paper format must, with limited exceptions, provide the business with an option to submit such materials electronically. Unless otherwise obligated, a business may authorize a second party to submit such filing requirements on its behalf. Exceptions to the electronic filing requirement apply where there is a legal requirement for materials to be submitted in paper format, or when it is not technically or fiscally feasible or practical, or in the best interest of businesses for such materials to be submitted electronically. If applicable, the director of an agency or the director's designee must, within existing resources, establish and maintain a process to notify the public as to what materials have been exempt from electronic filing. Agencies must add the capability for electronic submissions of existing documents, forms, and fees as part of their normal operations. In addition, any new documents, forms, or fees required of a business must be capable of electronic submission within a reasonable time following either their creation or the implementation of the new requirement. Agencies must document how they plan to transition from paper to electronic forms.

## Division of Consumer Services, Continued

2013

### **HB 1034 (Chapter 64, Laws of 2013), Regulating the Licensing of Escrow Agents**

*Effective Date: July 28, 2013*

The legislature modified several definitions in the Escrow Agent Registration Act. RCW 18.44. The definition of “escrow” now includes the collection and processing of payments and the performance of related services by a third party on seller-financed loans secured by a lien on real or personal property. This definition excludes vessel transfers. In addition, the new law clarifies that entities licensed under the Escrow Agent Registration Act that process payments on seller financed loans secured by liens on real or personal property are exempt from regulation under the Consumer Loan Act.

The Director of the Department of Financial Institutions is given the authority to take any action that is needed to protect consumers when the Director takes over an escrow company as part of an enforcement action. The current fidelity bond amount is increased from \$200,000 to \$1 million.

### **SHB 1327 (Chapter 106, Laws of 2013), Addressing Licensing and Enforcement Provisions Relating to Money Transmitters**

*Effective Date: July 28, 2013*

The Department of Financial Institutions regulates the money transmission under the Uniform Money Services Act (Act). RCW 19.230. Money transmission is the receipt of money for the purpose of transmitting or delivering the money to another location, whether inside or outside the United States. The transmission/delivery of the money can take place by any means, including wire, facsimile, or electronic transfer. Money transmitters must meet licensing requirements created by statute.

The newly passed law requires that at the time of application for an initial license and upon license renewal, an applicant must provide identifying information, including fingerprints, to the Department of Financial Institutions regarding each applicant’s: officers; directors; and owners. The officers, directors, and owners of an applicant are subject to a state and national criminal background check unless the applicant or its corporate parent is a publicly traded entity. A licensee must provide contact information for all persons that are authorized to provide money services on behalf of the licensee. The Director is expressly given the authority and administrative discretion to administer and interpret the Act to fulfill the stated intent of the Legislature.

### **SHB 5207 (Chapter 29, Laws of 2013), Addressing the Consumer Loan Act**

*Effective Date: July 28, 2013*

The Department of Financial Institutions licenses several entities under the Consumer Loan Act (CLA): consumer loan companies; mortgage loan originators, residential mortgage loan servicers (servicers) and; third-party residential mortgage loan modification service providers (third-party loan modifiers).

The new law makes several changes to the CLA to modernize it, better protect consumers, and make it comply with federal law.

To better protect consumers some additional consumer remedies are added, and some enforcement tools are made stronger. For example if a person makes a mortgage loan and is not licensed under the CLA any first-party fees charged in connection with the origination of the mortgage must be refunded to the borrower, excluding interest charges. If a person makes an unlicensed consumer loan any fees or interest charged in the making of the loan must be refunded to the borrower. Also, servicers may not charge a fee for providing information about a borrower’s account to the borrower.

During the financial crisis there was a rise in entities providing residential loan modification services. The Department of Financial Institutions regulates these entities through the CLA. The bill provides that these entities must comply with federal law and must not receive advance fees. In addition the new law strikes the requirement that licensees comply with specific federal advertising laws and replaces this requirement with a general requirement that licensees must comply with all applicable state and federal laws.

## Division of Consumer Services, Continued

### SB 5210 (Chapter 30, Laws of 2013) Regulating Mortgage Brokers

The Department of Financial Institutions (DFI) regulates mortgage brokers and loan originators under the Mortgage Brokers Practices Act (MBPA). In order to broker a loan in Washington, mortgage brokers must be licensed. Loan originators working for mortgage brokers must also be licensed under the MBPA.

The new law modifies the attorney exemption to the Mortgage Broker Practices Act (RCW 19.146). An attorney is exempt from licensing requirements but must meet the following requirements: all mortgage broker or loan originator services (services) must be performed by the attorney while engaged in the practice of law; all services must be under a business that is publicly identified and operated as a law practice; and all funds associated with the transaction and received by the attorney must be deposited in, maintained in, and disbursed from a trust fund to the extent required by rules regulating the conduct of attorneys.

The requirement that licensees must comply with specific federal laws is replaced with a general requirement to comply with all applicable state and federal laws. Mortgage brokers must maintain financial records for at least three years. The Director may impose fines or order restitution for any violations of the MBPA. The Director may prohibit an officer, principal, employee, loan originator, or mortgage broker from participating in the affairs of a licensed mortgage broker for any violations of the MBPA. The one year time limit to bring an action against a licensee's surety bond for an alleged violation is removed from the MBPA.

#### Regulated Entities

Mortgage Broker	2009	2010	2011	2012	2013
Companies	892	1,144	383	367	322
Branch Offices	870	618	179	157	149
Complaints	1,133	605	477	355	205
Number of Brokered Loans	43,799	19,795	1,156,686	19,089	13,769
Principal Dollar Amount of Brokered Loans	\$12,354,825,444	\$6,325,394,913	\$3,921,882,432 ***	\$5,331,214,911 ***	\$3,779,684,489 ***
Number of Funded Loans	12,896	**	**	**	**
Principal Dollar Amount of Funded Loans	\$3,110,404,667	**	**	**	**

\*\*Mortgage Brokers can no longer fund loans

\*\*\* Numbers are self-reported by licensees through NMLS

Consumer Loan Companies	2009	2010	2011	2012	2013
Main Offices	340	526	410	438	482
Branch Offices	908	1,199	1,134	1,369	1,658
Complaints	503	647	585	455	373
Number of RE* Loans Made	89,556	70,370	60,125	52,421	86,870
Principal Dollar Amount of RE* Loans	\$21,891,456,006	\$17,812,754,201	\$14,566,161,526	\$23,984,198,449	21,089,241,954

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

## Division of Consumer Services, Continued

### Mortgage Loan Originators

2009	2010	2011	2012	2013
5,971	7,783	6,401	7,603	8,953

### Escrow

	2009	2010	2011	2012	2013
Agents	142	121	113	100	96
Officers	341	297	512	215	121
Complaints	90	97	76	47	48

### Money Services

	2009	2010	2011	2012	2013
Companies	84	92	102	116	127
Delegates	8,438	9,159	9,637	11,427	11,959
Complaints	25	49	67	77	219
Volume of Money Transmissions 1	\$3,144,752,560	\$3,233,389,425	\$3,982,561,189	\$4,222,967,011	\$4,996,153,965
Volume of Currency Exchanges 1	\$111,342,860	\$112,410,047	\$142,338,611	\$121,843,778	\$128,527,864
Fee Income of Money Transmissions 2	\$81,379,974	*	*	*	*
Fee Income of Currency Exchanges 2	\$168,370	*	*	*	*

\*Fee Income was not collected after the 2009 Annual Assessment Reporting

### Check Casher

	2009	2010	2011	2012	2013
Companies	203	178	158	144	134
Branch Offices	724	562	445	415	522
Complaints	12	6	2	10	3
Number of Checks Cashied	4,525,045	3,199,336	3,382,071	4,396,023	3,589,889
Dollar Amount of Cashed Checks	\$2,041,669,400	\$1,343,142,923	\$1,309,804,413	\$1,920,353,518	\$1,669,008,278

## Division of Consumer Services, Continued

### Check Seller

	2009	2010	2011	2012	2013
Companies	3	3	2	2	2
Branch Offices	4	3	0	0	0
Complaints	0	0	1	1	1
Number of Checks Sold*	2,454,408	2,014,642	1,885,298	29,016 *	69,365*
Dollar Amount of Checks Sold*	\$598,681,251	\$336,027,034	\$498,887,098	\$5,314,322 *	\$24,277,911*

\*Check Seller totals are for checks sold as a licensed Check Seller under the CCSA. This total does not include checks sold by Money Transmitters, or as an agent for a Money Transmitter licensee.

### Payday Lender

	2009	2010	2011	2012	2013
Companies	109	85	61	42	37
Branch Offices	494	339	183	146	121
Complaints	216	300	286	382	449
Number of Small Loans	3,244,024	1,093,776	855,829	909,570	871,801
Dollar Amount of Small Loans	\$1,336,028,845	\$434,111,743	\$326,673,119	\$342,989,751	\$331,430,078

### Enforcement Statistics for All Industries

	2009	2010	2011	2012	2013
Statement of Charges	203	175	73	96	76
Summary Cease and Desist or Suspension	24	8	3	4	5
Final Order or Revocation	83	135	95	78	77
Consent Order	92	99	92	62	76
Total Enforcement Actions	402	417	263	240	234
Investigations Opened	334	270	134	110	105
Investigations Closed	190	186	302	169	624
Complaints*	2,234	1,879	1,599	1,436	1,395

\*Includes complaints filed against non-licensee

## Division of Credit Unions

*Linda Jekel, Director of Credit Unions*

The Division of Credit Unions (Division) was created in 1993. Before that, the Division of Savings and Loan Associations regulated state chartered credit unions. Credit unions are nonprofit, cooperative associations organized to promote thrift among their members and to create a source of credit for their members at fair and reasonable interest 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. Credit unions with total assets more than \$250 million and those who receive an unsatisfactory CAMEL (stands for Capital adequacy, Assets, Management capability, Earnings, Liquidity) rating are examined every 12 months. 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 chartered credit unions such as merger and conversion applications. The Division also works with consumers (members) regarding complaints they submit to the Division against state chartered credit unions.

The Division continued to work with many credit unions that faced considerable economic challenges in 2013, even though 2013 saw positive developments in higher net income, and significantly lower delinquent loans and net charge-offs ratios. 2013 also continued the prior year's trend of strong and growing capital. Capital, also known as net worth, is important because it is a barometer of the strength a credit union has to take on financial risks and to deal with future uncertainties. Washington state chartered credit unions ended the year with aggregate net worth of nearly \$3.36 billion net worth, which equated to a 10.35% net worth to total assets ratio. For comparison purposes, a credit union is required to have a 7.0% net worth ratio to be considered "safe and sound" and a 4.0% net worth ratio is considered "unsafe and unsound."

Although, credit unions continue to make payments to the National Credit Union Administration (NCUA) for the bailout of the corporate credit system by the NCUA, the impact has become less burdensome over time. There were six Washington State chartered credit unions with negative earnings (net income) in 2013. All credit unions continued to make payments to the NCUA in 2013 for the cost of failed corporate credit unions. Credit union earnings benefitted from Washington's unemployment rate decreasing from 7.5% in January 2013 to 6.6% in December 2013.

Credit unions continue to provide competitive deposit and loan products to Washington residents. Deposit growth declined during the previous year (5.24% deposit growth in 2013 compared to 8.44% in 2012). Loan growth significantly increased to 9.01% in 2013, up from 4.90% in 2012.

## Division of Credit Unions, Continued

### **Division Milestones and Accomplishments**

#### **New Credit Union Charters**

No new credit union charters were issued in 2013.

#### **Charter Conversions**

No credit unions converted to state charter in 2013.

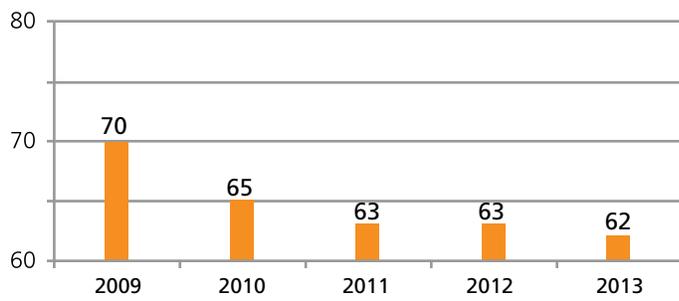
#### **Mergers**

The following credit union merger was completed in 2013:

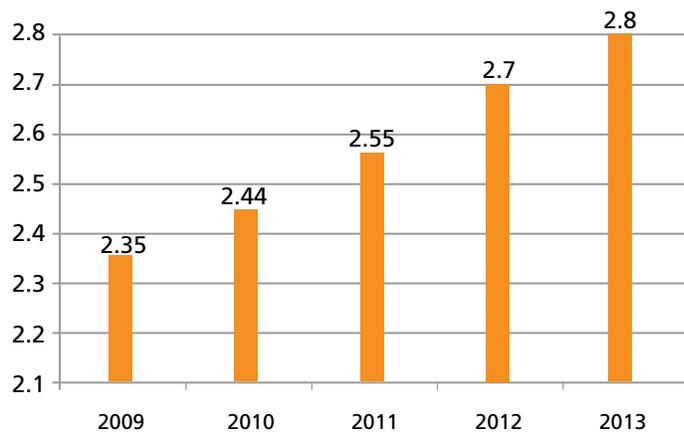
1. Prevail Credit Union merged into Harborstone Credit Union.

## Division of Credit Unions, Continued

### State Chartered Credit Union Information

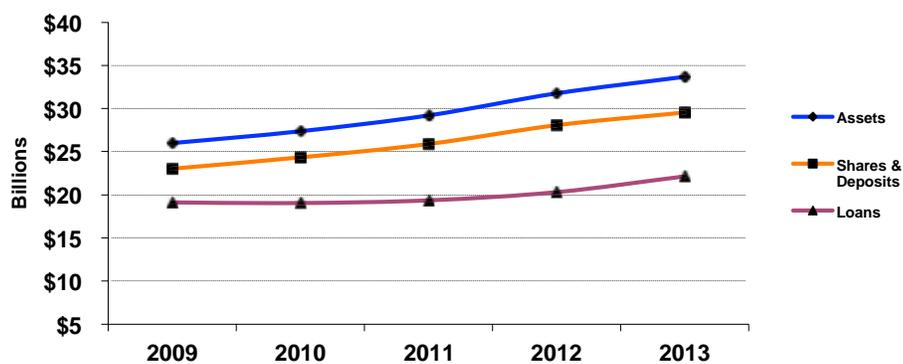


### Number of Members in Millions



## Division of Credit Unions, Continued

### State Chartered Credit Unions End-of-Year Statistics



### State Chartered Credit Union Financial Information

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

	2009	2010	2011	2012	2013
Total Loans	\$19,104,948	\$19,054,258	\$19,364,834	\$20,314,461	\$22,144,329
Total Assets	\$25,979,584	\$27,369,571	\$29,199,490	\$31,771,351	\$33,687,794
Total Shares & Deposits	\$23,033,241	\$24,340,099	\$25,888,466	\$28,075,362	\$29,545,500
Total Net Worth	\$2,312,420	\$2,487,193	\$2,741,459	\$3,092,240	\$3,366,913
Net Income	(\$51,717)	\$152,516	\$259,606	\$339,944	\$396,791
Net Worth to Total Assets Ratio	8.90%	9.08%	9.38%	9.73%	10.35%

## Division of Securities

*William Beatty, Director of Securities*

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

The Securities Division provides technical assistance to small businesses, responds to customer complaints, undertakes investigations based upon complaints and undercover work, and brings appropriate administrative, civil and criminal cases. During 2012 - 2013, the Division licensed more than 195,000 individuals and firms providing securities investments and advice to our citizens and oversaw more than \$70 billion of securities products offered to Washington investors.

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. The Securities Division brought enforcement actions in several high profile local fraud cases during the period. It also continues its involvement in national enforcement issues including task force on auction rate securities. The bulk of the Securities Division's enforcement activity is in the administrative area, but it is also active in the criminal arena, making several criminal referrals annually.

### **Statutes Administered by the Division of Securities**

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

## Division of Securities

### Division of Securities Statistics

<b>Securities</b>	<b>2012</b>	<b>2013</b>
Dollar Amount of Securities Permits, Notifications and Exemptions Authorized	\$71,686,374,394	\$71,616,896,074
Registered Securities Broker-Dealers	2,002	1,982
Registered Investment Advisers	771	707
Investment Adviser Notice Filers	1,645	1,695
Registered Securities Salespersons	172,744	179,430
Registered Investment Adviser Representatives	12,378	12,605
Branch Offices of Broker-Dealers	3,230	3,244
Active Enforcement Cases	112	153
Enforcement Actions	118	99

<b>Franchises</b>	<b>2012</b>	<b>2013</b>
Registered Franchises	1,258	1,327
Registered Franchise Brokers	230	231
Active Enforcement Cases	18	17
Enforcement Actions	18	17

<b>Business Opportunities</b>	<b>2012</b>	<b>2013</b>
Registered Business Opportunities	16	17
Active Enforcement Cases	12	6
Enforcement Actions	12	6

<b>Commodities</b>	<b>2012</b>	<b>2013</b>
Active Enforcement Cases	4	0
Enforcement Actions	4	0

## Division of Securities, Continued

### 22012-2013 Registration and Licensing Workload Activity Totals

*(Totals do not reflect termination and non-renewal of registrations or licenses during the year)*

#### Registrations, Exemptions & Notifications

	2012 NEW	2012 RENEW	2012 AMEND	2013 NEW	2013 RENEW	2013 AMEND
Investment Companies (Mutual Funds)	3,486	20,472	16,778	3,407	21,286	19,556
Securities Registration Files (S-1s)	14	9	17	11	10	15
Reg As	2	0	0	0	0	0
Other Coordination Filings	24	48	337	20	38	283
Qualifications	12	1	2	8	1	0
SCOR (Small Company Offering Registration)	1	0	0	3	1	0
Franchises	305	727	239	290	718	210
Exemptions	1,804	0	488	1,959	0	584
Opinions	14	0	0	2	0	0
Franchise Exemptions	24	151	0	56	135	0
Business Opportunities	7	2	0	5	1	0
<b>TOTALS</b>	<b>5,693</b>	<b>21,410</b>	<b>17,861</b>	<b>5,761</b>	<b>22,190</b>	<b>20,648</b>

#### Firms & Entities

	2012 NEW	2012 RENEW	2013 NEW	2013 RENEW
Securities Broker-Dealers	98	1,904	105	1,877
Investment Advisers	331	2,085	208	2,194
Franchise Brokers	58	142	63	119
<b>TOTALS</b>	<b>487</b>	<b>4,131</b>	<b>376</b>	<b>4,190</b>

#### Representatives & Salespersons

	2012 NEW	2012 RENEW	2013 NEW	2013 RENEW
Investment Adviser Representatives	2,164	10,214	1,976	10,629
Intrastate Securities Salespersons	0	0	0	0
Agents of Issuers	7	0	8	0
Securities Salespersons	30,957	141,787	32,086	147,344
Salespersons with Disclosure History	3575	0	3916	0
<b>TOTALS</b>	<b>36,703</b>	<b>152,001</b>	<b>37,986</b>	<b>157,959</b>

## Division of Securities, Continued

### Examination Statistics – Exams Completed

	2012	2013
Broker-Dealer Exams	78	39
Investment Adviser Exams	74	91
<b>TOTALS</b>	<b>152</b>	<b>130</b>

### Enforcement Statistics

	2012	2013
Complaints Received	353	231
Orders Issued	111	96
Warning Letters Issued	50	27
Cases Opened	150	153
Cases In Process	233	194
Cases Closed	224	189
Subpoenas Issued	77	90
Criminal Referrals	3	2
Criminal Charges	2	3
Criminal Convictions	9	3
Criminal Sentencing	9	6
Civil Actions	0	1

### Enforcement Orders

Types of orders entered in 2012	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent Order	Total
Securities Issuers	22	1	18	29	70
Broker Dealers- Investment Advisers	4	3	5	3	15
Franchises	3	0	2	12	17
Business Opportunities	1	0	1	3	5
Commodities	2	0	2	0	5
<b>Total Actions</b>	<b>32</b>	<b>4</b>	<b>28</b>	<b>47</b>	<b>112</b>

## Division of Securities, Continued

<b>Types of orders entered in 2013</b>	<b>Statement of Charges</b>	<b>Summary Cease &amp; Desist or Suspension</b>	<b>Final Cease &amp; Desist or Revocation</b>	<b>Consent Order</b>	<b>Total</b>
Securities Issuers	29	6	12	37	84
Broker Dealers- Investment Advisers	4	3	2	9	18
Franchises	3	1	1	4	9
Business Opportunities	3	0	1	2	6
Commodities	0	0	0	0	0
<b>Total Actions</b>	<b>39</b>	<b>10</b>	<b>16</b>	<b>52</b>	<b>117</b>



2012 - 2013 ANNUAL REPORT  
**THE WASHINGTON STATE  
 DEPARTMENT OF FINANCIAL INSTITUTIONS**

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