

Division of Finance & Corporate Securities



KEEPING
Oregonians'
money
SAFE

Stakeholder Report
2002



Division of Finance & Corporate Securities

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Division of Finance and Corporate Securities (DFCS) is part of the Department of Consumer and Business Services (DCBS), Oregon's largest regulatory and consumer-protection agency. The division's mission is to encourage the widest possible range of financial services, products, and information for Oregonians, delivered in a safe, sound, and fraud-free manner.

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Regulatory mandate

Administer and enforce state laws and rules covering 15 disparate programs, the statutory authority which is found in 24 separate chapters of the Oregon Revised Statutes.

Staff

63.5 FTE

Budget

\$10,860,974 proposed for the 2003-2005 biennium.

Funding

DFCS is funded exclusively from Other Fund revenue sources, primarily assessments and fees. The Securities Licensing and Registration Unit generates surplus funds that are transferred to the General Fund.

Strategic initiatives

- Provide professional, fair, and objective program supervision while valuing excellent customer service.
- Contribute to several agency goals:
 - ✓ Protect consumers and workers in Oregon
 - ✓ Provide excellent customer service
 - ✓ Regulate in a manner that supports a positive business climate
- Serve as a resource for consumers and stakeholders, including legislators and licensees.

Regulatory impact

DFCS plays a regulatory role in the following industries: banks and trusts; credit unions; securities; mortgage lending; prearranged funeral trusts/endowment care; electronic signatures; credit service organizations; sellers of travel; collection agencies; debt consolidation agencies; international trade consultants; money transmitters; consumer finance, including short-term lenders; and pawnbrokers.

Significant activities in 2002

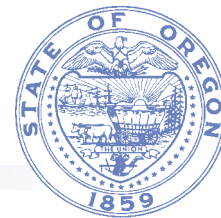
Administration. Hired an administrator, deputy administrator, and supervising executive assistant for the division, and a manager for the non-deposit program.

Banks. Chartered Coast Community Bank in Newport and Pinnacle Bank in Beaverton. Approved the conversion of a federal thrift charter to a state bank charter for LibertyBank in Eugene.

Credit unions. Granted the first new credit-union charter in more than 20 years. Hacienda Community Credit Union will focus its services on the Latino residents of Clackamas, Multnomah, and Washington counties.

Consumer finance. Collaborated with the attorney general's office to negotiate a 484-million-dollar consent judgment with Household International, Inc. Oregon's share, \$8,038,124, will provide restitution to borrowers and cover administrative costs.

Securities. Participated with 48 states in the Merrill Lynch research and analyst settlement, which, under a negotiated administrative order, provided Oregon with \$569,984 in payments.



Examinations conducted/% rated satisfactory or better¹

	2000		2001		2002	
	Exams	Rated	Exams	Rated	Exams	Rated
Banks	26	95%	21	91%	18	90%
Credit unions	21	90%	23	83%	20	89%
Consumer finance	287	80%	208	84%	297	81%
Mortgage broker/banker	45	85%	40	80%	79	78%
Pawnbroker	20	100%	29	100%	38	97%
Securities (no established rating system)	105		172		180	

¹Based on established uniform-rating systems

Applications processed

Banks	2000	2001	2002
New charters	1	2	4
Mergers	3	8	5
Branch offices	5	12	19

Credit unions	2000	2001	2002
New charters	0	0	1
Mergers	0	0	1
Branch offices	4	3	2
Bylaw amendments	47	48	28

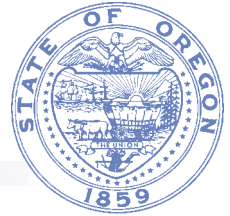
Licenses issued or renewed

Non-deposit programs	2000	2001	2002
Collection agencies	418	493	510
Debt consolidation agencies	18	23	28
Consumer finance lenders	344	366	407
Mortgage broker/banker	1,407	1,167	1,354
All other	42	20	358

Securities	2000	2001	2002
Broker-dealers	2,113	1,993	1,996
Investment advisers	628	1,064	1,053
Salespersons	122,349	110,854	105,250

Complaints

Complaints processed	2000	2001	2002
Banks	230	257	238
Credit unions	42	33	42
Non-deposit programs	258	274	334
Securities	117	135	134



Investigations

	2000		2001		2002	
	Open	Closed	Open	Closed	Open	Closed
Non-deposit programs	36	21	37	27	71	20
Securities enforcement	63	53	84	49	85	46

Budget

Budget-expenditure limitation	2001-2003	Staff	2003-2005 (proposed)
Division of Finance and Corporate Securities ²	\$10,031,534	63	\$10,860,974
Finance	6,444,494	36	7,009,673
Banks and trusts	3,084,541	18	3,366,903
Credit unions	1,282,009	5	1,351,105
Non-deposit programs	2,077,944	13	2,291,665
Securities	3,587,040	20	3,851,301

²Includes seven administrative staff



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Program description

This program charters and regulates state banks, trust companies, and branches of foreign banks under the *Oregon Bank Act*, ORS 706-716.

As of December 31, 2002, there were 30 state banks with \$9 billion in total assets plus three foreign banking offices with assets totaling \$9.2 billion. The program is funded by annual assessments based on bank and fiduciary assets and fees to out-of-state banks based on the number of Oregon branches.

The program regulates four state trust companies and four bank trust departments holding approximately \$3.2 billion in fiduciary assets. Mergers in 2002 absorbed one trust company and one bank trust department.

The program also participates in the examination of three out-of-state banks that operate Oregon-based branches. DFCS participation in such examinations is the result of a 1996 cooperative supervisory agreement adopted by all 50 states. This agreement promotes a seamless supervisory environment for state banks wishing to establish interstate operations.

Significant activities

- The program was reaccredited for five years by the Conference of State Bank Supervisors in August 2002. The program initially obtained accreditation status in 1992.

- Continued consolidation in the banking industry claimed two Oregon-based banks in 2002, Bank of the Northwest and Centennial Bank.
- Consolidation has created opportunities, and interest in starting new banks continues to be fairly steady. New bank charters were granted to Oregon Coast Bank, Newport, which opened July 8, 2002, and Pinnacle Bank, Beaverton, which opened September 18, 2002. Another bank to be located in Albany has been approved for formation. There are bank-organization initiatives under way in Portland and Eugene, also.
- The program strives to achieve a seamless regulatory environment by working collaboratively with federal bank regulators on supervision and examination initiatives. Risk-focused supervision is augmented by off-site analysis and monitoring in order to minimize regulatory burden.
- The program sponsors the Oregon Bank Directors' College with the Oregon Bankers Association. The college was the first such effort in the nation, and 2003 will be its eleventh session. Program managers participate in trade-association meetings at local and national levels and sponsor an annual CEO outreach meeting.

Primary trade association

Oregon Bankers Association

Tom Perrick, President





Sharlyn Rayment, Manager

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Program description

This program charters and regulates state-chartered credit unions under the *Credit Union Act*, ORS Chapter 723. As of December 31, 2002, the program supervised 27 credit unions, including one corporate credit union with total assets of \$7.4 billion and 72 branch offices. More than 44 percent of the state-chartered credit unions have been in existence for at least 50 years.

Credit unions from Idaho, Utah, and Washington, operate branch offices in La Grande, Umatilla, and Albany.

First Technology Credit Union, Beaverton, operates four branch offices in Washington and Portland Postal Employees Credit Union operates a branch office in Vancouver.

Credit unions have occupational, associational, or community fields of membership. The community field of membership is a relatively new authority, approved in the 1999 legislative session.

Assessments and fees from the regulated institutions fund the credit union program.

Significant activities

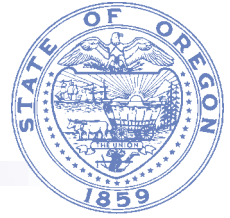
- Granted the first new state credit union charter in 22 years in August to Hacienda Community Credit Union, Portland. Hacienda primarily serves the Hispanic community in Washington, Multnomah, and Clackamas counties. The new credit union is sponsored by the Hacienda Community Development Corporation and supported by the Portland Teachers' Credit Union and the Credit Union Association of Oregon. It opened for business on October 1, 2002.
- Granted a community charter in December to Wood Products Credit Union, Eugene. Now called Northwest Community Credit Union, the credit union serves 12 counties, from Multnomah to Jackson.
- Approved the merger of First Technology Credit Union, Beaverton, with State Employees Credit Union, Salem.
- The program strives for a seamless regulatory environment by working collaboratively with the National Credit Union Administration. A new risk-focused examination program introduced in 2002 will focus resources on credit unions warranting supervisory concern. Concurrently, increased off-site analysis and monitoring should limit on-site presence and reduce overall regulatory burden.
- Program management actively participates in local and national trade-association meetings. Outreach meetings with credit union executive officers are held every six months.

Primary trade association

Credit Union Association of Oregon

Gene Poitras, President





Dale Laswell, Manager

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Program description

This area provides regulatory oversight for 13 individual programs collectively referred to as the non-deposit programs.

Program	Licenses	Offices	ORS
Mortgage lending	1,354	2,040	059
Endowment care	75		097
Prearranged funeral trusts	215		097
Electronic signatures	2		192
Credit service organizations	11		646
Sellers of travel	0		646
Collection agencies	510		697
Debt consolidation agencies	28		697
International trade consultants	2		705
Money transmitters	46		717
Consumer finance	43	182	725
Short term lenders	47	225	725
Pawnbrokers	38		726

Mortgage Lending

This program was established by legislators in 1993. Mortgage bankers lend money to fund loans secured by interests in real estate and sell or service those loans. Mortgage brokers sell real-estate paper for themselves or for others or accept funds from others to invest in real-estate paper. Mortgage brokers also make or negotiate mortgage loans. A mortgage lender license allows a company to act as a mortgage banker, a mortgage broker, or both.

Oregon is one of the first states to legislate education requirements for loan originators. Any loan originator with less than three years' experience as a loan originator as of January 1, 2002, must complete an entry-level course and pass the course examination within six months from the date that loan originator is first employed as such. All loan originators are required to enroll in 20 hours of continuing education every two years. The program has collected information for 6,840 loan originators to date.

Prearranged Funeral Plans / Endowment Care

This program was established by the 2001 legislative session. Prearranged funeral trusts are prepaid funeral plans, usually offered by funeral homes. Perpetual or endowment care plans are arrangements consumers can make with certain cemeteries that agree to undertake care of grave sites in perpetuity. This program has responsibility for a consumer protection trust fund with a current balance of \$600,000. Companies making prearranged-funeral or endowment-care plans are assessed \$5 per agreement.

Electronic Signatures

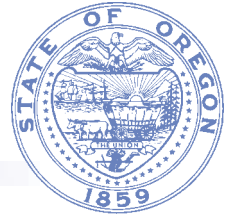
The 1997 legislature enacted the *Electronic Signature Act*. The act allows authentication authorities, who issue digital signatures, to register on a voluntary basis. Persons who choose not to register may still legally offer or sell digital-signature-authentication services in Oregon. There are two authorities currently registered.

Credit Service Organizations

DFCS received responsibility for this area in 1993. Since 1987, individuals who sell, provide, perform (or offer to sell, provide or perform) a service to assist in the repair of faulty credit or those who arrange an extension of credit to a consumer by a provider of credit are subject to oversight under ORS 646. There are 11 current registrants.

Sellers of Travel

This program was designed to provide minimal oversight of sellers of travel. The 1993 legislature imposed the licensing requirement. However, it was not implemented; in 1997, the legislature repealed the licensing requirement and a joint industry and regulatory committee recommended self-regulation. Under existing law, DFCS will certify associations of sellers of travel who have certain consumer-protection provisions in their bylaws.



Collection Agencies

This program licenses and regulates debt-collection agencies and examines their operations to protect businesses that use such agencies to collect bad debts from consumers. There are currently 510 registrants. The program, begun in the 1950s, was administered by the Real Estate Division of the Department of Commerce until it was moved to the Consolidated Boards and Commissions in 1981. It was transferred to DFCS in 1987.

Debt Consolidation Agencies

This program licenses and regulates operators of debt-consolidation agencies, which, for a fee, mediate plans for debt repayment between creditors and debtors. Of the 28 registrants, only one is a for-profit corporation. Created in 1959, this program operated as part of the Consolidated Boards and Commissions until 1987, then was transferred to DFCS.

Money Transmitters

This program was established in 1999 at the request of the industry. Under the statute, DFCS has authority to examine licensees and their authorized delegates. Unlicensed money transmitters violate a federal statute requiring them to be licensed by the state. The laws are intended to inhibit money laundering by making it more difficult to conceal the transmission of funds. There are 46 registrants.

Consumer Finance

This program licenses and supervises conventional consumer-finance companies making loans under the *Consumer Finance Act* of \$50,000 or less at interest rates exceeding 12 percent, which are generally "sub-prime" loans made to individuals with poor credit history. The program also licenses and supervises lenders of short-term personal loans, who make single-payment, high-interest-rate "payday" or "title" loans to consumers for less than 60 days. DFCS conducts routine examinations of licensees at least every two years. There are 407 licensees: 182 consumer-finance companies and 225 short-term-personal-loan lenders.

Pawnbrokers

This program licenses and annually examines pawnbrokers, those who lend money at more than 10 percent interest per annum and take a pledge of

personal property other than vehicles, securities, or printed evidences of indebtedness.

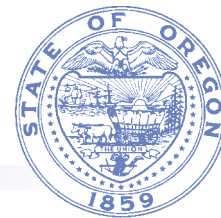
There are about 250 buy/sell or consignment shops in Oregon that, under an opinion issued in 1995 by the Office of the Attorney General, fall within the definition of a pawnshop. However, DFCS did not prevail at an administrative hearing held to force licensure of one such operation. This remains an open issue.

International Trade Consultants

The 2001 legislature enacted ORS 705.730-707.732, which directed DFCS to establish a voluntary registry for international trade consultants. Eligible registrants are those involved with finding international markets for private businesses or assisting them with international laws or market practices. Two businesses are listed on the registry.

Significant activities

- Participated with the attorney general and other states in negotiating a landmark consent judgment with Household International in December 2002 that will set new standards for sub-prime lending. A contemporaneous complaint alleged that Household violated the *Oregon Unlawful Trade Practice Act*, the *Oregon Consumer Finance Act*, and Oregon insurance laws in connection with lending practices. Household will pay a maximum of \$484 million into a settlement fund. Oregon's share, more than \$8 million, will be used to provide restitution to Oregon consumers.
- Participated in a work group established under the auspices of the House Interim Committee on Business and Commerce. The group was commissioned to study whether predatory mortgage lending is a problem in Oregon. Group membership includes regulators, financial lobbyists, and consumer advocates. The group will present its findings to the legislature in 2003.
- Created a consumer-information-specialist position in 2002 to educate the public and homebuyers – particularly first-time and low- to middle-income homebuyers who often receive sub-prime loans.
- Collected \$501,455 for Oregon consumers through penalties collected for violations of the *Consumer Finance Act* uncovered during examinations.



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Program description

The **Securities Licensing and Registration Unit** regulates those selling securities and providing investment advice in Oregon, whether or not they are located in Oregon. The unit also regulates public offerings of securities and accepts notice filings of federal covered securities in Oregon and conducts office examinations of licensees with places of business in Oregon. The unit generates surplus funds that are transferred to the General Fund. Specific responsibilities:

- To license broker-dealer firms (about 1,800), investment advisor firms (885), salespersons for these firms. Salesperson registrations in 2002 totaled 23,000, and 89,000 renewals were processed.
- To review new, renewal, and amended applications to register securities and notice filings for federal covered securities. (about 6,500 a year)
- To conduct routine and "for-cause" examinations of broker-dealer and investment advisors in Oregon. (about 200 a year)
- To issue formal opinion letters in response to "no-action" requests and conduct fairness hearings on mergers and reorganizations. (about 15 a year)
- To coordinate work efforts with other state regulators and national organizations.

The **Enforcement Unit** acts on complaints filed by the public, referrals from law enforcement and regulatory agencies, and upon information obtained while monitoring Oregon's securities marketplace. The unit's investigatory powers include the authority to subpoena documents and testimony and to take administrative, civil, or criminal action against those who violate Oregon Securities Laws. The unit can also suspend or revoke securities licenses in Oregon.

Significant activities

- Negotiated an administrative order with Merrill Lynch, Pierce, Fenner & Smith, Inc. that emanated from a coordinated investigation into research

practices at Merrill Lynch led by the Attorney General of the State of New York. Pursuant to the May 2002 agreement, Merrill Lynch agreed to implement certain changes to its Global Equity Research analysts and equity securities covered by such analysts and make certain payments. Oregon's share of those payments totaled \$569,984 with \$419,984 going to the General Fund and \$150,000 to DFCS' Investor Education Program.

- Participated in a \$1.5-billion-dollar global settlement as a member of the North American Securities Administrator Association. The settlement concluded a joint investigation initiated in April 2002 to determine the influence of investment banking interests on securities research at brokerage firms. The brokerage firms will each pay a fine, pay monies toward investor restitution, and will be required to escrow funds that will be used to pay for independent research.
- Collaborated with the Linn County District Attorney's Office in the successful prosecution of individuals involved in a five-million-dollar securities scam (Lane Funding). The case involved two years of investigation, three months of trial preparation, and two weeks of trial.
- Collaborated with local authorities to establish a Regional Economic Crime Investigation Center to jointly investigate economic crimes committed in the Portland metropolitan area.
- Participated in the investigation and indictment of five individuals in connection with a nationwide scheme to defraud the public through the sale of private placement stock in worthless shell companies through Westminster Holdings, Ltd., a Wall Street boiler room operation purporting to be an investment banking firm. The investigation was led by the New York Attorney General's Office.
- Uncovered, investigated, and sued to halt a multi-million-dollar securities fraud being promoted by several Oregonians, including local attorneys. Several of the suits are pending at this time.