

Division of Finance & Corporate Securities



KEEPING OREGONIANS' MONEY SAFE

2006 Stakeholder Report



Division of Finance & Corporate Securities

Message from the administrator



David Tatman

As administrator of the Division of Finance and Corporate Securities, I am pleased to present our 2006 Stakeholder Report. This report covers our division's activities from Jan. 1 to Dec. 31, 2006.

The financial industry in Oregon has experienced tremendous growth in the past few years, particularly in mortgage and consumer lending.

As regulators, our job is to foster a business-friendly environment in Oregon so that companies can continue to expand and compete. At the same time, we need to ensure consumers are protected in financial transactions and have access to a wide array of quality financial products and information. Inside you will find examples of how we put this into practice during 2006.

For instance, we chartered new banks and trust companies and expanded the charters of credit unions. We approved several acquisitions by Oregon banks, which helped them grow and enter new markets. And we held outreach meetings for bank and credit union chief executive officers.

We continued making it easier and faster for our licensees to do business with us through online licensing and securities filings. In the nondeposit program, licensees and registrants can pay license and renewal fees and submit certain licensing and renewal information online. And our Securities Unit is now receiving 75 percent of the mutual fund/unit filings electronically — reducing paperwork and improving accuracy and timeliness.

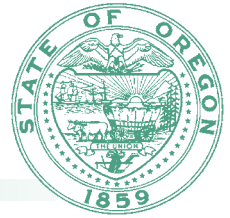
Although consumer protection has always been part of our mission, our consumer protection efforts were particularly prolific in 2006. The Legislature passed new restrictions in payday lending, and we tightened our rules in issuing "conventional" consumer finance licenses to protect consumers from high-cost loans. We also focused a lot of our efforts on mortgage lending, after hearing more complaints from consumers about their experiences in this very important financial transaction. We developed stricter educational requirements for loan originators and more clearly defined our rules about supervising loan originators. In addition, we have taken several initiatives to communicate with mortgage lenders to help them meet the public's expectations and to educate consumers about the home-buying process.

Finally, our enforcement program is key in our efforts to protect consumers and keep financial services industries strong. In 2006, our Enforcement Unit expanded its work with local law enforcement to combat local and national fraud and increased its participation in criminal prosecutions, which are a significant deterrent of white-collar crime.

We expect 2007 to be just as dynamic as 2006, as we implement new laws from the legislative session. Changes in laws, rules and our business practices will be identified on our Web site and through separate mailings after the legislature adjourns. We will continue to keep you informed and ask for your input and participation about upcoming initiatives and rule-making processes. You, our stakeholders, are key in helping us continue to be effective in helping consumers and the industry.

If you would like more information about our programs, please visit our Web site at dfcs.oregon.gov. And please feel free to contact me or any of our program managers to ask questions or share ideas.

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

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Regulatory mandate

Administer and enforce state laws and rules covering 14 disparate programs, the statutory authority for which is found in 21 chapters of the Oregon Revised Statutes.

Staff: 64 full-time employees

Budget: \$10,715,946 for the 2005-2007 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.

Goals and strategies:

- Provide professional, fair, and objective program supervision while valuing excellent customer service.
- Contribute to DCBS goals:
 - Protect consumers and workers in Oregon.
 - Provide excellent customer service.
 - Regulate in a manner that supports a positive business climate.
- Contribute to progress for six of the 18 DCBS performance measures.
- 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; credit service organizations; collection agencies; debt consolidation agencies; money transmitters; consumer finance, including payday lenders; franchise transactions; pawnbrokers; manufactured structure dealers; and sellers of travel. DFCS also delivers consumer and investor financial information through a separate Investor Information Program and a consumer information specialist in the Mortgage Lending Program.

Significant activities in 2006

Banks and trusts – The division chartered Lewis & Clark Bank, Oregon City, continuing the three-year string of banks having no difficulty raising initial capital and starting operations on sound footing. The division approved two charters for trust companies and issued certificates of authority for two out-of-state trust companies to do business in Oregon, showing the strong market for trust businesses in the state. In addition, the division approved many acquisitions by Oregon banks, which significantly enhanced the image of the Oregon financial community.

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Credit unions – The division participated in the first phase of a study to help better understand how consumers benefit from a credit union’s tax-exempt status. The study is being conducted by the National Association of State Credit Union Supervisors (NASCUS) at the request of the U.S. House of Representatives Ways and Means Committee. Seven state-chartered credit unions in Oregon were among more than 500 state-chartered credit unions statistically selected for the representative sample. All of the information is being consolidated nationally for the report.

Nondeposit programs – More pawnbrokers are becoming licensed after the division undertook an initiative in 2006 to identify and educate purportedly unlicensed pawnbrokers operating throughout Oregon.

In addition, licenses and registrations for collection agencies (690), debt consolidation agencies (50), and money transmitters (65) reached record levels in 2006.

Consumers are better protected as a result of new payday lending restrictions and new rules governing the conventional consumer finance license. Senate Bill 1105, which becomes effective July 1, 2007, limits interest rates on payday loans to 36 percent per year, allows a 10 percent loan origination fee, requires a 31-day minimum loan term, and reduces the maximum number of rollovers from three to two. After the bill passed in a special session of the Legislature in April 2006, the division noticed a significant increase in short-term payday lenders applying for the “conventional” consumer finance license. In response, DFCS developed rules to strengthen the requirements for issuing the “conventional” consumer license.

Mortgage lending – The tremendous growth in mortgage lending and an increasing number of complaints from consumers prompted the division to make several changes to strengthen its regulation of the mortgage lending industry. The division adopted new rules that create stricter education requirements for loan originators and further define expectations related to supervision of loan originators. Additionally, the division adopted federal guidelines for loan originators who provide nontraditional loan products, such as “interest only” adjustable rate mortgages.

Securities – The division resolved the last Global Analyst Research Settlement with other federal and state regulators, resulting in more than \$400,000 in civil penalties paid to the state. These agreements resolved enforcement actions against several Wall Street firms arising from an investigation of research analyst conflicts of interest. The division opened 50 securities investigations, filed 28 administrative orders, assisted local district attorneys in prosecuting two criminal cases, and participated in a number of state and federal criminal cases.

Enforcement – The division worked to better protect Oregonians from financial fraud by expanding efforts with law enforcement and focusing on criminal prosecutions, which are a significant deterrent of white-collar crime. In 2006, the Enforcement Unit opened 640 complaints, resulting in 89 investigations, and issued 70 administrative actions, including cease-and-desist orders, resulting in the assessment of monetary penalties of more than \$2.6 million. DFCS also worked with state and federal prosecutors to obtain indictments and criminal convictions in several large cases affecting Oregon consumers and participated in more than 30 criminal prosecutions in 2005 and 2006. ■



Examinations conducted and percent of industry rated satisfactory or better¹

	2004		2005		2006	
	Exams	Satisfactory	Exams	Satisfactory	Exams	Satisfactory
Banks & trusts	21	97%	23	96%	29	97%
Credit unions	17	92%	19	95%	14	95%
Consumer finance	472	81%	467	85%	465	89%
Mortgage broker/banker	120	67%	72	64%	128	76%
Securities (no established rating system)	84	NA	52	NA	72	NA

¹Based on established uniform-rating systems

Applications processed

Banks	2002	2003	2004	2005	2006
New charters	4	3	4	2	1
Mergers	5	2	3	2	3
Branch offices	19	29	24	23	84*
<i>*59 as the result of acquisitions</i>					
Credit unions					
New charters	1	0	2	0	0
Mergers	1	3	2	5	0
Branch offices approved	2	4	12	10	10
Bylaw amendments	28	33	20	23	13

Licenses issued or renewed

Nondeposit programs	2002	2003	2004	2005	2006
Collection agencies	510	552	595	648	690
Debt consolidation agencies	28	37	42	44	50
Consumer finance lenders (including payday)	407	485	574	631	620
Mortgage brokers/bankers	1,208	1,331	1,479	1,116	1,824
All other	358	383	393	398	403
Total	2,511	2,788	3,083	4,343	3,587
Securities licensing					
Broker-dealers	1,996	1,949	1,955	1,944	1,871
Investment advisers	1,053	1,072	1,206	1,314	1,214
Salespersons	105,250	105,383	105,250	117,108	95,558



Securities registration	2002	2003	2004	2005	2006
Reg D 506	418	404	595	718	796
Mutual funds / Unit Investment Trust (UIT)*	4,288	4,212	5,830	5,914	8,947
Pension plans	121	126	106	112	106
Small Corporate Offering Registration (SCOR)	4	0	1	0	0
Registration by qualification	164	166	180	148	160

*Includes paper and electronic filing. Prior years did not include electronic filing.

Complaints processed					
Banks	238	291	224	46*	24
Credit unions	42	60	50	46	78
Nondeposit programs	55	99	110	121	117
Mortgage brokers/bankers	80	143	184	249	319
Securities	134	98	105	179	114
Total	549	691	673	606	633

*Reflects a different reporting method than in prior reporting periods

Investigations	2004		2005		2006	
	Open	Closed	Open	Closed	Open	Closed
Mortgage brokers/bankers	24	14	51	41	31	29
Securities enforcement	47	98	54	88	50	32
Nondeposit	4	5	24	9	7	6

Budget

Budget-expenditure limitation	2003-2005	Staff	2005-2007
Division of Finance and Corporate Securities ²	\$10,386,780	64	\$10,715,946
Finance	\$6,698,459	41	\$7,084,415
Banks and trusts	\$3,176,598	18	\$3,155,469
Credit unions	\$1,355,067	8	\$1,281,391
Mortgage Lending and Nondepository programs	\$2,166,794	15	\$2,647,555
Securities	\$3,688,321	23	\$3,631,531

²Includes eight administrative staff



Program description

The Finance Section supervises and regulates the activities of deposit institutions and nondeposit financial service providers. Deposit institutions operate with federally insured deposits and include banks and credit unions. The section also manages five independent trust companies, although they are not depository trusts. There are eight programs for nondeposit financial service providers. Two of these programs (consumer finance and pawnbroker) provide access to credit; the rest provide financial services ranging from credit repair to prearranged funeral plans.

The section was restructured in January 2006 upon the retirement of the Finance Section manager. Under the new structure, three supervising examiners took on the role of managing one of the three programs in this section: Banks and Trusts, Credit Unions, and Nondeposit Programs. Each report directly to the administrator and deputy administrator. (The nondeposit Mortgage Lending Program is managed separately.)

Banks and Trusts

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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 Chapters 706-716. The program is funded by annual assessments based on bank and trust company fiduciary assets. As of Dec. 31, 2006, there were 35 state-chartered banks (three with trust departments) with approximately \$20 billion in total assets and five state-chartered trust companies with approximately \$5.3 billion in assets under management. Additionally, there are three (two active) foreign associations authorized to do a banking business in Oregon, with approximately \$14.7 billion in assets. The division maintains asset pledges for faithful performance of bank and trust responsibilities

for 16 out-of-state trust associations, the four state-chartered trust companies, and the Bank of Nova Scotia, the largest of the foreign associations doing a banking business in Oregon. We monitor the activities of the seven out-of-state state banks authorized to do a banking business in Oregon, in conjunction with their home state regulators. The division also has authorized six out-of-state financial institutions to do other than a banking business (not accepting deposits) in Oregon. There are 44 loan production offices.

The Banks and Trusts Program works with federal bank regulators on supervision and examination initiatives to achieve a seamless regulatory environment. Risk-focused supervision is augmented by off-site analysis and monitoring to minimize regulatory burden and use staff resources effectively.

Significant activities

- The pace of industry consolidation picked up in 2006 with Oregon banks being the primary beneficiary. The division approved the following mergers: West Coast Bank, Lake Oswego, acquired Mid-Valley Bank, Woodburn, effective June 23, 2006; Bank of the Cascades, Bend, acquired F&M Bank, Boise, Idaho, effective April 20, 2006; The Bank of Tokyo-Mitsubishi, Tokyo, acquired UFJ Bank Limited, Tokyo, effective Jan. 1, 2006; Sterling Savings Bank, Spokane, Wash., acquired FirstBank Northwest Clarkston, Wash., effective Nov. 30, 2006; Umpqua Bank, Roseburg, acquired Western Sierra National Bank, Sacramento, Calif., Lake Community Bank, Lakeport, Calif., Central California Bank, Sonora, Calif., and Auburn Community Bank, Auburn, Calif., all effective June 3, 2006. The out-of-state acquisitions by Bank of the Cascades and Umpqua Bank have significantly enhanced the image of the Oregon financial community.

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- The chartering of the Lewis and Clark Bank, effective Dec. 15, 2006, was the result of a successful capital-raising endeavor conducted by the bank's organizers and proponents. The stock offering was oversubscribed, and the bank's initial capital is approximately \$13.8 million.

The division also issued a certificate of authority for Bank of the Pacific, Aberdeen, Wash., to do a banking business effective June 23, 2006.

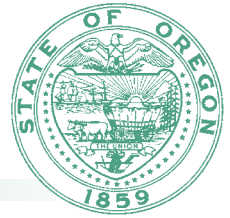
- For the first time in many years, there is increased interest in the Oregon trust business market, shown by the chartering of StanCorp Trust Company and Allen Trust Company and the entrance of two out-of-state, state-chartered trust companies: New Tower Trust Company, Bethesda, Mary., and First Republic Trust Company, Las Vegas.

- The Banks and Trusts program sponsors the Oregon Bank Directors College with the Oregon Bankers Association, an annual event that takes place one day each month from January to June. The purpose of the college is to enhance both outside and inside directors' understanding of their responsibilities to their financial institutions. The college was the first such effort in the nation, and 2006 was the 14th session. The program also sponsors a bank CEO Outreach each May, which covers emerging issues, industry trends, and regulatory matters.
- Program examiners assisted in the examination of Sterling Savings Bank, Spokane, Wash. The division provides examiners under provisions of the Conference of State Bank Supervisors Interstate Cooperative Agreement.

Primary trade association

Oregon Bankers Association

Linda Wilhelms Navarro, president ■



Janet Powell, program manager

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Program description

This program charters and regulates credit unions under the Credit Union Act, ORS Chapter 723. Assessments and fees from the regulated institutions fund the credit union program. As of Dec. 31, 2006, the program supervised 21 credit unions with total assets of \$8.8 billion and 140 offices. Eleven credit unions have been chartered by Oregon for more than 50 years; of these, NW Priority Credit Union and Advantis Credit Union have been in business for more than 75 years. An additional five credit unions have been in business more than 50 years.

The program works with the federal deposit insurer, the National Credit Union Administration, to promote a seamless regulatory environment. Risk-focused supervision is augmented by off-site analysis and monitoring to minimize regulatory burden and use staff resources effectively.

Three Oregon credit unions operate branch offices in Washington: First Community Credit Union is in Ridgefield; First Technology Credit Union is in Bellevue and Redmond; and NW Priority Credit Union is in Vancouver.

Two credit unions chartered by other states operate branch offices in Oregon: Pacific Rails Credit Union, Utah, is in Umatilla; and Weyerhaeuser Employees (now Red Canoe) Credit Union, Washington, is in Albany.

Credit union membership may be based on occupation, association, or community. The community field of membership authority was approved in the 1999 legislative session, and the first community charter was approved in 2001. As of year-end 2006, there were 10 credit unions with community charters.

Significant activities

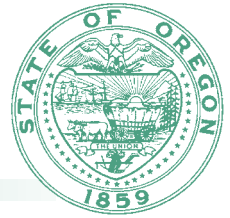
- Granted a community charter to Portland Teachers Credit Union, Portland, and approved its name change to OnPoint Community Credit Union, both effective Jan. 1, 2006.
- Approved a community charter for Weyerhaeuser Employees Credit Union, Albany, effective Jan. 5, 2007, and acknowledged its name change to Red Canoe Credit Union effective Jan. 2, 2007.
- Participated in a study conducted by the National Association of State Credit Union Supervisors (NASCUS) at the request of the U.S. House of Representative Ways and Means Committee.
- Held an outreach meeting for the credit union chief executive officers.
- Participated in local and national trade association meetings.

Primary trade association

Credit Union Association of Oregon

Gene Poitras, president ■





Charles C. Donald, program manager

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Program description

Program	Licenses*		ORS Chapter
	2005	2006	
Irreducible fund cemeteries	30	33	65
Endowment care cemeteries	83	85	97
Prearranged funeral trusts	208	207	97
Credit service organizations	9	12	646
Sellers of travel	1	1	646
Collection agencies	648	690	697
Debt consolidation agencies	44	50	697
Money transmitters	59	65	717
Consumer finance:	631	620	725
Conventional lenders	271	274	725
Short-term lenders	360	346	725
Pawnbrokers	47	44	726

*License counts as of Dec. 31 each year

Consumer finance

This program licenses and supervises conventional and short-term consumer finance companies. Oregon requires a license if a lender makes loans of \$50,000 or less at interest rates of 12 percent per annum or higher. Conventional lenders make loans that are repayable in two or more payments. Short-term lenders make loans that are repayable in one payment with maturities of 60 days or less. The short-term loans also are known as "payday," "deferred deposit," or "title" loans. The interest rates on short-term payday loans can be 390 percent and higher, while the interest rates on short-term title loans are 270 percent and up. The division conducts routine examinations of licensees at least every two years.

Money transmitters

This program originated from the 1999 legislative revision of the Sale of Checks Act at the request of the industry. Oregon licenses money transmitters to protect Oregon consumers who use money transmitters to transmit funds. Licensed money transmitters are required to post a surety bond, maintain certain financial net worth, and maintain certain cash levels to protect Oregon consumers from loss. Under ORS 717, DFCS has authority to examine licensees and their authorized delegates.

Pawnbrokers

This program licenses and annually examines pawnbrokers. Pawnbrokers are defined as persons who lend money at more than 10 percent per annum and take possession of pledged personal property other than vehicles, securities, or printed evidence of indebtedness.

Prearranged funeral trust and endowment care and irreducible fund cemeteries

The 2001 Legislature transferred these programs from the Secretary of State to DCBS. Prearranged funeral plan providers sell funeral services and merchandise to consumers for future need. Perpetual or endowment care plans are arrangements consumers can make with cemeteries that agree to undertake care of grave sites in perpetuity. The cemetery operator is then required to place a portion of proceeds from the sale of graves in a trust to provide maintenance care for the cemetery in future years. Certified providers appoint master trustees to manage prearranged funeral and endowment care trust money. Oregon has eight registered master trustees, which held \$107 million in trust funds for consumers at both year-end 2004 and 2005. This program also manages a consumer protection trust fund with a current balance of \$892,244.

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The irreducible care fund cemeteries are nonprofit corporations that exist solely for the purposes of owning and operating a cemetery, cremating bodies, or providing care for human remains. The cemetery's bylaws must provide that the cemetery place a portion of the monies received from the sale of plots and burial merchandise in an irreducible fund. The division's role with irreducible fund cemeteries is limited to collecting the annual report on the financial condition and operation of the fund.

Collection agencies

This program registers and regulates debt-collection agencies. An Oregon registration is required if the collection agency contracts with an Oregon-based creditor to collect debt or if the agency makes contact with Oregon citizens to collect debt that originated in this state. The division examines collection agencies on a for-cause basis to protect businesses that rely on collection agencies to collect bad debts from consumers.

Credit service organizations

This program requires registration for persons who sell, provide, or perform (or offer to sell, provide, or perform) credit service to Oregon consumers for a fee. Credit services include assisting a consumer with repairing faulty credit, arranging extensions of credit, and providing instructions and forms to the consumer for a fee.

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 44 registrants, one is a for-profit corporation. Created in 1959, this program operated as part of the Consolidated Boards and Commissions until 1987, when it was transferred to DFCS.

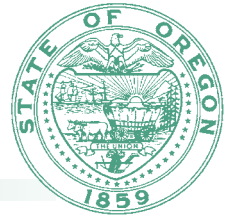
Sellers of travel

This program, by design, provides minimal oversight of sellers of travel. The 1993 Legislature imposed the licensing requirement. In 1997, the Legislature repealed the licensing requirement and a joint industry and regulatory committee recommended self-regulation. Under existing law, DFCS certifies associations of sellers of travel that have certain consumer-protection provisions in their bylaws; one association is certified.

Significant activities

- The new restrictions on payday lending — passed by the 2006 special session of the Legislature — take effect July 1, 2007. The new law limits rollovers to two, limits interest rates to 36 percent per year plus a maximum 10 percent loan origination fee for new loans, and establishes a minimum loan period of 31 days. In addition, the new law prohibits statutory damages under the dishonored check law and limits non-sufficient fund (NSF) fees on payday loans to \$20.
- After enactment of SB 1105 in April 2006, the division received approximately 93 applications from short-term lenders for a conventional consumer finance license. There was a concern that some lenders were obtaining this license to avoid the limitations imposed by SB 1105. The division invited industry lenders, community interest groups, and consumers to help establish rules for converting from short-term lending licenses to conventional finance lending. Numerous meetings were held over a three-month period and resulted in rules that became effective Dec. 21, 2006. Rule changes included defining required experience and minimum underwriting standards for a consumer finance licensee.

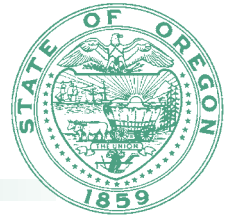
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- The division continued to convert licensees and registrants to License 2000, a corporate database licensing application. License 2000 and MyLicense were purchased to enhance regulatory streamlining and improve efficiency. Consumers and businesses can look up licenses and registrations online through the database, and licensees and registrants can pay license and renewal fees and submit certain licensing and renewal information online.
- The division initiated a process to identify and educate certain buy-sell, consignment, and secondhand stores that may be conducting unlicensed pawnbroker activities, such as lending money against personal property, taking possession of the property, and granting the seller the right to repurchase the property at a price that exceeds 10 percent per annum interest. Working with local police departments, consumers, licensed pawnbrokers, and other interested persons, the division identified and sent letters to approximately 75 second-hand, consignment, and buy-back stores throughout Oregon. The section held an educational session in Albany in January 2007 to provide information on pawnbroker licensing requirements and to answer questions from second-hand, consignment, and buy-back store owners. After initiating the pawnbroker educational initiative, five buy-back/consignment stores have received pawnbroker licenses and six pawnbroker license applications are pending issuance.
- DFCS conducted 465 routine and special consumer finance licensee examinations and issued an administrative order against a short-term payday lender that resulted in approximately \$20,000 in restitution to Oregon consumers and a fine of \$17,500.
- The division partnered with the Credit Union Association of Oregon to promote payday loan alternatives offered by Oregon credit unions.
- The division saw more licenses and registrations among collection agencies, debt consolidation agencies, and money transmitters, but consumer complaints and enforcement actions also increased. For example, there were significantly more collection agency complaints, specifically about agencies that collected money but did not send it to creditors and agencies conducting unregistered collection activity in Oregon.

Primary trade associations

Community Financial Services Association – Oregon (CFSAO)
Consumer Credit Counselors
Oregon Financial Services Association (OFSA)
Oregon Pawnbrokers Association
Oregon Cemetery Association
Oregon Funeral Directors Association
Oregon Collectors Association



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Program description

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

Year	Licenses	Offices	Loan Originators
2002	1,354	2,225	9,064
2003	1,331	2,498	8,599
2004	1,479	2,796	8,362
2005	1,116	2,623	11,332
2006	1,824	3,538	12,930

As of Dec. 1, 2006, the Mortgage Lending Program also handles licensing for manufactured structures dealers.

Oregon is one of the first states to legislate education requirements for loan originators, and it increased those requirements to require entry-level education and a state-proctored examination before a loan originator may begin working with consumers. Originators also must complete 20 hours of continuing education every two years.

The Mortgage Lending Consumer Information Program was created in 2002 to provide information to the public, homeowners, and home buyers — particularly first-time and low- to moderate-income home buyers who may be recipients of sub-prime mortgage loans. In addition, this program provides a variety of fraud-prevention and consumer protection information.

Significant activities

- The division held a Mortgage Lending Forum in 2006 to hear from consumers about their concerns related to mortgage lenders. The feedback from the forum, in addition to input from the industry, resulted in new education requirements for loan originators and new rules to further define expectations related to the supervision of loan originators. The division created the rules in partnership with industry representatives.
- The division joined the nationwide effort to issue guidelines for loan originators who provide non-traditional loan products, such as “interest only” adjustable rate mortgages, to consumers.
- In 2006, the consumer information specialist participated in nine home-buying fairs in different parts of the state, 15 training classes about consumer protection issues for industry professionals and nonprofit housing counseling providers, and dozens of home-buying classes, seminars, and workshops in cooperation with Oregon housing counseling nonprofits to prospective home buyers, homeowners, and seniors. ■



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Program description

The Securities Licensing and Registration Unit regulates those who sell securities and provide investment advice in Oregon, whether or not the companies are located in Oregon. The unit also regulates public offerings of securities, accepts notice filings of federally covered securities in Oregon, and conducts office examinations of licensees with places of business in Oregon. The unit coordinates work efforts with other state and federal regulators and national organizations. The unit generates surplus funds that are transferred to the General Fund.

Significant activities

- The unit licenses broker-dealer firms (1,871), investment adviser firms (1,214), and salespersons for these firms. Salesperson registrations for both types of firms totaled 95,558 at the end of 2006.
- The division processed 7,206 applications to register securities and notice filings for federally covered securities in 2006. The unit continued to streamline its oversight of mutual fund and unit investment trust filings by providing free access to BlueExpress, an Internet-based electronic filing system. DFCS processes approximately 6,000 mutual fund and unit investment trust notice filings and renewals a year. Since the electronic filing process was introduced in 2004, the division has progressed to accepting about 75 percent of the mutual fund/unit investment trust filings electronically — reducing paperwork, improving accuracy and timeliness, and streamlining these filings.



- The division conducts routine and “for-cause” examinations of broker-dealer and investment advisers in Oregon. In 2006, examination activities for broker-dealer firms were focused on bank-based and credit union brokerage activity. This broader review helps to ensure consumer protection in the variety of venues where securities may be sold and improves compliance education among broker-dealers.

Primary trade association

North American Securities Administrators Association (NASAA) ■



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The Enforcement Unit acts on complaints filed by the public, referrals from law enforcement and regulatory agencies, and information obtained monitoring Oregon's investment and financial services sectors. The unit conducts investigations, subpoenas documents, and takes testimony as needed to take administrative, civil, or criminal action against those who violate Oregon laws governing the division's programs. The unit also has authority to condition, suspend, or revoke licenses in Oregon. The unit works with other state and national regulatory organizations as well as law enforcement on many cases. The unit was tasked in 2004 with providing enforcement support for all of the division's programs to promote consumer protection and more efficient and consistent application of legislatively conferred enforcement powers.



During 2006, the Enforcement Unit was busy, with a focus on continual development of staffing skills and expansion of our efforts with law enforcement to combat local and national frauds affecting consumers in Oregon. The division opened 640 complaints, resulting in 89 investigations, and issued 70 administrative actions, including cease-and-desist orders, resulting in the assessment of monetary penalties of more than \$2.6 million. These figures do not include restitution, which was often negotiated in lieu of penalties. More than \$500,000 was collected on civil penalties that were due.

The unit also administers the division's Investor Information Program, which educates investors using presentations, a Web site, publications, and speaking engagements around the state. The Investor Information Program developed and advanced some new ideas and methods of outreach in 2006. The staff continued aggressive efforts to get investment information and scam warnings out to the public through numerous speaking engagements and contacts around the state. Staff members also provided thousands of pamphlets and mailers to the public. The program continued its outreach to youth by sponsoring an essay contest for teenagers and partnering with the Oregon State Treasury to present "The Price is Wrong" in high schools and in other venues across the state.

The division continued to update and improve its Web site, dfcs.oregon.gov. The site includes enforcement orders, information about the complaint process — including ways for consumers to file a complaint online — and links allowing users to verify the registration of brokerage firms and individual brokers. There are also links to the Oregon statutes and rules.

We continued to post notices regarding suspicious activity and possible securities fraud for the benefit of consumers in Oregon and nationwide. We try to act quickly to post the information that comes to us to better enable investors and consumers to protect themselves.

Significant activities

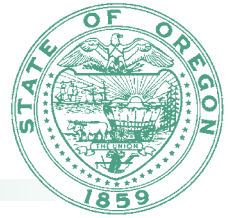
- Assisted the U.S. Attorney's office in Portland in the investigation and resolution of the case against Brian Hicks. He was indicted and arrested on 24 felony charges including securities fraud, mail fraud, wire fraud, and money laundering involving investments in a computer-company scam. Hicks is alleged to have defrauded approximately 600 investors of more than \$1.5 million.

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- Joined the U.S. Securities and Exchange Commission to issue simultaneous administrative actions against a Clackamas County investment adviser for alleged misappropriation of about \$16 million in investor funds to purchase collector cars, art, and a lavish lifestyle instead of the promised securities. The adviser's assets were seized and are currently under the control of a federal court appointed receiver.
- Issued cease-and-desist orders against Kenneth G. Titus Sr. dba Redwood Trust and Rex A. Haragan dba Bountiful LLC for unlicensed/unregistered sales of securities, securities fraud, and violations of the Oregon law governing credit services organizations. Oregon consumers lost at least \$9,000 in upfront fees paid to Redwood Trust. The division is awaiting a final order. Nationally, the Redwood Trust case involved at least \$3.8 million. The federal criminal case against Titus involved money laundering and mail fraud and was pending at the end of the year.
- Assisted the U.S. Attorney's office in Portland on a securities case concerning Peter McKinnon, who pleaded guilty to charges of mail fraud and money laundering in a \$1.2 million securities fraud case. McKinnon converted the funds and enriched himself by using the money to pay his own expenses. He was sentenced in January 2006 to 40 months in prison and required to pay \$1 million in restitution.
- Continued work with the federal Commodities Future Trading Commission on a case involving a \$27 million foreign-currency investment fund, Orion Investments Inc. and its principals, in which the investors' money was allegedly used for personal living expenses of the firm's principals. The primary defendant, Russell Cline, was indicted with fraud and money-laundering charges. Cline pleaded guilty in 2005 and was sentenced to 97 months in prison and ordered to pay restitution of \$16,567,905 in May 2006. In a separate case against James John Rask, the court entered a final judgment on May 15, 2006 permanently prohibiting Rask from engaging in securities and commodities transactions and imposing restitution of \$2,409,885 and a civil monetary penalty of \$1,965,565. On June 16, 2006, the court entered the final default judgment against Orion, ordering the company to pay restitution of \$28,823,034 and civil monetary penalties of \$86,469,100.
- Investigated Pacific Achievement International (PAI) with federal law enforcement. PAI was a \$12 million investment pyramid scam based in Corvallis and Florida. PAI solicited investors through the Internet, offering a more than 100 percent return within 60 days. Total funds taken exceed \$13 million (\$2 million recovered) from approximately 1,600 "investors" throughout the U.S. Principals were charged in a 17-count federal indictment, including conspiracy, wire fraud, mail fraud, and tax charges. Both suspects have pleaded guilty and will be sentenced in 2007.
- Continued to assist the U.S. Attorney's Office in Eugene in the investigation of Pac Equities and Michael and Phyllis Rich, who were indicted for securities fraud. In this case, the Bend couple solicited nearly \$20 million in investments from 252 investors for trust deeds secured by properties in Oregon, Washington, Arizona, and Hawaii. Through the Ponzi scheme, the couple misrepresented the risk and details of the investments, oversold them, and used investor proceeds to support a lavish lifestyle. After all properties are liquidated, it is anticipated that investors may receive from the receiver approximately one-half of their investment. Phyllis Rich pleaded guilty to one count of securities fraud and one tax charge on Sept. 19, 2006. Michael Rich remains in jail pending trial. The trial is set for July 2007.
- Finished the collection and distribution of restitution in the Omni Advisor Group Inc. viatical case, in which Omni agreed to deposit \$90,888 with the division for eventual payout to Oregon investors. This was significant in efforts concerning viaticals — which involve the sale of the benefits of a life insurance policy to a third party — because DFCS secured the return of principal.
- Finished the Tem-Mar Enterprise receivership for a Eugene debt collection agency also known as Acme Credit. The operator, Joyce Temby, had allowed her bond to lapse; she collected funds and failed to pass them on to rightful creditors.

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- Prosecuted a Lincoln County criminal case (as special prosecutors) involving the sale of unregistered securities and fraud by a husband and wife, Michael and Stacy Smith. Several of the victims were more than 80 years old. After grand jury indictments, the husband pleaded guilty to five felony counts including racketeering, theft, and aggravated theft. He was sentenced to 57 months in prison. His wife pleaded guilty to two felony counts; she was sentenced to 30 days of home confinement, five years of supervised probation, and 320 hours of community service. As part of their sentences, the Smiths were ordered to pay about \$600,000 in victim restitution.
- Investigated several cases of elder financial abuse by Oregon broker-dealers and salespersons in which persons over 70 years of age were sold unsuitable investments including general partnerships in oil and gas ventures, junk bonds, and variable annuities. Actions are pending.
- Assisted the U.S. Attorney and local district attorneys in prosecuting mortgage loan fraud. Several federal and county grand jury indictments have been returned. The cases are pending.
- Recovered proceeds for Oregon investors from a Philippine bond case that began in 1986. We are in the process of locating investors or their heirs and expect to pay out the funds during the summer of 2007.
- Filed administrative action against a pawnbroker for failing to return a pawn. The case went to hearing, and the DFCS action was upheld. The pawn was returned to the consumer. The case is currently on appeal.
- Investigated an unregistered credit-counseling firm that charged fees above the statutorily mandated amounts. Negotiated a consent order that included a \$302,000 civil penalty with all but \$25,000 suspended as long as all customers were reimbursed. ■



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