

# Division of Finance & Corporate Securities



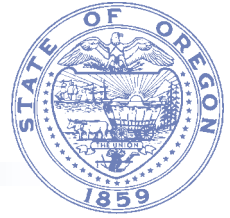
KEEPING  
**Oregonians'**  
money  
SAFE

**Stakeholder Report  
2003**



## **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 for which is found in 24 separate chapters of the Oregon Revised Statutes.

## Staff

63.5 FTE

## Budget

\$10,386,780 approved 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 2003

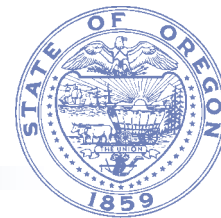
**Administration.** Realigned the division's executive management team to provide for an internal policy advisor position and a division-wide enforcement unit.

**Banks.** Chartered Capital Pacific Bank in Portland and Willamette Community Valley Bank in Albany. Approved the merger of Community Bank of Grants Pass into Bank of the Cascades, Bend. Approved the acquisition of seven branches of Klamath First Bank by Bank of Eastern Oregon, Heppner.

**Credit unions.** Granted community charters to Cascade View Credit Union, Portland, and U-Lane-O Credit Union, Eugene.

**Consumer finance.** Finalized payments to 8,530 Oregonians, totaling \$8,038,124, who opted to participate in the \$484 million consent judgment with Household International, Inc.

**Securities.** Participated with other federal and state regulators in the Global Analyst Research Settlements. These agreements resolved enforcement actions against 10 Wall Street firms arising from an investigation of research-analyst conflicts of interest. Oregon received \$4.3 million in disgorgement and civil penalties of the \$1.4 billion total settlement.



## Examinations conducted and percent rated satisfactory or better<sup>1</sup>

	2001 exams	Rated satisfactory	2002 exams	Rated satisfactory	2003 exams	Rated satisfactory
Banks	21	91%	18	90%	20	92%
Credit unions	23	83%	20	89%	18	88%
Consumer finance	208	84%	297	81%	309	84%
Mortgage broker/banker	40	80%	79	78%	114	73%
Pawnbroker	29	100%	38	97%	36	100%
Securities ( <i>no established rating system</i> )	172		180		111	

<sup>1</sup>Based on established uniform-rating systems

## Applications processed

Banks	2000	2001	2002	2003
New charters	1	2	4	3
Mergers	3	8	5	2
Branch offices	5	12	19	29

### Credit unions

New charters	0	0	1	0
Mergers	0	0	1	3
Branch offices	4	3	2	4
Bylaw amendments	47	48	28	33

## Licenses issued or renewed

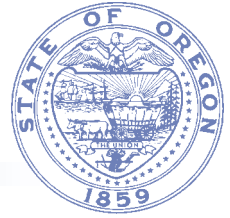
Non-deposit programs	2000	2001	2002	2003
Collection agencies	418	493	510	565
Debt consolidation agencies	18	23	28	37
Consumer finance lenders	344	366	407	485
Mortgage brokers/bankers	1,407	1,167	1,208	1,331
All other	42	20	358	383

### Securities

Broker-dealers	2,113	1,993	1,996	1,949
Investment advisers	628	1,064	1,053	1,072
Salespersons	122,349	110,854	105,250	105,383

## Complaints

Complaints processed	2000	2001	2002	2003
Banks	230	257	238	291
Credit unions	42	33	42	60
Non-deposit programs	45	21	55	99
Mortgage brokers/bankers	48	76	80	143
Securities	117	135	134	98



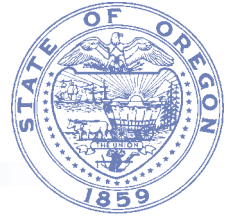
## Investigations

	2001		2002		2003	
	Open	Closed	Open	Closed	Open	Closed
Mortgage brokers/bankers	37	27	71	20	25	47
Securities enforcement	84	49	85	46	133	60

## Budget

Budget-expenditure limitation	2001-2003	Staff	2003-2005
Division of Finance and Corporate Securities <sup>2</sup>	\$10,031,534	63	\$10,386,780
<b>Finance</b>	<b>6,444,494</b>	<b>36</b>	<b>6,698,459</b>
Banks and trusts	3,084,541	17	3,176,598
Credit unions	1,282,009	6	1,355,067
Non-deposit programs	2,077,944	13	2,166,794
<b>Securities</b>	<b>3,587,040</b>	<b>20</b>	<b>3,688,321</b>

<sup>2</sup>Includes administrative staff of seven



**Ed Simkins, Manager**

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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, 2003, there were 32 state banks with \$10 billion in total assets and two foreign banking offices with assets totaling \$7.8 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 three state trust companies and three trust departments holding approximately \$4.5 billion in fiduciary assets. One trust company was merged with its parent bank in 2003.

## **Significant activities**

- Industry consolidation continued during 2003 with the merger of Community Bank of Grants Pass with Bank of the Cascades, Bend. Bank of Eastern Oregon, Heppner, acquired seven branches of Klamath First Bank, Klamath Falls, as part of the latter's merger transaction with Sterling Savings Bank, Spokane, Washington.
- Interest in the formation of new banks has continued with the chartering of Willamette Community Bank in Albany, and Capital Pacific Bank in Portland. Two bank formations have been approved for Eugene and two organization initiatives are under way in the Portland metropolitan area.

- 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 2004 will be its twelfth session. An annual CEO outreach meeting is also sponsored by the program and provides current information on topics of interest for the industry.

## **Primary trade association**

### **Oregon Bankers Association**

Tom Perrick, President





## **Charles C. Donald, Acting 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, 2003, the program supervised 24 credit unions, including one corporate credit union, with total assets of \$8.1 billion and 81 branch offices.

More than 67 percent of the state-chartered credit unions have been in existence for at least 50 years; Portland Postal Employees Credit Union and Electra Central Credit Union have been in business for 75 years.

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

First Technology Credit Union, Beaverton, operates three 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. As of year-end, there are seven community charter credit unions.

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

## **Significant activities**

- Granted community charters to Cascade View Community Credit Union, Portland, and U-Lane-O Credit Union, Eugene, now known as Oregon Community Credit Union.
- Approved the merger of Crown Central Credit Union, West Linn, into Oregon Central Credit Union, Portland, and Oregon Metro Federal Credit Union, Eugene, into First Technology Credit Union, Beaverton.
- The program strives for a seamless regulatory environment by working collaboratively with the National Credit Union Administration, the federal insurer. A risk-focused examination program introduced in 2002 focuses 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 managers actively participate 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





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### Program description

This area provides regulatory oversight for 10 individual programs collectively referred to as the non-deposit programs.

Program	Licenses		ORS
	2002	2003	
Endowment care	75	78	097
Prearranged funeral trusts	215	208	097
Electronic signatures	2	1	192
Credit service organizations	11	8	646
Sellers of travel	0	1	646
Collection agencies	510	565	697
Debt consolidation agencies	28	37	697
International trade consultants	2	2	705
Money transmitters	46	47	717
Consumer finance:	407	485	725
Conventional lenders	182	239	725
Short term lenders	225	246	725
Pawnbrokers	38	38	726

### Prearranged Funeral Plans/ Endowment Care

This program was established by the 2001 legislative session. Prearranged funeral trusts are prepaid funeral plans. Perpetual or endowment care plans are arrangements consumers can make with 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 \$725,864.

### 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 is one authority currently registered.

### Credit Service Organizations

This program was established by the 1993 legislature. 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 eight current registrants.

### Sellers of Travel

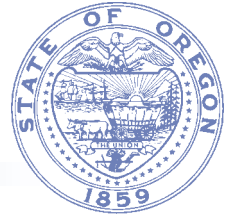
This program was designed to provide minimal oversight of sellers of travel. The 1993 legislature imposed the licensing requirement. In 1997, the legislature repealed the licensing requirement and a joint industry and regulatory committee recommended self-regulation. Under existing law, DFCS will certify associations of sellers of travel who have certain consumer-protection provisions in their bylaws. One association is certified.

### Collection Agencies

This program registers and regulates debt-collection agencies. DFCS examines their operations on a complaint basis to protect businesses that use such agencies to collect bad debts from consumers. There are currently 565 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 37 registrants, only 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.



### Money Transmitters

This program is a 1999 legislative revision of the Sale of Checks Act, at the request of the industry. Under 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 47 registrants.

### Consumer Finance

This program licenses and supervises conventional consumer-finance companies making loans of \$50,000 or less at interest rates exceeding 12 percent, under the Consumer Finance Act 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 485 licensees: 239 consumer-finance companies and 246 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.

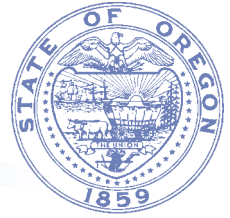
### International Trade Consultants

The 2001 legislature enacted ORS 705.730-705.732, 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

- Finalized payments to 8,530 Oregonians, totaling \$8,038,124, who opted to participate in the \$484 million consent judgment with Household International, Inc. Collected an additional \$102,572 for Oregon consumers through penalties collected for violations of the Consumer Finance Act uncovered during examinations.
- Incorporated various payday lending administrative rule provisions into the Consumer Finance Act with the passage of SB 159 during the 2003 legislative session.
- Reduced expenses in the Pawnbroker Program by conducting off-site examinations every other year.
- Brought under regulation 11 unregistered debt-consolidation companies doing business in Oregon.





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## Program description

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 the loan originator was 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 10,270 loan originators to date.

	Licenses	Offices
2002	1,208	2,225
2003	1,331	2,498

The Oregon legislature enacted a law (Chapter 526, 2003 Laws) that requires a mortgage broker or banker to conduct a criminal-records check of each individual the banker or broker employs or intends to employ as a loan originator.

A criminal-records check for a loan originator employed by a licensee on or before January 1, 2004, must be completed by April 30, 2004. A loan originator applicant may not be hired (currently employed loan originator's employment must be immediately terminated) if the criminal-records check discloses a disqualifying conviction.

The law also requires insurance agents and consultants who are employed full time as loan originators to comply with the training, examination, and continuing education requirements set forth in the Oregon Mortgage Lending Law.

## Consumer Information Program

This program was created in 2002 to educate the public and homebuyers, particularly first time and low-to middle-income homebuyers who often receive sub-prime loans.

During the past year, we participated in more than 50 home-buying fairs, educational seminars, and workshops that were attended by more than 3,000 participants. We also participated in radio and television shows addressing invalid Social Security numbers and predatory lending.



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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 federally 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 1,949), investment adviser firms (1,072), and salespersons for these firms. Salesperson registrations in 2003 totaled 23,986, and 81,397 renewals were processed.
- To review new, renewal, and amended applications to register securities and notice filings for federally covered securities (about 6,200 a year).
- To conduct routine and "for-cause" examinations of broker-dealer and investment advisers in Oregon (about 120 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 and referrals from law enforcement and regulatory agencies and acts on 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 Law. The unit also has authority to suspend or revoke securities licenses in Oregon. In 2003, the enforcement responsibility for the **Mortgage Lender Program** was shifted to the Enforcement Unit. The unit's powers over licensed mortgage lenders and brokers is similar to its authority in securities matters.

## Significant activities

- Securities fee increase — The 72nd Oregon legislature passed House Bill 3656, which increases all securities fees. This new law was signed by Governor Kulongoski on September 17, 2003, and became effective on November 26, 2003.

The statutes now provide that fees are to be set by rule in an amount determined by the director to be as near as possible to the median for similar fees charged by all other state securities regulatory agencies. On November 26, 2003, the director filed emergency temporary rules setting securities fees for all licensing, registration, and notice filings. Permanent rulemaking for these securities fees will be completed by May 20, 2004.

Oregon fees have not changed since 1969 and were nearly the lowest of such fees in the nation. The increase in fees is projected to increase transfers to the General Fund from \$4 million to between \$19 million and \$21.2 million for the 03-05 biennium and between \$28.2 million and \$31.2 million in the 05-07 biennium.

- Participated in the \$1.4 billion global settlement of securities analyst practices. Settlement included all North American Securities Administrator Association members, SEC, and the NYSE. The settlement targeted 10 of the largest investment banking firms. It resulted in significant changes in analyst practices at these firms and a total payment of \$4.3 million in financial penalties to the Oregon General Fund.



- Conducted a joint investigation, with the federal Commodities Future Trading Commission (CFTC) into a \$27 million foreign currency investment fund, Orion Investments, Inc. Investors were told that their money would be traded in foreign currency futures. A civil lawsuit was filed when it was determined that most of the money was used for personal living expenses. A civil suit was filed in federal district court in Portland. The court has ordered preliminary injunctions against several defendants and a receiver has been appointed to collect and recover assets for investor repayment.
- Concluded a significant civil lawsuit in Portland charging three Oregonians with defrauding 15 investors of \$7 million. The court found that the three primary promoters sold interests in high-yield offshore ("prime bank") investments to the legal clients of one of the promoters. The products were presented as low-risk investments with annual returns of 15 percent, when, in fact, the investors' principal was lost. The court imposed permanent injunctions against the three promoters and imposed financial penalties exceeding \$1.5 million.
- Participated in the investigation and prosecution of a half-dozen criminal cases with state and federal prosecutors. Many of the cases arose from off shore high-yield investment frauds or exotic investments. Others focused on more traditional investment products, including a start-up computer company and oil and gas investments.
- Reinvigorated our Investor Information Program, with renewal of investor presentations around the state, a revitalized Web site, and new publications.

