

Division of Finance & Corporate Securities



KEEPING
Oregonians'
money
SAFE

Stakeholder Report
2004



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 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 15 disparate programs, the statutory authority for which is found in 24 chapters of the Oregon Revised Statutes.

Staff

64 FTE

Budget

\$10,908,288 requested 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.

Strategic initiatives

- 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; 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. 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 2004

Administration. Selected a new deputy administrator and chief of enforcement. Restructured the Finance Section with a manager assisted by supervising examiners for the banks/trusts, credit unions, and non-depository programs to address management-succession issues.

Banks. Chartered Century Bank and Summit Bank in Eugene; Pacific West Bank, West Linn; and The Bank of Oswego, Lake Oswego. Approved the mergers of Humboldt Bank, Eureka, California, by Umpqua Bank; Community Bank of Grants Pass by Bank of the Cascades, Bend; and Mid-Valley Bank, Red Bluff, California, by PremierWest Bank, Medford.

Credit unions. Granted community charters to SELCO, Eugene, and Safeway NW Central (Rivermark Community), Portland. Approved the mergers of Cascade View Community Credit Union, Portland, by First Community, Coquille; OAIC Federal Credit Union, Portland, and Resource Conservation Federal Credit Union, Portland, by Oregon Central Credit Union, Portland; and Highland Community Federal Credit Union, Klamath Falls, by SOFCU Community Credit Union. Approved the conversion from federal charter to state charter for Oregon Federal (First Community Credit Union abn Oregon First Community Credit Union), Coquille, and Southern Oregon Federal Credit Union, (SOFCU Community Credit Union), Grants Pass.

Consumer finance. In conjunction with the Oregon Department of Justice, finalized the restitution of more than \$8 million for 8,530 Oregonians who opted to participate in the \$484 million consent judgment with Household International, Inc. Completed a program review of payday lending in Oregon that resulted in several administrative changes and the development of a consumer-information brochure.

Securities. Extended our participation with other federal and state regulators in the Global Analyst Research Settlements. These agreements resolved enforcement actions against several Wall Street firms arising from an investigation of research analyst conflicts of interest. Oregon, to date, has received \$4.3 million in disgorgement and civil penalties related to these settlements. Two additional settlement agreements should provide an additional \$385,000, when final.



Examinations conducted and percent of industry rated satisfactory or better¹

	2002		2003		2004	
	Exams	Satisfactory	Exams	Satisfactory	Exams	Satisfactory
Banks	18	90%	20	92%	21	97%
Credit unions	20	89%	18	88%	17	92%
Consumer finance	297	81%	309	84%	472	81%
Mortgage broker/banker	79	78%	114	73%	120	67%
Pawnbroker	38	97%	36	100%	44	100%
Securities (no established rating system)	180		111		84	

¹Based on established uniform-rating systems

Applications processed

Banks	2000	2001	2002	2003	2004
New charters	1	2	4	3	4
Mergers	3	8	5	2	3
Branch offices	5	12	19	29	24

Credit unions

New charters	0	0	1	0	2
Mergers	0	0	1	3	2
Branch offices	4	3	2	4	12
Bylaw amendments	47	48	28	33	20

Licenses issued or renewed

Non-deposit programs	2000	2001	2002	2003	2004
Collection agencies	418	493	510	565	595
Debt consolidation agencies	18	23	28	37	42
Consumer finance lenders	344	366	407	485	574
Mortgage brokers/bankers	1,407	1,167	1,208	1,331	1,479
All other	42	20	358	383	393
Total	2,229	2,069	2,511	2,801	3,083

Securities

Broker-dealers	2,113	1,993	1,996	1,949	1,955
Investment advisers	628	1,064	1,053	1,072	1,206
Salespersons	122,349	110,854	105,250	105,383	105,250

Complaints processed

	2000	2001	2002	2003	2004
Banks	230	257	238	291	224
Credit unions	42	33	42	60	50
Non-deposit programs	45	21	55	99	110
Mortgage brokers/bankers	48	76	80	143	184
Securities	117	135	134	98	105
Total	482	522	549	691	673

DFCS PERFORMANCE-MEASURES DATA, continued



Investigations	2002		2003		2004	
	Open	Closed	Open	Closed	Open	Closed
Mortgage brokers/bankers	71	20	25	47	24	14
Securities enforcement	85	46	133	60	47	98
Non-deposit					4	5

Budget

Budget-expenditure limitation	2003-2005	Staff	2005-2007
Division of Finance and Corporate Securities ²	\$10,386,780	64	\$10,908,288

Finance	6,698,459	42
Banks and trusts	3,176,598	19
Credit unions	1,355,067	8
Non-deposit programs	2,166,794	15

Securities	3,688,321	22
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²Includes seven administrative staff



FINANCE SECTION

Ed Simkins, Manager

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Program description

The Finance Section supervises and regulates the activities of depository institutions and non-depository financial services providers. Depository institutions operate with federally insured deposits and include banks, trust companies, and credit unions. There are 11 programs for non-depository-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 arranged funeral plans.

The section was restructured in 2004 upon the retirement of the manager of the non-deposit and credit union programs. Under the new structure, one manager is assisted by supervising examiners in three areas: banks and trusts, credit unions, and non-depository companies. (The non-deposit 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 706-716. 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.

As of December 31, 2004, there were 35 state banks with \$13.8 billion in total assets plus two foreign banking offices with assets totaling \$5.7 billion.

The program regulates three state trust companies and three trust departments holding approximately \$5.5 billion in fiduciary assets.



Significant activities

- Industry consolidation continued during 2004 with the acquisition of Community Bank of Grants Pass by Bank of the Cascades, Bend. Two Oregon-based institutions, PremierWest Bank, Medford, and Umpqua Bank, Portland, extended their markets by acquiring California-based banks. Mid-Valley Bank, Red Bluff, California, which had five Northern California offices, was merged into PremierWest on January 23, 2004. Humboldt Bank, Eureka, California, with 27 Northern California offices, was merged into Umpqua Bank on July 10, 2004.
- Formation of new banks continued in 2004 with the chartering of Summit Bank and Century Bank, both based in Eugene; Pacific West Bank, West Linn; and The Bank of Lake Oswego, Lake Oswego. One new bank formation is under way in the Portland area.
- The 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.
- The program sponsors the Oregon Bank Directors College with the Oregon Bankers Association, an annual event that runs January-June. The college was the first such effort in the nation, and the 2005 will be its thirteenth 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 two Washington-based banks with Oregon branches, Washington Mutual and Sterling Savings Bank. The division provides examiners under provisions of the Conference of State Bank Supervisors Interstate Cooperative Agreement.

Primary trade association

Oregon Bankers Association

Tom Perrick, President



Janet Powell, Supervising Examiner

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Program description

This program charters and regulates state-chartered credit unions under the Credit Union Act, ORS Chapter 723. Assessments and fees from the regulated institutions fund the credit union program. As of December 31, 2004, the program supervised 24 credit unions with total assets of \$8 billion and 110 branch offices. More than 67 percent of the state-chartered credit unions have been in existence for at least 50 years; of these, Portland Postal Employees Credit Union and Electra Central Credit Union have been in business for more than 75 years.

The program works with the federal insurer, the National Credit Union Administration, to promote a seamless regulatory environment. A risk-focused examination program introduced in 2002 focuses resources on credit unions warranting supervisory concern. Increased off-site analysis and monitoring limit examiner presence in credit unions and reduce overall regulatory burden.

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

First Community Credit Union abn Oregon First Community, Coquille, operates a branch in Ridgefield, Washington; First Technology Credit Union, Beaverton, operates branch offices in Bellevue and Redmond, Washington; and Portland Postal Employees Credit Union operates a branch office in Vancouver.

Credit union membership may be occupational, associational, or community. The community field of membership is a relatively new authority, approved in the 1999 legislative session. As of year-end, there are 10 credit unions with community charters.

Significant activities

- Granted community charters to SELCO Credit Union, Eugene, now known as SELCO Community and to Safeway Northwest Central Credit Union, now known as Rivermark Community Credit Union.
- Approved the mergers of Cascade View Community Credit Union, Portland, into First Community Credit Union, abn Oregon First Community Credit Union, Coquille; OAIC Federal Credit Union, Portland, and Resource Conservation Federal Credit Union, Portland, by Oregon Central Credit Union, Portland; and Highland Community Federal Credit Union, Klamath Falls, by SOFCU Community Credit Union.
- Approved the conversion from federal charter to state charter for Oregon Federal Credit Union, Coquille, now known as First Community Credit Union abn Oregon First Community Credit Union and Southern Oregon Federal Credit Union, Grants Pass, now known as SOFCU Community Credit Union.
- Program managers actively participate in local and national trade association meetings. The division conducts outreach meetings with credit union executive officers every six months.

Primary trade association

Credit Union Association of Oregon

Gene Poitras, President



DFCS NON-DEPOSIT PROGRAMS



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Program description

Regulates 11 individual programs collectively referred to as the non-deposit programs.

Program	Licenses		ORS
	2003	2004	
Endowment care	78	81	97
Prearranged funeral trusts	208	210	97
Electronic signatures	1	1	192
Credit service organizations	8	6	646
Sellers of travel	1	1	646
Collection agencies	565	595	697
Debt consolidation agencies	37	42	697
International trade consultants	2	1	705
Money transmitters	47	51	717
Consumer finance:	485	574	725
Conventional lenders	239	251	725
Short term lenders	246	323	725
Pawnbrokers	38	45	726

Prearranged Funeral Trust and Endowment Care Plans

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. A portion of proceeds from such care plans must be placed in trust, most often with master trustees. Oregon has seven registered master trustees, which held \$106 million at year-end 2003, representing 70,000 contracts issued by 202 providers. This program also has responsibility for a consumer protection trust fund with a current balance of \$756,344.

Electronic Signatures

The 1997 legislature enacted the Electronic Signature Act. The act allows authentication authorities, that issue digital signatures to register on a voluntary basis. Those who choose not to register may still legally offer or sell digital-signature authentication services in Oregon. There is one such authority registered.

Credit Service Organizations

This program was established by the 1993 legislature. Individuals who sell, provide, or 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 six 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 certifies associations of sellers of travel that have certain consumer-protection provisions in their bylaws; one association is certified.

Collection Agencies

This program registers and regulates debt-collection agencies. There are 595 registrants. The division examines collection agencies on a complaint basis to protect businesses that rely on collection agencies to collect bad debts from consumers. The program was administered by the Real Estate Division of the Department of Commerce (1950-1981) and the Consolidated Boards and Commissions (1981-1986) before being 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 42 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 emanated from the 1999 legislative revision of the Sale of Checks Act at the request of the industry. Under ORS 717, DFCS has authority to examine licensees and their authorized delegates. Money transmitters are required by a federal statute to be licensed by the state. The intent of the law is to inhibit money laundering and eliminate transactions with nations and individuals that have been specially designated by the federal government, including suspected terrorists, by making it more difficult to conceal transmission of funds. There are 51 registrants.

Consumer Finance

This program licenses and supervises conventional consumer-finance companies making loans of \$50,000 or less, under the Consumer Finance Act. These are generally "sub-prime" loans made to individuals with poor credit history. Conventional licensees generally make loans that are repayable in two or more installments over more than 60 days. 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 574 licensees: 251 conventional consumer-finance companies and 323 short-term personal loan lenders.

Pawnbrokers

This program licenses and annually examines pawnbrokers 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 45 state-licensed pawnshops in Oregon.

International Trade Consultants

The 2001 legislature enacted ORS 705.730-705.732, which directed DCBS 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. One business is listed on the registry.

Significant activities

- Finalized payments totaling \$8,038,124, to 8,530 Oregonians, who opted to participate in the \$484-million consent judgment with Household International, Inc. Effected \$285,485 in restitution to Oregon consumers for violations of the Consumer Finance Act.
- Conducted a program review of payday lending that resulted in several administrative changes and the publication of a consumer-information brochure, *Payday Lending in Oregon*.
- Implemented a new corporate database licensing application (License 2000) for the Consumer Finance Program to be used along with My License, an application that will allow users to obtain, renew, or check the status of their license on the Internet. The division plans to expand the use of these applications to other programs in 2005.
- Obtained an order revoking the certification of Sunset Hills LLC, Eugene, to provide pre-need funeral contracts. The order resulted from violations related to mishandling pre-need funeral-plan trust funds, use of illegal pre-need contracts, and failure to comply with state reporting requirements.

Primary trade associations

Community Financial Services Association – Oregon (CFSA)
Oregon Financial Services Association (OFSA)
Oregon Pawnbrokers Association
Oregon Cemetery Association
Oregon Funeral Directors Association
Oregon Collectors Association

DFCS MORTGAGE LENDING PROGRAM



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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 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. All loan originators 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 11,855 loan originators to date.

	Licenses	Offices
2002	1,354	2,225
2003	1,331	2,498
2004	1,479	2,796

The Oregon legislature enacted a law (HB 2682, Chapter 526, 2003 Laws) that requires a mortgage lender to conduct a criminal-records check of each individual whom a mortgage lender employs or intends to em-

ploy as a loan originator. Prior to employing a loan originator, a mortgage lender must conduct a criminal-records check of each individual, searching federal records and the records of all states in which the person resided during the past 10 years, and certify to the division that the licensee is in compliance with the law. A loan originator applicant may not be hired 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 home buyers – particularly first-time and low- to middle-income home buyers who often receive sub-prime loans.

The consumer information specialist participated in more than 60 home-buying fairs, educational seminars, and workshops that were attended by more than 6,000 participants. He also participated in English and Spanish radio and community cable programs. These are usually conducted in partnership with non-profits and other organizations whose mission is to provide consumer education and fraud prevention.





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Program description

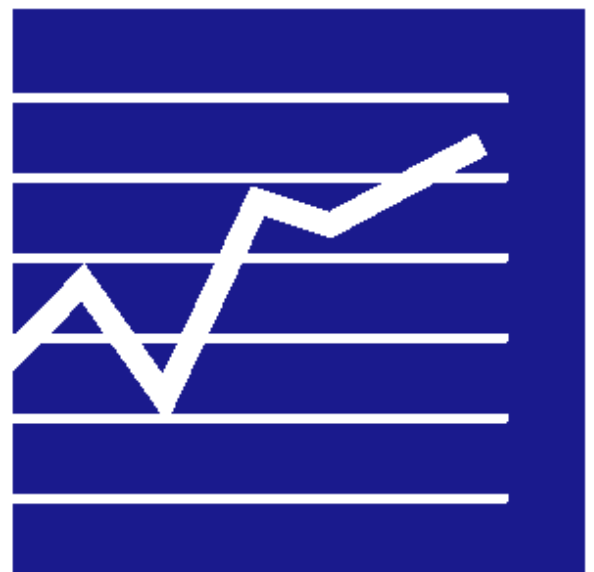
The **Securities Licensing and Registration Unit** regulates those who sell securities and provide investment advice in Oregon, whether or not the companies are located in Oregon. The unit also regulates public offerings of securities and accepts notice filings of federally covered securities in Oregon 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:

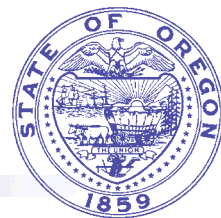
- To license broker-dealer firms (1,955), investment adviser firms (1,206), and salespersons for these firms. Salesperson registrations in 2004 totaled 24,781, and 85,191 renewals were processed.
- To review new, renewal, and amended applications to register securities and notice filings for federally covered securities. The division processed 5,400 such filings in 2004 with a face value of \$1.6 trillion. We also streamlined our oversight of mutual fund filings by providing free access to BlueExpress, an Internet-based electronic filing system. DFCS processes around 4,500 mutual fund notice filings and renewals a year. Since the electronic filing process was introduced in May, we have processed about 60 percent of the mutual fund filings electronically — reducing paperwork, improving accuracy and timeliness, and streamlining these filings.

- To conduct routine and “for-cause” examinations of broker-dealer and investment advisers in Oregon. In 2004, examination activities for broker-dealer firms were focused on the Office of Supervisory Jurisdiction offices and all Oregon-based firms. This shift ensures consumer protection while eliminating a layer of examinations and reducing the regulatory burden placed on small branch offices.
- 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.

Primary trade association

North American Securities Administrators Association (NASAA).





Michelle Teed

Chief of Enforcement

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The enforcement unit acts on complaints filed by the public and referrals from law enforcement and regulatory agencies and upon information obtained monitoring Oregon's securities marketplace. 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 suspend or revoke licenses in Oregon. The unit works with other state and national regulatory organizations on many enforcement activities. The unit was tasked in 2004 with providing enforcement support for all of the division's programs to promote efficient and consistent application of legislatively conferred enforcement powers.

During 2004, the unit issued 35 cease and desist orders that became final and levied over \$1,000,000 in fines, penalties, and restitution with respect to those matters. Litigation initiatives undertaken or closed include securities, 29 opened, 94 closed; mortgage lending, 22 opened, 12 closed; and non-deposit, four opened, and five closed.

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.

Significant activities

- An investigation was conducted with the federal Commodities Future Trading Commission into a \$27 million foreign-currency investment fund, Orion Investments, Inc. A civil lawsuit was filed when it was determined that investors' money was used for personal living expenses of the firm's principals.
- Howard Michael Johnson was sentenced to 32 months in state prison for parole violations. Johnson, a Salem stockbroker, was found guilty of felony counts in Marion County, and was given probation after having stolen more than \$150,000. During probation, his activities were documented, resulting in his arrest for parole violation after he stole money from victims and presented himself as a mortgage broker. This was a joint investigation with Benton County.
- Investigated with federal law enforcement, Pacific Achievement International, a \$12 million Ponzi scheme that operated out of Florida and Corvallis. The operation was shut down and more than \$2 million in assets seized. The case is being prosecuted.

- Concluded a significant civil case against a Portland lawyer, Guy Rencher, who violated securities laws.
- Assisted the U.S. Attorney's Office in Seattle in its prosecution of the HMC/Znetix case. The \$91 million case involved about 5,000 investors. Kevin Lawrence, founder, was sentenced to 20 years in federal prison. Seven other defendants were sent to prison, and parts of the case have yet to be resolved.
- Resolved cases involving Alpha Telcom, ETS Pay phones, National Equipment Providers, and Success Concept Enterprises. Alpha Telcom raised more than \$135 million from more than 7,000 investors nationwide. Two licensed Oregon insurance agents persuaded 29 mostly elderly Oregonians to invest over \$1.5 million in coin-operated telephones to be managed by ETS Pay phones, Inc., of Georgia. National Equipment Providers, Ashland, sold investments in ATM machines through Strategic Partnership Alliance. Seven Oregonians invested more than \$85,000, a small portion of the \$2.8 million that 236 individuals nationwide invested. This company is no longer operating.
- Resolved the division's first enforcement case in the pre-need program by negotiating the entry of a detailed cease-and-desist order in the Sunset Hills case. Issued orders involving penalties against consumer-finance licensees for violations of the Consumer Finance Act.
- Provided legal and administrative support in the mortgage-related indictments of Eddy Oswald Morales, Juan Carlos Morales, Samuel Artuore Pleites, Douglas Alexander Pleitez, Cristobal Antonio Vilorio, Guadalupe Pleitez, and Patricia Tellez.
- Negotiated stipulated agreements (reduced to judgments) to settle a case worked with the Commodities Future Trading Commission. The settlements require disgorgement, restitution, and civil penalties totaling more than \$1.3 million.
- Resolved 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 because DFCS secured the return of principal.
- The director of DCBS was appointed receiver in the case against Tem-Mar Enterprise, 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.