

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS

IN THE MATTER OF DETERMINING) S-03-178-03-SC01
Whether there has been a violation of the) TEMPORARY ORDER TO CEASE AND
Escrow Agent Registration Act by:) DESIST, STATEMENT OF CHARGES AND
) NOTICE OF INTENT TO SUSPEND OR
) REVOKE ESCROW AGENT
Inter Island Escrow Inc; Kenneth E) REGISTRATION AND TO IMPOSE FINES
Loyd;)
Respondents)

THE STATE OF WASHINGTON TO: Inter Island Escrow Inc; Kenneth E Loyd
Gulf Underwriters Insurance Company
Fidelity Deposit Company of Maryland
Capitol Indemnity Corporation

STATEMENT OF CHARGES

Please take notice that the Department of Financial Institutions of the State of Washington has reason to believe that Respondents, Inter Island Escrow Inc. and Kenneth E Loyd have each violated the Escrow Agent Registration Act and that their violations justify the entry of an order of the Department of Financial Institutions under RCW 18.44.440 against each to cease and desist from such violations. The Department of Financial Institutions finds that delay in ordering the Respondents to cease and desist from such violations would result in irreparable harm to the public interest and that a Temporary Order to Cease and Desist should be entered immediately. The Department of Financial Institutions also has reason to believe that grounds exist, under RCW 18.44.430, to suspend or revoke the escrow agent registration of Inter Island Escrow, Inc. The Department of Financial Institutions finds as follows:

TEMPORARY ORDER TO CEASE AND
DESIST, STATEMENT OF CHARGES AND
NOTICE OF INTENT TO SUSPEND OR
REVOKE ESCROW AGENT REGISTRATION
AND TO IMPOSE FINES

1 DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 **TENTATIVE FINDINGS OF FACT**

2 **PARTIES**

3 **I.**

4 Inter Island Escrow, Inc. is an escrow agent with its principal place of business at 123
5 North Beach Road, Eastsound, WA 98245. Inter Island Escrow, Inc. first became licensed as an
6 escrow agent in June 3, 1996 and is currently licensed as an escrow agent.
7

8 **II.**

9 Kenneth E. Loyd is the designated escrow officer of Inter Island Escrow, Inc. Kenneth E.
10 Loyd's escrow officer license expired June 26, 2003 and has not been renewed.

11 **CONDUCT OF ESCROW BUSINESS**

12 **III.**

13 The Department of Financial Institutions conducted an on-site examination of the books
14 and records of Inter Island Escrow, Inc. on the 1st and 2nd days of July 2003. During that
15 examination, the Department of Financial Institutions found Inter Island Escrow, Inc. had not,
16 since July 2002, reconciled the balances in the trust accounts it maintained with the amounts
17 shown on its books as the balances of outstanding client ledger balances.
18

19 **IV.**

20 The examination also showed that Inter Island Escrow, Inc. had, during the period from
21 June 30, 2002 to June 30, 2003, disbursed funds from 25 escrow accounts in excess of the
22 deposits made to those escrow accounts. These disbursements totaled \$28,303.33. As of July 2,
23 2003, 11 of those accounts still showed unresolved shortages totaling \$5,305.19.
24

1 V.

2 Inter Island Escrow, Inc. has had no licensed escrow officer to supervise its escrow
3 transactions since the escrow officer license of Kenneth Loyd, its designated escrow officer,
4 expired on June 26, 2003.

5 VI.

6 Gulf Underwriters Insurance Company provides errors and omissions insurance for Inter
7 Island Escrow, Inc. On September 23, 2003, the Department of Financial Institutions received a
8 notice that Inter Island Escrow, Inc.'s policy will be cancelled on October 21, 2003 for
9 nonpayment of premium. The Department of Financial Institutions received an earlier
10 cancellation notice on August 12, 2003 concerning this policy. It forwarded a copy of that notice
11 to Kenneth Loyd and Inter Island Escrow, Inc. together with a letter explaining that RCW
12 18.44.201 required Inter Island Escrow, Inc. to maintain a valid errors and omissions policy in
13 the amount of \$50,000. Neither Kenneth Loyd nor Inter Island Escrow, Inc. has responded to the
14 letter Department of Financial Institutions sent.

15 The Department of Financial Institutions finds that continuation of the conduct described
16 in Tentative Findings of Fact III, IV, V, and VI would result in irreparable harm to the public
17 interest.

18 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

19 CONCLUSIONS OF LAW

20 I.

21 The conduct described in Tentative Findings of Fact III is in violation of RCW 18.44.400
22 and WAC 208-680E-011 because Inter Island Escrow, Inc has failed to reconcile its trust bank

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25 TEMPORARY ORDER TO CEASE AND
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1 account statements to the trust account receipts and disbursement records each month, and to
2 maintain copies, signed by the designated escrow officer, as permanent records, it has therefore
3 failed to keep adequate records of all transactions it has handled.

4 II.

5 The conduct described in Tentative Finding of Fact IV is in violation of RCW
6 18.44.400(3) and WAC 208-680E-011(14) because Inter Island Escrow, Inc. has made
7 disbursements for particular escrow accounts prior to receipt of deposits directly relating to those
8 accounts in amounts at least equal to the disbursements.
9

10 III.

11 The conduct described in Tentative Finding of Fact V is in violation of RCW 18.44.071,
12 which requires that every licensed escrow agent ensure that all escrow transactions are
13 supervised by a licensed escrow officer.
14

15 IV.

16 The Department of Financial Institutions finds and concludes that the violations
17 described above of the Escrow Agent Registration Act and rules adopted thereunder, if
18 continued, will result in irreparable harm to the public interest such that the issuance of a
19 temporary cease and desist order is warranted pursuant to RCW 18.44.440.
20

21 V.

22 The Department of Financial Institutions finds and concludes that the violations of the
23 Escrow Agent Registration Act described above constitute grounds for the suspension or
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1 revocation of the escrow agent license of Inter Island Escrow, Inc. pursuant to RCW
2 18.44.430(1)(b) and the imposition of a fine pursuant to RCW 18.44.430(3).

3 **TEMPORARY ORDER TO CEASE AND DESIST**

4 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY ORDERED that Inter
5 Island Escrow Inc; Kenneth E Loyd; their agents and employees each cease and desist from
6 violation of RCW 18.44.400 and WAC 208-680E-011 and that Inter Island Escrow, Inc. shall
7 reconcile its monthly trust bank account statements to its books for the months from August
8 2002 through the last month for which it has received account statements for its bank trust
9 accounts and shall submit proof to Department of Financial Institutions no later than November
10 14, 2003 of such reconciliation.

12 It is further ORDERED that respondents, Inter Island Escrow Inc; Kenneth E Loyd, their
13 agents, and employees each cease and desist from violation of RCW 18.44.400(3) and WAC
14 208-680E-011(14), which prohibit disbursement of funds from individual escrow accounts in
15 excess of deposits made to those account, and shall submit proof to the Department of Financial
16 Institutions no later than November 14, 2003 that all outstanding debit balances in individual
17 escrow accounts have been resolved.

18 It is further ORDERED that Inter Island Escrow, Inc. cease and desist from violation of
19 RCW 18.44.071, which requires that all escrow transactions be supervised by a licensed escrow
20 officer.
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2 **NOTICE OF INTENT TO SUSPEND OR REVOKE THE ESCROW AGENT LICENSE**
3 **OF INTER ISLAND ESCROW, INC. AND/OR IMPOSE FINES**

4 Pursuant to RCW 18.44.430, and based on the Department of Financial Institutions's
5 findings and conclusions that Inter Island Escrow, Inc. has violated the Escrow Agent
6 Registration Act and rules adopted thereunder, the Department of Financial Institutions intends
7 to suspend or revoke the escrow agent license of Inter Island Escrow, Inc. and/or to impose fines
8 of up to one hundred dollars a day for each day's violation of the Escrow Agent Registration Act
9 and the rules adopted thereunder.

10 **AUTHORITY AND PROCEDURE**

11 This Temporary Order to Cease and Desist is entered pursuant to the provisions of RCW
12 18.44.440 and this Notice of Intent to Suspend or Revoke The Escrow Agent License of Inter
13 Island Escrow, Inc. and/or to Impose Fines is issued pursuant to provisions of RCW 18.44.430.
14 Both are subject to the provisions of RCW 34.05. The respondents, Inter Island Escrow Inc. and
15 Kenneth E Loyd may each make a written request for a hearing as set forth in the NOTICE OF
16 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
17 order.
18

19 If a respondent does not request a hearing, the Department of Financial Institutions
20 intends to adopt the above Tentative Findings of Fact and Conclusions of Law as final and make
21 the temporary order to cease and desist permanent as to that respondent. If respondent Inter
22 Island Escrow, Inc. does not request a hearing, the Department of Financial Institutions intends
23 to issue an order revoking Inter Island Escrow, Inc.'s escrow agent license and imposing a fine of
24

1 \$100 a day from the date of Inter Island Escrow, Inc.'s receipt of this Notice of Intent to Suspend
2 or Revoke Escrow Agent License and to Impose Fines to the date of entry of that order. If
3 respondent does not timely submit reports required under the Temporary Cease and Desist Order,
4 the Department of Financial Institutions intends, pursuant to RCW 18.44.440 and WAC 208-
5 68D-010, to order Inter Island Escrow, Inc. to retain an independent certified public accountant
6 or other person acceptable to the Department of Financial Institutions to reconcile the trust
7 account, report on whether it has been maintained in compliance with WAC 208-68E-011.
8

9 Dated this 6 day of October, 2003

11 

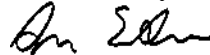
12 Deborah R. Bortner
13 Assistant Director
14 Department of Financial Institutions

15 Approved by:

16 

17 Michael E. Stevenson
18 Chief of Enforcement

15 Presented by:

16 

17 Suzanne Sarason
18 Senior Financial Legal Examiner

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