



dfi WASHINGTON STATE
DEPARTMENT OF
FINANCIAL
INSTITUTIONS

2010 - 2011
ANNUAL REPORT



Letter from DFI Director Scott Jarvis

The following is the 2010-11 biennium report, submitted on behalf of the staff of the Washington State Department of Financial Institutions (DFI). This document details how each division of DFI serves our stakeholders and Washington residents.

DFI's 186-plus employees are committed to maintaining an environment of safe and reliable financial services for Washington consumers and our licensees. Each day, we put into practice our mission — to protect and educate the public and promote economic vitality — through the regulation of financial services in our state. Our licensees include banks, trust companies, credit unions, mortgage brokers, mortgage bankers, mortgage servicers, loan originators, payday lenders, securities brokers, investment advisers and securities issuers, money transmitters, currency exchangers, independent escrows, check cashers and check sellers.

Experience in working with financial fraud victims tells us information is key when it comes to protecting consumers. DFI provides detailed information and outreach on financial topics ranging from how to verify the license of a mortgage broker, loan originator, payday lender or financial planner — to the basics of budgeting and credit, or how to avoid becoming victims of financial fraud, identity theft, or foreclosure prevention fraud.

Washington residents of all ages and backgrounds face an ever-increasing number of scam artists creating schemes targeting consumers in an effort to separate them from their hard-earned money. To counter this attack, and better protect consumers, DFI continues to expand our network of financial education partners and increase outreach efforts to residents in communities large and small throughout Washington State.

This agency's employees also are devoted to providing regular and clear communication with our licensees, ensuring our licensees understand and adhere to the law and understand how new legislation affects how they do business in Washington State.

Collectively and independently, the department's five divisions — Securities, Consumer Services, Banks, Credit Unions and Administration — work to create a stronger, more secure financial environment for businesses and consumers. Together we're working to cultivate a stronger economic future for Washington residents and businesses alike.

We look forward to continuing to serve you, and working hard to make our state an even greater place for all who choose to call it home.

Sincerely,
Scott Jarvis,
Director

Table of Contents

Department Overview	4
DFI Communications Outreach	6
Division of Banks	8
Division of Consumer Services	11
Division of Credit Unions	18
Division of Securities	22

Department Overview

Gloria Papiez, Deputy Director

The Department of Financial Institutions (DFI) was established in October 1993 by RCW 43.320. Its mission is to regulate financial services, to protect and educate the public, and promote economic vitality. The Department regulates: state-chartered depository institutions such as banks, credit unions, savings and loan associations, savings banks and foreign banks; the securities industry including securities broker-dealers, investment advisers and their agents, securities issuers, franchises, franchise brokers, and business opportunities; and non-depository institutions and persons including mortgage bankers, mortgage servicers, consumer loan companies, loan officers, check cashers and sellers (including payday lenders), money transmitters and currency exchangers, mortgage brokers and escrow agents and officers. The Department also registers entities that offer tax refund anticipation loans.

The Department conducts four core program activities: chartering, licensing and registration of the financial institutions and individuals listed above; examinations for safety and soundness, compliance and for cause; enforcement activities to detect and take corrective action for violations of the regulatory and anti-fraud statutes applicable to financial institutions; and education and public outreach activities including activities aimed at educating and protecting consumers of financial services, and technical assistance and guidance for regulated entities and individuals.

DFI VISION

Safe, honest and reliable financial services.

DFI MISSION STATEMENT

DFI regulates financial services to protect and educate the public and promote economic vitality.

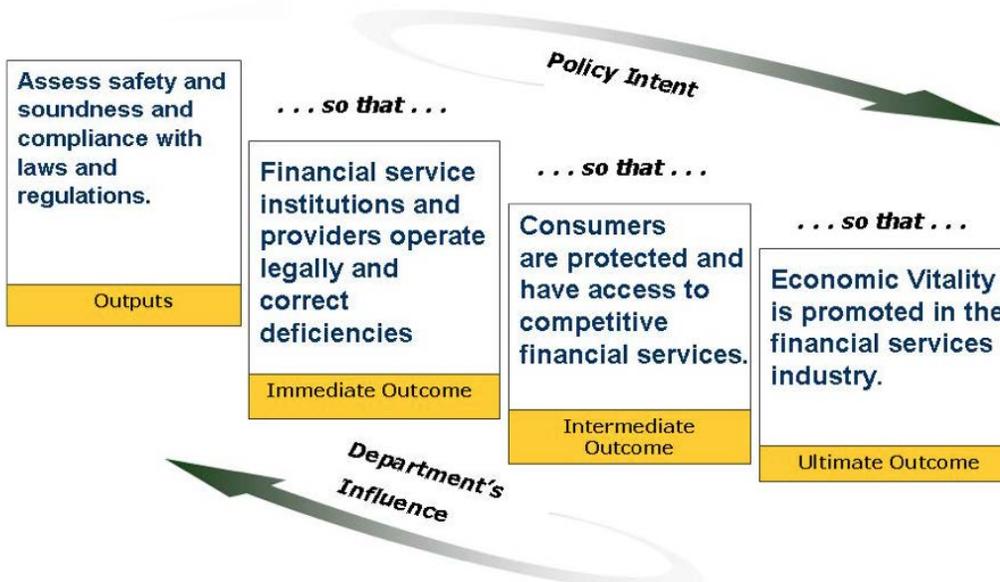
DFI VALUES

We value:

- Employees – our most important resource
- Empowerment with accountability
- Diversity
- Fairness and respect for individuals and institutions
- Sharing information and knowledge
- Professionalism and integrity
- Providing quality services

DFI LOGIC MODEL

Mission: DFI regulates financial services protect and educate the public and promote economic vitality.



Department Overview, Continued

Gloria Papiez, Deputy Director

Budgeted Staff:

FY 10 = 186.2

FY 11 = 186.6

09-11 Biennial Budget = \$44,476,000

Fines and Penalties:

FY 10 = \$8,472,233

FY 11 = \$1,206,464

Staff Composition by gender:

FY 10 = 61% female, 39% male

FY 11 = 62% female, 38% male

Racial Diversity of workforce:

FY 10 = 21%

FY 11 = 19%

DFI Communications Outreach

Lyn Peters, Director of Communications

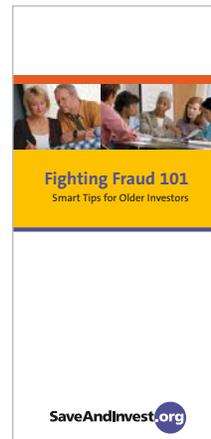
DFI's small but dedicated Communications team works diligently to ensure continued expansion of the agency's financial education outreach and increased partnerships with the many organizations throughout Washington communities committed to financial education.

DFI once more contracted with Money Savvy Generation (www.msgen.com) to offer financial education curriculum free of charge to Washington teachers and students throughout Washington State. Money Savvy meets state and federal education benchmarks as well as those of the National Jump\$tart Coalition. The program is well received and surveys indicate an increase in knowledge not just in students, but the family at home as well.

Money Savvy Kids was provided to 180 elementary school classrooms and Money Savvy U provided to 119 middle school classrooms during the 2009-10 and 2010-11 school years.

In addition to contracting with organizations like Money Savvy Generation, the DFI Communications team continues to develop and expand financial education outreach through partnerships.

- With funding from the Investor Protection Trust (IPT), DFI partnered with Consumer University to take the Investor Education In Your Community program to community centers, libraries and service organizations throughout the state. The program provided free, unbiased investor education to residents of all ages in their own communities.
- Another grant from the IPT allowed DFI to launch the Elder Investment Fraud and Financial Exploitation (EIFFE) prevention program in Washington State. The EIFFE Prevention Program educates Washington residents to recognize their older family members, neighbors and friends may be vulnerable to or victims of financial abuse, particularly those with mild cognitive impairment, and then to refer these at-risk residents to State Securities Regulators, and/or local adult protective services professionals.
- Working with the Financial Education Public Private Partnership, DFI offers teacher trainings during two two-day teacher workshops. DFI shares information, curriculum and ideas with Washington teachers to take back to their classrooms and teach students throughout the school year.
- Through a partnership with the Financial Industry Regulatory Authority (FINRA) DFI provides Washington investors with tools and information necessary to avoid becoming victims of investor fraud – like the Fighting Fraud 101 brochure, in English and Spanish.
- Working with the Department of Commerce and other partners statewide, DFI continues to educate Washington homeowners facing foreclosure of our state's Foreclosure Fairness Act which provides homeowners access to mediation with their lender. DFI continues also to support organizations hosting foreclosure prevention workshops and to work on foreclosure prevention outreach.



DFI Communications Outreach, Continued

- DFI's Webmaster continues to update and improve the Washington State Financial Education Clearinghouse and the Washington Financial Education Calendar to help Washington residents, teachers, parents and students easily access financial education information and find financial education workshops in their communities.

2009
347,555 visitors 1.5 million page views
2010
345,524 visitors 1.3 million page views
2011
403,855 visitors 1.2 million page views

- DFI's two-person Communications team participated in 47 outreach events in 2010, and 68 outreach events in 2011.

Working with local organizations like the Financial Education Public Private Partnership (www.feppp.org), Jump\$tart Washington Coalition (www.wajumpstart.org), Washington Asset Building Coalition (www.washingtonabc.org), and Washington's AARP (<http://www.aarp.org/wa>), DFI continues to find new ways to increase and improve financial education throughout Washington State.

Information and knowledge are powerful tools. We are committed to making sure Washington residents have the tools they need to succeed in their pursuit of financial freedom.

Division of Banks

Richard M. Riccobono, Director of Banks

2010 was a difficult year for Washington's banking industry. During the year 11 banks failed, six banks were merged or acquired, and one foreign bank branch converted to a foreign bank representative office. Washington state chartered depository institutions' total assets declined from \$57.8 billion to \$46.7 billion, and the industry reported a net loss of \$452 million.

In spite of the problems banks faced during the year, there were some highlights. A number of our banks successfully raised sufficient capital to restore them to a healthy condition. The industry began to slowly recover from the recession as asset quality metrics showed improvements from 2009. Loan delinquencies, foreclosures, and charge-offs significantly declined, equity capital rose, and reliance on volatile funding sources declined. Heavy concentrations in commercial real estate and acquisition and development loans also declined.

Chartering activity was slow. No new banks were chartered in 2010, and only four branch offices of existing state chartered banks were opened in the state. One new trust company was chartered in 2010.

Wide sweeping legislative changes were adopted with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act signed into federal law on July 21, 2010. The Act changed the regulatory structure for the banking industry, creating new agencies, and merging the Office of Thrift Supervision into the Office of the Comptroller of the Currency. A host of new requirements were adopted, intended to strengthen the financial industry's accountability and transparency in the financial system.

In 2011 Washington's banking industry continued to recover from adverse financial conditions experienced from 2007 to 2010. The number of problem rated banks fell for the second consecutive year, representing a 48% decline. Three banks failed during the year and four banks were merged or acquired. Washington state chartered depository institutions' total assets declined from \$46.7 billion to \$44.7 billion, as loan demand remained weak and banks continued to concentrate their efforts on improving asset quality. Non performing assets remained elevated but the trend was positive. Earnings turned around in 2011, with state chartered banks reporting an aggregate net income of \$190 million. This compares favorably to a \$452 million net loss in 2010. Significantly lower provisions for loan losses were responsible for the year-over-year earnings improvement. In addition, net interest margins rose as banks benefitted from lower funding costs, and improvements were achieved in lowering nonaccrual assets.

Chartering activity was slow. No new banks were chartered in 2011, and only eight branch offices of existing state chartered banks were opened in Washington. One federal savings and loan association converted to a state chartered savings bank.

The Division's financial condition remained satisfactory during the biennium. The Division's Director changed hands in 2011. Richard M. Riccobono became the new Division Director in August of 2011.

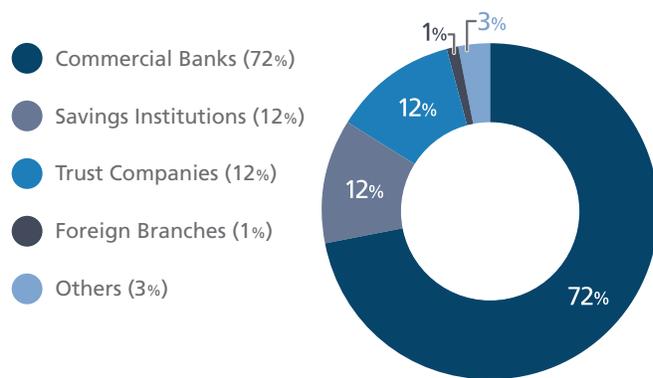
Division of Banks, Continued

Statutes Administered by the Division of Banks

Chapter 30 RCW	Banks and Trust Companies
Chapter 31.24 RCW	Business Development Companies
Chapter 31.35 RCW	Agricultural Lenders, Loan Guaranty Program
Chapter 31.40 RCW	Federally Guaranteed Small Business Loans
Chapter 32 RCW	Mutual Savings Banks
Chapter 33 RCW	Savings and Loan Associations

Industry Facts at a Glance 12/31/11	
Institutions Regulated by the Division of Banks	
Commercial Banks	50
Savings Institutions	8
Trust Companies	8
Branches of foreign banks	1
Business Development Corporations	1
SBA (7) A Lenders	1
Total assets of banks and trust companies	\$74 billion

Regulated Institutions by Charter Type



New Charters

Perkins Coie Trust Company (September 2010)

Conversions

First Federal Savings & Loan of Port Angeles (November 2011)

Division of Banks, Continued

Mergers and Liquidations

Issaquah Community Bank acquired Bank of Bellevue, Bank of Everett, and Bank of Tacoma	(February 2010)
Sterling Savings Bank acquired Golf Savings Bank	(August 2010)
OneCalifornia Bank, FSB acquired ShoreBank Pacific	(December 2010)
Boston Private Bank acquired Charter Private Bank	(June 2011)
Opus Bank acquired Cascade Bank	(June 2011)
AmericanWest Bank acquired Bank of the Northwest	(July 2011)
AmericanWest Bank acquired Viking Bank	(November 2011)

Bank Closures

Horizon Bank	(January 2010)
Evergreen Bank	(January 2010)
American Marine Bank	(January 2010)
Rainier Pacific Savings Bank	(February 2010)
City Bank	(April 2010)
Frontier Bank	(April 2010)
Washington First International Bank	(June 2010)
The Cowlitz Bank	(July 2010)
North County Bank	(September 2010)
Shoreline Bank	(October 2010)
Pierce Commercial Bank	(November 2010)
Summit Bank	(May 2011)
First Heritage Bank	(May 2011)
Bank of Whitman	(August 2011)

Key Statistics	2007	2008	2009	2010	2011
Number of State Chartered Commercial Banks	73	73	71	57	50
Number of State Chartered Savings Institutions	10	9	9	7	8

Division of Consumer Services

Deborah Bortner, Director of Consumer Services

The Division of Consumer Services works to protect consumers from illegal and fraudulent financial transactions. The Division accomplishes its responsibilities through licensing, examining the books and records of licensees, investigating consumer complaints, and enforcing state and federal law relating to financial services.

The Division regulates consumer loan companies, mortgage brokers, mortgage bankers, mortgage servicers, money transmitters and currency exchangers, independent escrow companies, and check cashers and sellers, which includes "payday lenders." The Division regularly examines these companies for compliance with state and federal law. When a company is found to have violated the law, the Division pursues enforcement of the law which includes obtaining refunds and restitution for consumers when applicable.

The Division is entirely self-supporting, with funding provided by licensing, examining, and enforcement actions of the regulated businesses and individuals. No money is received from the state General Fund or other public revenue source.

In each of the Division's Units (Licensing, Examination and Enforcement), there is a consistent focus on establishing and meeting key performance measures that help achieve the Division's Mission and Goals. In addition the Division is actively involved in improving our business processes to make them more responsive to its consumers and licensees. By doing this the Division is promoting active compliance that better protects consumers while streamlining the regulatory process for businesses, with the overall impact of encouraging a safe and healthy financial services sector.

In a time when the need for heightened oversight of financial institutions is greater than ever and government resources are stretched to the limit, the Division is refining the regulatory process to make maximum use of technology and best practices. This will help fulfill the statutory mandates and meet the public's expectation of a safe financial marketplace. In addition the Division continues to build partnerships across the industries with businesses, non profits and other government agencies to reach out to consumers so they can protect themselves, identify "bad actors" and as quickly as possible stop them from harming consumers.

Some of the key initiatives the Division has started:

- **Enhanced Communication:** Consumer Services established a quarterly e-newsletter to better inform our licensees on State and Federal requirements and to share best practices across the industry. In fall of 2010, the division sent out a survey to our licensees and stakeholders and received more than 430 responses which highlighted the need for this type of enhanced communication in order to support consumers and licensees. In addition the Division plans to expand its current use of webinars and electronic media such as listserv and website updates.
- **National Mortgage Accreditation:** Only 10 mortgage programs in 2010 have been accredited by the Conference of State Bank Supervisors (CSBS). This distinction validates a standard of excellence regarding a program's principles and practices to protect consumers and streamline the industry's regulatory system. In September 2010 DFI's banking and non-depository mortgage programs were accredited by the CSBS and the American Association of Residential Mortgage Regulators (AARMR). Washington was the 10th state awarded mortgage regulatory program accreditation, and DFI was only the second state agency to receive simultaneous banking and mortgage certificates of accreditation.

Division of Consumer Services, Continued

- **Cooperation with Other States:** The Consumer Services Examination team actively works with other regulatory agencies at a Federal and State level to collaborate on examinations to better protect consumers by focusing resources on problem areas, while reducing the level of multiple financial exams that are costly to our agency and the licensees. In particular we focus on residential loan modifications to ensure that homeowners receive their appropriate protections under the law.
- **Law Enforcement Collaboration:** The Department in conjunction with the U.S. Attorney's Task Force on Fraud is positioned to continue its strategic approach to identifying and prosecuting criminals who have harmed numerous consumers and businesses across Washington. This will build on the current level of collaboration that has resulted in more than 38 felony convictions with a dollar value of more than \$33,500,000 in King County alone during the last 18 months. The Department is a key partner in this initiative and provides vital funding through the Mortgage Loan Fraud Prosecution Account.
- **Effective Use of Technology:** The Division plans to expand the use of document "imaging" to reduce paper processing and storage costs. This will streamline the regulatory process and enhancing public access to information.

Statutes Administered by the Division of Consumer Services

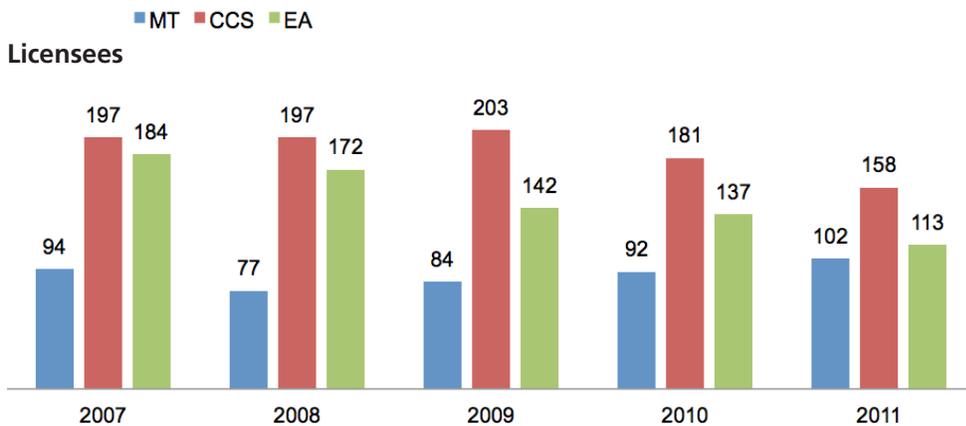
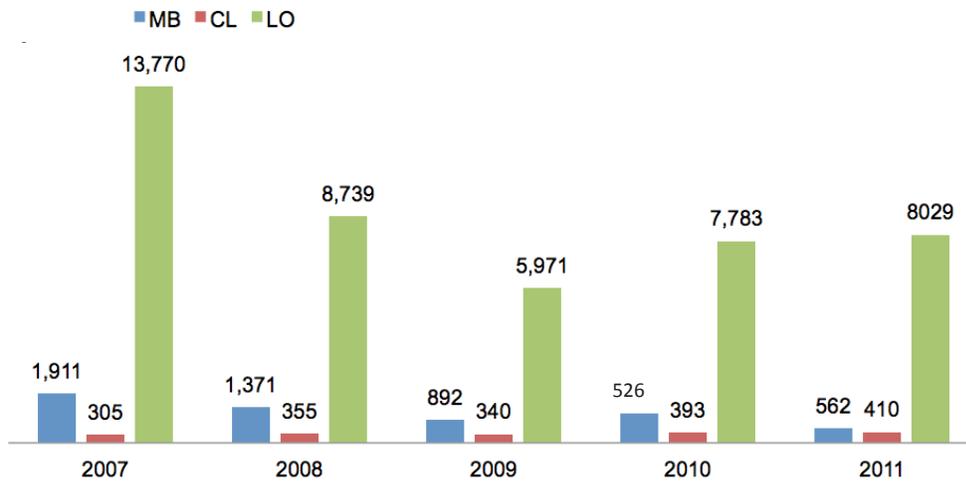
Chapter 31.04 RCW	Consumer Loan Act
Chapter 31.45 RCW	Check Cashers and Sellers Act
Chapter 19.146 RCW	Mortgage Broker Practices Act
Chapter 19.230 RCW	Uniform Money Services Act
Chapter 18.44 RCW	Escrow Agent Registration Act
Chapter 43.320 RCW	Mortgage Lending and Fraud Prosecution Account
Chapter 19.265 RCW	Tax Refund Anticipation Loans
Chapter 19.144 RCW	Mortgage Lending and Homeownership

Division of Consumer Services, Continued

Industry Facts at a Glance	2010	2011
Mortgage Broker Licenses	526	383
Mortgage Broker Branch Office Licenses	618	179
Mortgage Loan Originators (Active)	6,714	6,401
Mortgage Loan Originators (Inactive)	1,069	1,628
Consumer Loan Company Licenses	393	410
Consumer Loan Company Branch Office Licenses	1,199	1,134
Money Transmitter and Currency Exchange Offices	92	102
Money Transmitter Authorized Delegates	9,159	9,637
Check Casher Company Licenses*	178	156
Check Casher Branch Office Licenses	562	445
Check Seller Company Licenses*	3	2
Check Seller Branch Office Licenses	3	0
Payday Lender Small Loan Endorsements*	85	61
Payday Lender Small Loan Endorsements Branch Offices	339	183
Escrow Agents	121	99
Escrow Agent Branch Offices	16	14
Escrow Officers (Licensed/Inactive)	297	512
Tax Refund Anticipation Loan Facilitators	321	191

**Check Casher, Check Seller and Payday Lender endorsements overlap. The identified Check Sellers are also Check Cashers and either a Check Casher or Seller license is required in order to obtain a Payday Lender endorsement. Many licensees only conduct payday loan activity despite holding a Check Casher or Seller license.*

Division of Consumer Services, Continued



Licensing Unit:

In 2010, the unit processed more than 20,000 licenses in a timely manner (average of 13 days). This included the timely licensing of more than 2,700 new Mortgage Loan Originators (MLO) in 2010 that work for Consumer Loan Companies. This was a new level of regulation for MLOs in this industry. Licensing requirements include preliminary education and testing, criminal background checks, and financial responsibility tests.

In 2011, the unit processed more than 18,600 licenses in a timely manner (average of 13 days).

Examination Unit:

In 2010, the Division performed more than 246 examinations with 90 percent of companies being rated satisfactory.

Thirteen companies cited for egregious violations were referred to the Division's Enforcement Unit.

Division of Consumer Services, Continued

The examinations resulted in refunds of \$248,980.28 to citizens of Washington.

In 2011, the Division performed more than 211 examinations with 84 percent of companies being rated satisfactory.

Thirteen companies cited for egregious violations were referred to the Division's Enforcement Unit. The examinations resulted in refunds of \$71,444.35 to citizens of Washington

Enforcement Unit:

The Division's Enforcement Unit took and resolved several hundred actions in 2010 - involving all of the industries we regulate. The bulk of the issues related to loan modifications, attorneys engaging in escrow activities that required licensing, and internet payday lenders.

Top Complaint Issues 2010

- Loan Modification Scams Companies and Problems
- Servicing re: Foreclosure
- Payday Loan Collection Scams
- Advance Fee Loan Scams

Top Complaint Issues 2011

- Loan Modification Scams
- Residential Mortgage Servicing, specifically Foreclosure issues
- Payday Loan Collection Scams
- Advance Fee Loan Scams, a type of Loan Modification Scam

Criminal Referrals in 2010 and 2011

During 2010 and 2011, DFI referred six cases for prosecution in King County.

Regulated Entities

	2007	2008	2009	2010	2011
Mortgage Broker Companies	1,911	1,371	892	526	383
Branch Offices	1,737	1,305	870	618	179
Complaints	894	1,325	1,133	605	477
Number of Brokered Loans	49,033	43,611	43,799	19,795	1,156,686 ***
Principal Dollar Amount of Brokered Loans	\$23,086,449,865	\$12,737,249,345	\$12,354,825,444	\$6,325,394,913	\$3,921,882,432 ***
Number of Funded Loans	17,654	11,724	12,896	**	**
Principal Dollar Amount of Funded Loans	\$4,435,539,756	\$3,126,798,137	\$3,110,404,667	**	**

**Mortgage Brokers can no longer fund loans

*** Numbers are self-reported by licensees through NMLS

	2007	2008	2009	2010	2011
Consumer Loan Companies	305	355	340	393	410
Branch Offices	1,020	1,034	908	1,199	1,134
Complaints	455	589	503	647	585
Number of RE* Loans Made	44,232	40,097	89,556	70,370	60,125
Principal Dollar Amount of RE* Loans	\$6,893,052,585	\$9,223,682,095	\$21,891,456,006	\$17,812,754,201	\$14,566,161,526

*Refers to residential loans that use the borrower's home as security for the loan

Division of Consumer Services, Continued

Mortgage Loan Originators

2007	2008	2009	2010	2011
13,770	8,739	5,971	7,783	6,401

Escrow

	2007	2008	2009	2010	2011
Agents	184	172	142	121	113
Officers	400	388	341	297	512
Complaints	77	127	90	97	76

Money Services

	2007	2008	2009	2010	2011
Companies	94	83	84	92	102
Delegates	8,634	8,220	8,438	9,159	9,637
Complaints	59	34	25	49	67
Volume of Money Transmissions 1	\$3,222,965,343	\$3,711,289,981	\$3,144,752,560	\$3,233,389,425	\$398,561,189
Volume of Currency Exchanges ¹	\$198,302,210	\$111,342,860	\$112,410,047	\$142,338,611	\$121,843,778
Fee Income of Money Transmissions ²	\$74,248,063	\$81,379,974	*	*	*
Fee Income of Currency Exchanges ²	\$366,345	\$168,370	*	*	*

1. 2007 volumes were corrected because a licensee incorrectly included money orders sold in the volume for that year [2007: \$12,527,716,301]

2. Fee Income was not affected because the company reported zero fee income for those two years

*Fee Income was not collected in the Annual Assessment Reporting

Check Casher

	2007	2008	2009	2010	2011
Companies	193	194	203	178	158
Branch Offices	745	797	724	562	445
Complaints	10	8	12	6	2
Number of Checks Cashed	4,943,792	4,895,527	4,525,045	3,199,336	3,382,071
Dollar Amount of Cashed Checks	\$1,876,292,765	\$2,040,115,325	\$2,041,669,400	\$1,343,142,923	\$1,309,804,413

Division of Consumer Services, Continued

Check Seller

	2007	2008	2009	2010	2011
Companies	4	3	3	3	2
Branch Offices	11	4	4	3	0
Complaints	2	0	0	0	1
Number of Checks Sold*	2,097,309	2,078,107	2,454,408	2,014,642	1,885,298
Dollar Amount of Checks Sold*	\$631,587,266	\$485,923,115	\$598,681,251	\$336,027,034	\$498,887,098

Payday Lender

	2007	2008	2009	2010	2011
Companies	133	133	109	85	61
Branch Offices	591	584	494	339	183
Complaints	134	123	216	300	286
Number of Small Loans	3,256,621	3,196,712	3,244,024	1,093,776	855,829
Dollar Amount of Small Loans	\$1,291,212,797	\$1,310,540,280	\$1,336,028,845	\$434,111,743	\$326,673,119

Enforcement Statistics for All Industries Regulated by Consumer Services

	2007	2008	2009	2010	2011
Statement of Charges	218	130	203	175	73
Summary Cease and Desist or Suspension	7	2	24	8	3
Final Order or Revocation	65	116	83	135	95
Consent Order	28	49	92	99	92
Total Enforcement Actions	318	297	402	417	263
Investigations Opened	353	254	334	270	134
Investigations Closed	91	171	190	186	302
Complaints*	2,184	2,618	2,234	1,879	1,599

*Includes complaints filed against non-licensees

Division of Credit Unions

Linda Jekel, Director of Credit Unions

The Division of Credit Unions (Division) was created in 1993. Before that, the Division of Savings and Loan Associations regulated state credit unions. Credit unions are nonprofit, cooperative associations organized to promote thrift among their members and to create a source of credit for their members at fair and reasonable interest rates. The Division seeks to protect the financial interests of credit union members, including depositors.

The Division examines credit unions at least every 18 months for unsafe and unsound practices and violations of statutes and rules. The Division uses a variety of examination and supervision tools to accomplish its mission. In addition, the Division processes a variety of applications from state chartered credit unions such as merger and conversion applications. The Division also works with consumers (members) regarding complaints they submit to the Division against state chartered credit unions.

The Division worked with many credit unions that faced considerable economic challenges in 2010. Fortunately, credit unions began and ended the year with strong capital. Capital, also known as net worth, is important because it is a barometer of the strength a credit union has to take on financial risks and to deal with future uncertainties. Washington state chartered credit unions ended the year with aggregate net worth in excess of \$2.45 billion, which equated to a 9.08% net worth to total assets ratio. For comparison purposes, a credit union is required to have a 7% net worth ratio to be considered "safe and sound" and a 4% net worth ratio is considered "unsafe and unsound".

As in the prior two years, many credit unions had negative net income for 2010 primarily due to outside economic factors. Specifically, 21 out of 65 state chartered credit unions had negative net income in 2010, which equated to 32.3%. Although the Great Recession officially ended in June 2009, Washington State had high unemployment rates throughout 2010, from 11.1% in January 2010 to 9.6% in December 2010. In many cases, credit unions were able to re-structure loan payments for struggling credit union members, but the lower loan payments reduced revenues and net income. When members couldn't make their loan payments due to unemployment and other reasons, credit unions had to write-off loan losses against their net worth and they increased future loan loss reserves, which reduced their net income. A third factor that contributed to many credit unions having negative net income was increased operating costs to pay for a full array of competitive financial products and services. Lastly, credit unions continued making extraordinary payments to the National Credit Union Administration (NCUA) for the bailout of the corporate credit system by the NCUA, and they had to write-down all of their membership and paid-in capital accounts at the conserved Southwest and WesCorp Corporate Credit Unions. This also significantly reduced net income. All credit unions continued to make payments to the NCUA in 2010 for the cost of failed corporate credit unions. NCUA is the federal deposit insurer for credit unions (similar to the FDIC for banks) and it collects insurance premiums and assessments to maintain a required level of deposit insurance funds. Due to the failure of the corporate credit union system, the NCUA had to receive a loan from the U.S. Treasury to recapitalize its insurance fund. This loan will be paid back in approximately 10 years by annual assessments paid by natural person credit unions to the NCUA, which will be used to repay the U.S. Treasury loan.

The Division continued to work with many credit unions that faced considerable economic challenges, even though, 2011 saw positive developments in higher net income, and lower delinquent loans and net charge-offs ratios. 2011 also continued the prior year's trend of strong and growing capital. Washington state chartered credit unions ended the year with aggregate net worth of nearly \$2.71 billion net worth, which equated to a 9.39% net worth to total assets ratio.

Division of Credit Unions, Continued

Although earnings (net income) improved significantly, 15 Washington State chartered credit unions had negative net income in 2011. Credit union earnings benefitted from Washington's unemployment rate decreasing from 10.4% in January 2011 to 8.5% in December 2011. Credit unions continued to assist financially distressed members, and in many cases, were able to re-structure loan payments for struggling credit union members; however, the lower loan payments negatively impacted revenues and net income. Credit unions continued to make extraordinary payments to the National Credit Union Administration (NCUA) for the bailout of the corporate credit system by the NCUA. This also reduced net income. All credit unions continued to make payments to the NCUA in 2011 for the cost of failed corporate credit unions. Credit unions continue to provide competitive deposit and loan products to Washington residents. Deposit growth remained strong and grew slightly higher than the previous year (6.36% deposit growth in 2011 compared to 5.67% in 2010). Loan growth grew a modest 1.63% in 2011, which reversed the previous year negative growth rate. Note: Credit union members remained reserved and cautious about borrowing.

Statutes Administered by the Division of Credit Unions

Chapter 31.12 RCW The Washington State Credit Union Act
Chapter 31.13 RCW The Corporate Credit Union Act

Industry Facts at a Glance	2010	2011
Number of state chartered credit unions	65	63
Total assets of state chartered credit unions	\$27.37 billion	\$29.20 billion
Total state chartered credit union members	2.44 million	2.55 million

New Credit Union Charters

No new charters in 2010 - 11

Charter Conversions

OUR Community Federal CU converted to a state (2010)
Puget Sound CU converted to a federal (2010)

Mergers

Community CU merged into TwinStar CU (2010)
Valley Trust Federal CU merged into
Puget Sound Cooperative CU (2010)
All City CU merged into Northwest Plus CU (2010)
SECU Federal CU merged into Numerica CU (2010)
Renton Community CU merged into TwinStar CU (2010)
Transportation Northwest CU merged into
Alaska USA Federal CU (2010)
Rite Choice Community Federal CU
merged into TwinStar CU (2010)
Mt Hood Federal CU merged into TwinStar CU (2011)
Watermark CU merged into Sound CU (2011)
Yakima Valley CU merged into Catholic Credit CU (2011)
Bemis Federal CU merged into (2011)
Cascade Forest Products CU

Division of Credit Unions, Continued

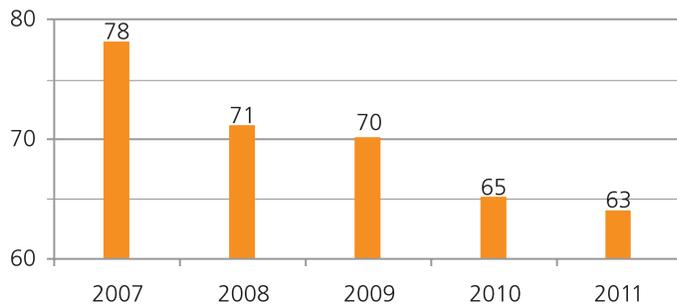
Low Income Designations

Industrial CU (2010)
 Express CU (2010)

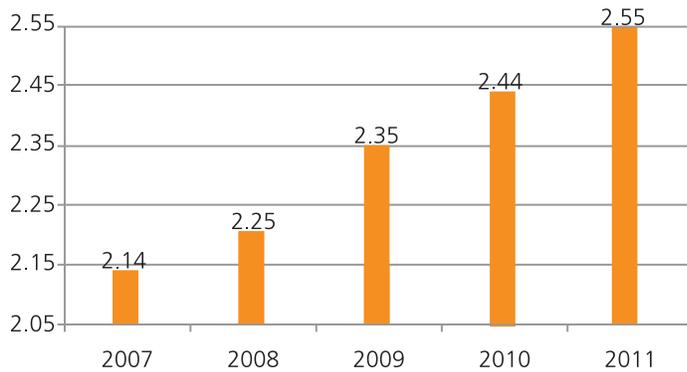
Liquidated

The NCUA liquidated The Union CU through a purchase and assumption agreement. The Union CU assets were transferred to Alaska Federal USA CU and its shares and deposits were transferred to Numerica CU. (2010)

Number of State Chartered Credit Unions

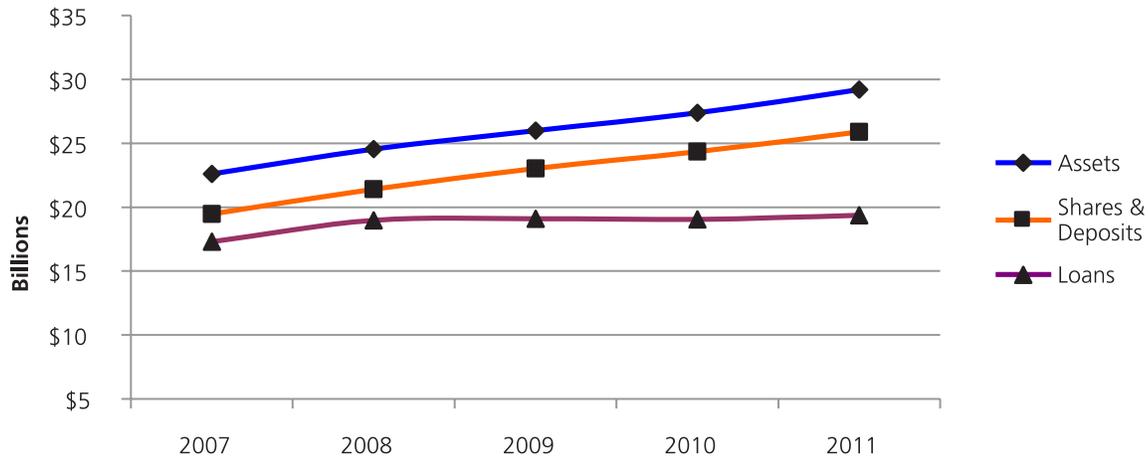


Number of Members In Millions



Division of Credit Unions, Continued

Washington State Chartered Credit Unions End-of-Year Statistics



Washington State Chartered Credit Union Financial Information

	2007	2008	2009	2010	2011
Total Loans	\$17,308,050	\$18,956,580	\$19,104,948	\$19,054,258	\$19,364,831
Total Assets	\$22,612,933	\$24,535,980	\$25,979,584	\$27,369,571	\$29,195,178
Total Shares & Deposits	\$19,456,444	\$21,407,134	\$23,033,241	\$24,340,099	\$25,888,466
Total Net Worth	\$2,342,626	\$2,352,570	\$2,306,128	\$2,455,396	\$2,709,414
Net Income	\$182,610	\$20,863	(\$51,717)	\$152,516	\$260,876
Net Worth to Total Assets Ratio	10.36%	9.65%	8.90%	9.08%	9.39%

All numbers are end of year figures in thousands (000)

Division of Securities

William Beatty, Director of Securities

The Division of Securities regulates the offer and sale of investments to Washington State residents. Regulation encompasses registration of security, franchise, and business opportunity offerings, and licensing and examination of securities broker-dealers and investment advisers.

The Securities Division provides technical assistance to small businesses, responds to customer complaints, undertakes investigations based upon complaints and undercover work, and brings appropriate administrative, civil and criminal cases. During 2010 - 2011, the Division annually licensed more than 175,000 individuals and firms providing securities investments and advice to our citizens and oversaw more than \$4 trillion of securities products offered to Washington investors.

The Division works directly with the entities it regulates through examinations and market surveillance activity in an effort to assure the public of adequate protection for their investments.

The Securities Division brought enforcement actions in several high profile local fraud cases during the period. It also continued its involvement in national enforcement issues including a task force on auction rate securities the bulk of the Securities Division's enforcement activity continues to be in the administrative area but it is also active in the criminal arena, making several criminal referrals annually.

This period also saw the passage of the Dodd Frank Act, which gave the Division regulatory authority over investment advisers with assets under management of less than \$100 million. The former threshold was \$25 million. The Division committed considerable resources to the transitioning and licensing of approximately 200 advisers switching to its jurisdiction.

Statutes Administered by the Division of Securities

Chapter 19.100 RCW	Franchise Act
Chapter 19.110 RCW	Business Opportunity Act
Chapter 21.20 RCW	Securities Act
Chapter 21.30 RCW	Commodities Act

Division of Securities

Division of Securities Statistics

Securities	2010	2011
Dollar Amount of Securities Permits, Notifications and Exemptions Authorized	\$4,113,698,516,126	\$4,113,571,105,366
Registered Securities Broker-Dealers	2,184	2,111
Registered Investment Advisers	546	570
Investment Adviser Notice Filers	1,640	1,696
Registered Securities Salespersons	156,830	179,364
Registered Investment Adviser Representatives	11,327	12,022
Branch Offices of Broker-Dealers	3,722	3,751
Active Enforcement Cases	212	257
Enforcement Actions	135	79

Franchises	2010	2011
Registered Franchises	1,243	1,271
Registered Franchise Brokers	37	218
Active Enforcement Cases	34	36
Enforcement Actions	17	9

Business Opportunities	2010	2011
Registered Business Opportunities	24	12
Active Enforcement Cases	13	8
Enforcement Actions	6	8

Commodities	2010	2011
Active Enforcement Cases	0	2
Enforcement Actions	0	0

Division of Securities, Continued

2010-2011 Registration and Licensing Workload Activity Totals

(Totals do not reflect termination and non-renewal of registrations or licenses during the year)

Registrations, Exemptions & Notifications

	2010 NEW	2010 RENEW	2010 AMEND	2011 NEW	2011 RENEW	2011 AMEND
Investment Companies (Mutual Funds)	3,333	19,305	16,663	3,332	19,583	23,902
Small Business Filings (SB-2s)	0	0	0	9	7	10
Other Coordination Filings	49	18	27	17	35	153
Qualifications	33	4	8	21	2	1
SCOR (Small Company Offering Registration)	1	0	1	1	0	0
Franchises	148	839	256	276	773	222
Exemptions	1,679	0	2	1,841	0	406
Opinions	14	0	0	6	0	0
Franchise Exemptions	14	126	0	39	145	0
Business Opportunities	6	8	10	10	1	1
TOTALS	5,277	20,300	16,967	5,552	20,546	24,695

Firms & Entities

	2010 NEW	2010 RENEW	2011 NEW	2011 RENEW
Securities Broker-Dealers	164	2,020	126	1,985
Investment Advisers	270	1,916	219	2,047
Franchise Brokers	37	0	55	163
TOTALS	471	3,936	400	4,195

Representatives & Salespersons

	2010 NEW	2010 RENEW	2011 NEW	2011 RENEW
Investment Adviser Representatives	2,064	9,263	2,182	9,840
Intrastate Securities Salespersons	0	8	3	0
Agents of Issuers	15	2	8	0
Securities Salespersons	34,461	122,369	38,974	140,390
Salespersons with Disclosure History	3,915	0	4,307	0
TOTALS	40,455	131,642	45,474	150,230

Division of Securities, Continued

Examination Statistics – Exams Completed

	2010	2011
Broker-Dealer Exams	129	77
Investment Adviser Exams	84	108
Mortgage Broker-Dealer & Debenture Co. Exams	2	0
TOTALS	215	185

Enforcement Statistics

	2010	2011
Complaints Received	439	383
Orders Issued	129	86
Warning Letters Issued	47	51
Cases Opened	190	169
Cases In Process	212	303
Cases Closed	215	125
Subpoenas Issued	79	63
Criminal Referrals	4	10
Criminal Charges	6	7
Criminal Convictions	4	1
Criminal Sentencing	2	4
Civil Actions	1	0

Enforcement Orders

Types of orders entered in 2010	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent Order	Total
Securities Issuers	30	0	22	26	78
Broker Dealers- Investment Advisers	8	1	2	17	28
Franchises	3	0	0	14	17
Business Opportunities	3	0	1	2	6
Commodities	0	0	0	0	0
Total Actions	44	1	25	59	129

Division of Securities, Continued

Types of orders entered in 2011	Statement of Charges	Summary Cease & Desist or Suspension	Final Cease & Desist or Revocation	Consent Order	Total
Securities Issuers	19	2	15	15	51
Broker Dealers- Investment Advisers	10	0	4	4	18
Franchises	3	0	1	5	9
Business Opportunities	3	0	2	3	8
Commodities	0	0	0	0	0
Total Actions	35	2	22	27	86



2010 - 2011 ANNUAL REPORT
**THE WASHINGTON STATE
DEPARTMENT OF FINANCIAL INSTITUTIONS**

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