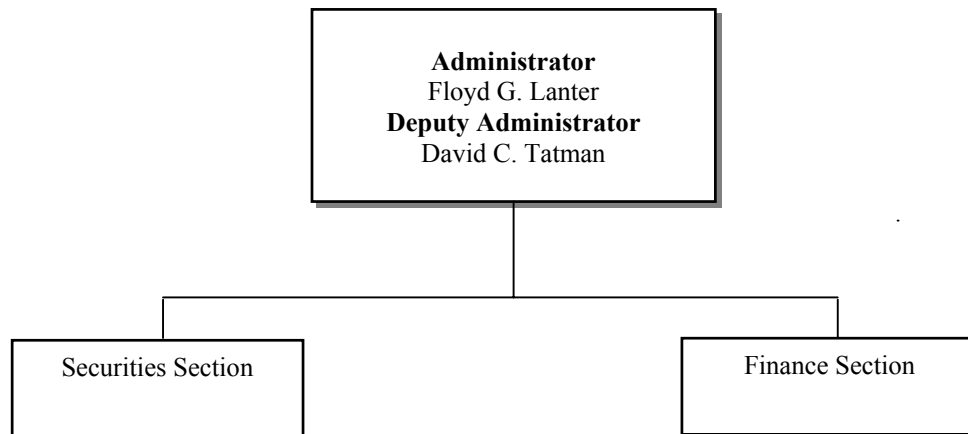


DIVISION OF FINANCE & CORPORATE SECURITIES



	2003-05	2005-07
Positions	22	20
FTE	22	22.60

	2003-05	2005-07
Positions	43	44
FTE	41.15	41.40

- Protect investors from fraud and instill investor confidence by regulating the sale of securities, commodities, and franchises, and registering securities offerings made in Oregon.
- License businesses and persons who sell investment securities, investment advisors and salespersons, to protect consumers from being victimized by fraud.
- In partnership with federal, state and local authorities investigate violations and brings administrative, civil and criminal actions against those who violate securities, franchise and commodities law.
- Obtain restitution for victims of fraud whenever possible.
- License and examine mortgage bankers and brokers to protect consumers against predatory lending practices, and from loan originators with criminal convictions involving violations of trust, or financial crimes.
- Educate investors and consumers to help them identify and avoid fraudulent investment schemes and predatory mortgage lending practices.
- Charter banks, credit unions and trust companies, ensuring sufficient capital, sound business plans and competent management by officers and boards, in accordance with laws and sound practices.
- Examine banks, credit unions, and trust companies in concert with the Federal Deposit Insurance Corporation, Federal Reserve Board, and National Credit Union Association to ensure state-chartered financial institutions operate in accordance with governing laws and regulations, sound practices and their charters.
- License, register, examine, and investigate consumer finance companies, payday and title lenders; pawnbrokers; collection agencies; credit service organizations; debt consolidation agencies; money transmitters; prearranged funeral plans and endowment care cemeteries in such a manner as to command confidence of the community and Legislature to warrant the belief that these businesses will be operated honestly, fairly, and efficiently within their statutory purpose.
- Register certified travel agent associations, international trade consultants, and electronic signature authorities.

Division of Finance & Corporate Securities (DFCS)

**2003-2005
Approved**
65 Positions
63.75 FTE
\$10,386,228

**2005-2007
Requested**
64 Positions
64.0 FTE
\$10,908,288

DIVISION OF FINANCE & CORPORATE SECURITIES

Mission

Encourage a wide range of financial services, products and information for Oregonians, provided in a safe, sound, equitable, and fraud-free manner.

What we do

The Division of Finance & Corporate Securities:

- Supervises state-chartered or state-licensed financial institutions and financial service providers, including banks, credit unions, consumer finance companies, pawnbrokers, mortgage lenders, and money transmitters.
- Regulates the issuance of securities offerings and licensing of individuals and entities and salespersons who sell securities so that investors are afforded basic consumer protections and have access to a wide range of financial products and services with confidence about the level of regulatory oversight.
- Supports a business climate where innovative financial products and services are available to the public, while ensuring that they are delivered in a safe and sound manner.
- Administers and enforces applicable laws and regulations with an emphasis on fair, professional, and objective treatment for both consumers and businesses.
- Promotes investor and consumer education so that the public can recognize and avoid fraud or products and services inappropriate to their financial goals and needs.

Program delivery

The division strives to:

- Protect consumers and businesses by ensuring the soundness of 35 state banks with more than \$13.5 billion in total assets, three foreign banking offices with assets totaling \$5.7 billion, 297 offices and 4,300 employees. DFCS' regulatory oversight of banks provides protection for all Oregonians. This program provides a stable business climate, particularly for small business, by ensuring access to capital, credit and other banking services.
- Provide direct protection for more than 824,000 credit union members through oversight of 24 state-chartered credit unions, with total assets of \$7.9 billion and 110 branch offices.
- Maintain the confidence of Oregonians and the Legislature through active licensing, examination, and enforcement functions for 574 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. This includes short term lending such as payday and title loans. Active examination and enforcement activities have resulted in significant restitution for consumers.
- Foster and promote home ownership by licensing 1,479 mortgage brokers and bankers and registering more than 11,800 loan originators. Not only does this supervision protect all current and aspiring Oregon homeowners but the program also fosters and encourages home ownership and construction activity while protecting consumers from fraud, abuse and predatory lending practices that can lead consumers into foreclosure and/or bankruptcy. Most importantly, this program works to ensure accurate and complete disclosures are made to

DIVISION OF FINANCE & CORPORATE SECURITIES

inform and protect consumers during the single largest financial transactions made by most Oregonians.

- Protect consumers and instill investor confidence by licensing and examining 3,161 investment advisors and broker-dealers in Oregon and 109,972 salespersons. The program will send approximately \$12.8 million to the general fund in the 2005-07 biennium. This program enhances Oregon's business climate by promoting capital formation and protecting investors by registering, overseeing and examining securities offerings, investment advisors and securities brokers, and by investigating violations and prosecuting securities fraud.
- Support a positive business climate and provide consumer protection by licensing 610 collection agencies, credit service organizations and debt consolidation organizations. DFCS protects businesses from misconduct by entities that collect bad debts from consumers.
- State licensing and federal regulation of money transmitters inhibits money laundering by making it difficult to conceal the transmission of funds. There are 51 money transmitters currently licensed with DFCS.
- DFCS ensures that the funeral services and merchandise paid for in advance are available in the consumer's time of need by regulating 208 prearranged funeral trust providers and 78 endowment care facilities. Program administration also ensures the stability of the Consumer Protection Trust Fund.
- Protect Oregonians against excessive charges and exposure to fenced stolen property by licensing and examining 45 pawnbrokers.

Accomplishments, 2003-2005

- Protected consumers and businesses and supported public confidence in state-chartered financial institutions by conducting 54 examinations of banks, trusts, and credit unions during the biennium thus far.
- Investigated and took administrative, civil, and criminal enforcement actions in 32 securities fraud cases (since July 1, 2003), often in partnership with other regulators and law enforcement entities, transferring \$5,092,647 in financial penalties to the General Fund.
- Protected consumers' interests by finalizing orders to cease and desist and assessed civil penalties totaling \$31,250 against licensees for violations of the Consumer Finance Act. A portion of the penalties assessed will be waived provided that the licensees achieve compliance. Also took action against two unlicensed operations and one licensed franchise lender seeking renewal that lacked the requisite experience.
- In collaboration with the Oregon Department of Justice, finalized the restitution of over \$8 million dollars to 8,530 Oregonians who opted to participate in the \$484 million consent judgement with Household International, Inc. for mortgage lending violations.
- Helped prepare investors and potential investors to avoid fraud and achieve their financial goals as a result of 126 presentations made to 8,370 citizens throughout the state by the Investor Information Program. This program, housed within the securities section, emphasizes reaching potentially vulnerable citizens. In 2004, the program held its first high-school scholarship contest to help raise younger Oregonians' financial awareness. The program provides 25 free publications on a variety of investment and finance-related topics.

DIVISION OF FINANCE & CORPORATE SECURITIES

- Participated in more than 60 home-buying fairs, educational seminars, and workshops that were attended by over 6,000 participants. To reach a wider audience, participated in both English and Spanish radio and community cable programs.
- Redesigned the division's Web site, offering license searches and consumer-complaint and business filing forms online in addition to consumer alerts, publications, and important investment-related information and links for consumers and businesses. To improve customer service, DFCS responds to consumer complaints within 24 hours.
- Continued the transition from transaction-based to risk-based examinations of chartered institutions and licensed entities to provide a more accurate picture of soundness and compliance with laws and regulations, to minimize regulatory burden, and to more effectively utilize limited staff resources.
- Conducted a policy review of the consumer finance program (payday and title lenders) in 2004, which included a public survey that produced information about why consumers turn to payday and title loans. The policy review findings led to several DFCS proposals for administrative rule changes and actions to reduce Oregonians' risks attributable to payday lending, an expensive and fast-growing form of consumer finance.
- Obtained an Order revoking the certification of Sunset Hills, LLC in Eugene to provide pre-need funeral contracts. The Order resulted from extended examination and investigation of violations related to mishandling of pre-need funeral plan trust funds, use of illegal pre-need contracts, and failure to follow state reporting requirements.

Anticipated results, 2005-2007

- The soundness of state-chartered banks, credit unions and trust companies will be ensured in partnership with the primary federal regulators for these industries.
- Web-based licensing, registration, reporting, and payments will make division interactions with regulated entities and individuals quicker, easier, and less expensive.
- Compliance with licensing statutes will be increased by means of prompt investigation of reported violations and prompt enforcement action where warranted.
- Consumer education and information activities will continue to help Oregonians avoid becoming victims of investment scams and predatory lending practices and address investor and homebuyer questions and concerns.
- Mortgage-lending complaints, which are on the rise, will get an improved level of response from the division.
- The division will further refine its use of risk-focused supervision processes, while continuing to command the confidence of Oregonians that state-chartered and licensed institutions are operating at desired levels of acceptability and soundness.
- Additional streamlining of regulatory licensing, registration and examination processes will leverage available technology, enhance customer service, develop more consistent and equitable fee structures, minimize regulatory burdens, and use staff resources more efficiently.

DIVISION OF FINANCE & CORPORATE SECURITIES

- In order to ensure that its programs are necessary and effective, the division will continue to review them under the guidelines of the DCBS program review initiative.

Key performance measures and related outcomes

The Division of Finance & Corporate Securities tracks the key performance measures in the following table, which contribute to progress on the Department of Consumer & Business Services' three overall goals: To protect consumers and workers, regulate in a manner that supports a positive business climate, and provide excellent customer service.

Measure	2003	2004	Target
PM 4400-1 % of regulated entities operating in compliance with the governing laws and regulations	81.4%	88%	100% by 2005
PM 4400-8 - % of DCBS customer surveys rating their experience with the department at the highest level.	50%	81%	65% by 2006
PM 4400-10 - % of timelines for key department activities that are met.	95%	95%	100% by 2007
PM 4400-16 - % of permanent rules adopted with stakeholder input.	100%	100%	100%
PM 4400-17 - % of cases closed that use alternative dispute resolution.	96%	100%	85%

DFCS strives to protect the confidence of Oregonians that the businesses regulated by our program are operated honestly, fairly, and efficiently as well as to protect the right of Oregonians to participate in a financial services environment that is safe, sound, and protects against fraud and abuse. The division's activities are linked to Governor Kulongoski's "Oregon Principles" of public safety and economic development.

Our programs are split into two sections: finance and securities. Finance is further split between depository financial institutions and non-depository institutions.

As of December of 2004, 97 percent of our 62 total federally insured institutions (banks, trusts, savings and loans associations, and credit unions) were regarded as satisfactory or better in overall condition based on their latest examination.

There are eleven separate programs in the division for non-depository institutions or providers of credit and other financial services. They include mortgage bankers and brokers who facilitate home ownership or refinancing; consumer finance companies, including payday and title loan lenders, who make small, high cost personal or consumer loans, and pawnbrokers, who specialize in advancing funds on collateral assets. Other nondeposit industries provide a variety of financial services ranging from credit repair to prearranged funeral plans. In addition to licensing or registration functions for all of these industries, the division has examination programs for mortgage lending, consumer finance, pawnbrokers, and pre-need providers. The

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department has proposed elimination of two voluntary registration programs, electronic signatures and international trade consultants due to lack of industry interest.

The securities program fosters business development by promoting capital formation and protecting investors by registering, overseeing, and examining securities offerings, investment advisors, securities brokers, and by investigating violations and prosecuting securities fraud. The securities program is the sole regulator of Oregon-based state investment advisers. Part of our regulatory responsibility includes conducting office examinations of brokerage firms, a responsibility that we share with our federal counterpart, and of investment advisers located in Oregon.

The division's enforcement unit was restructured in 2004 to provide division-wide enforcement for the various programs for which the division is responsible. This includes enforcement of securities, mortgage lending, and consumer finance laws. The division processed 637 consumer complaints in 2004, responding to most, within a twenty-four hour period. During 2004, we issued 35 Cease and Desist orders, which became final, and levied over \$1,000,000 in fines, penalties, and restitution with respect to those matters. The unit generates surplus funds that are transferred to the General Fund. In 2004, the enforcement unit developed or assisted on eight criminal cases that resulted in indictments or guilty pleas.

Key Issues:

- To ensure that Oregonians are treated equitably by financial institutions and financial service providers.
- To ensure that Oregonians have access to needed financial services without compromising regulatory standards.
- To maintain "value added" regulation in a federal/state dual jurisdictional environment.
- To help businesses raise capital while maintaining marketplace "transparency" and full disclosure consumer protection.
- To ensure each dedicated program is self-supporting and costs flow to the cost causers.
- To maximize Internet and e-government opportunities.

DIVISION OF FINANCE & CORPORATE SECURITIES

Policy Package No. 070: Revenue Shortfall

Governor's Recommended Budget technically adjusted to \$(968,501) – (7) positions/FTE

Purpose: This package reduces expenditures utilized to administer the division's Mortgage Lending (ML), Consumer Finance (CF) and PreNeed (PN) programs in order to adjust the budgeted level to forecasted available revenues. ML and CF programs have experienced annual operating deficits since program fees were reduced by half in 2000. In 2000, the ML and CF program funds provided for an expenditure coverage ratio of 11 and 6 quarters, respectively. Those surplus balances have eroded from funding ongoing program operations and supporting strong growth in these industries. Original fee levels were restored effective 1/1/2004 but have been insufficient to meet DCBS fund balance requirements or margin industry growth.

The Secretary of State's Office transferred the PreNeed program to the Division of Finance and Corporate Securities (DFCS) in 2001. Revenues in the PreNeed program have not met anticipated projections despite being administered with part time supervisory and examination resources.

How achieved: The division has proposed the reduction of 7 positions/FTE and services and supplies in order to bring the budget in line with forecasted available revenues. The restoration of these positions is requested in Policy Package 161, and is essential to maintain the current level of regulatory presence and consumer protection provided by these programs.

Regulatory Impact: Without fee increases, the ML program would be able to perform license processing. The CF program would conduct mail-in examinations of consumer finance companies and perform license processing. The PN program would perform license processing of certified providers and master trustees. The 2005-07 current service level budget must be reduced pending the approval of these fees by the 2005 Legislature. Restoration of these expenditures is requested in Policy Package No. 161.

Policy Package No. 161: DFCS Restoration

Governor's Recommended Budget technically adjusted to \$968,501 – 7 Positions/FTE

Purpose: This policy package restores an investment of positions and services and supplies that were abolished in Policy Package 070, pending approval in the 2005 legislative session of fees that were administratively established or increased during the 2003-05 biennium.

How achieved: Restoration of these positions will continue to provide basic consumer protections for Oregonians through continuing the current level of regulatory oversight for the Mortgage Lending, Consumer Finance and PreNeed programs. With the fee increase, the ML program would be able to perform license processing as well as an examination function, and consumer outreach/information. The CF program would be able to perform license processing as well as the mandated examination function. The PN program would be able to perform license processing as well as an examination and enforcement function. Most importantly, a restoration

DIVISION OF FINANCE & CORPORATE SECURITIES

of fees would restore the confidence of Oregonians that these businesses will operate in compliance with the law.

The following charts reflect the required fee increases to continue to afford basic consumer protection for Oregonians that utilize the financial services or products of these industries.

Consumer Finance Program			
Change in Fee Amounts			
Fee Type	Current	Effective 1/1/2005	Difference
Annual License Fee	\$375	\$520	\$145

Mortgage Lender Program			
Change in Fee Amounts			
Fee Type	Current	Effective 1/1/2005	Difference
Initial Branch Fee	\$100	\$165	\$65
Renewal Branch Fee	\$100	\$165	\$65
Renewal Branch Fee to Existing License with 1 Yr. Plus	\$150	\$250	\$100
Main Office Initial Fee	\$500	\$825	\$325
Main Office Renewal Fee	\$500	\$825	\$325
LO Assessment Fee	N/A	\$60	\$60

PreNeed Program			
Change in Fee Amounts			
Fee Type	Current	Effective 1/1/2005	Difference
Annual Provider Fee	\$275	\$335	\$60

Revenue Sources

- Annual assessments on regulated financial institutions
- Application, licensing, registration, and examination fees
- Investment income

DFCS transfers revenue in excess of authorized expenditures, transfers and cash balance policies to the General Fund.

General Fund

The Division of Finance & Corporate Securities does not receive a General Fund appropriation. The division does transfer money from Securities Section financial penalties and surplus-operating funds to the state General Fund. For the 2003-05 biennium the Securities Section transferred \$12.9 million to the General Fund for general governmental purposes.

DIVISION OF FINANCE & CORPORATE SECURITIES

Governor's Recommended Budget

	Request	FTE
2003-05 Legislatively Adopted Budget	\$ 10,386,228	63.75
Base Budget Adjustments		
Net Cost of 2003-05 Position Actions:		
Administrative, Biennialized E-Board, Phase-outs	\$ 361,791	0.25
Estimated Cost of 2005-07 Merit Increase	\$ 148,967	-
Subtotal: 2005-07 Base Budget	\$ 10,896,986	64.00
Essential Package 010—Non-PICS Adjustments		
Vacancy factor adjustment.	\$ (71,657)	-
Non-PICS adjustments for unemployment, overtime, temporaries, and mass transit taxes calculated as .006 of base salaries and wages.	\$ 383,801	-
Essential Package 030—Cost Adjustment for Inflation and Price List		
Cost of Goods & Services Increase/(Decrease)	\$ 82,867	-
Increase/shift in State Government Service Charges.	\$ (201,081)	-
Subtotal: 2005-07 Essential Budget Level	\$ 11,090,916	64.00
Policy Packages		
Package 070 Revenue Shortfalls (technically adjusted)	\$ (968,501)	(7.00)
Package 090 Analyst Adjustment	\$ (182,628)	-
Package 161 DFCS Restoration (technically adjusted)	\$ 968,501	7.00
Total: 2005-07 Governor's Recommended Budget	\$ 10,908,288	64.00

DIVISION OF FINANCE & CORPORATE SECURITIES

Revenues and Disbursements

2005-07 Beginning Balance		\$ 5,338,886
Revenues		
Business License & Fees	\$ 27,507,562	
Fines & Forfeitures	\$ 500,000	
Charges for Services	\$ 44,500	
Other Revenues	\$ 24,500	
Interest Income	\$ 516,681	
Subtotal Revenues		\$ 28,593,243
Transfers		
Transfer Out - Intrafund	\$ (2,159,024)	
Transfer Out - General Fund	\$ (13,469,166)	
Subtotal Transfers		\$ (15,628,190)
Available Funds		\$ 18,303,939
Budget		\$ 10,908,288
2005-07 Ending Balance		\$ 7,395,651