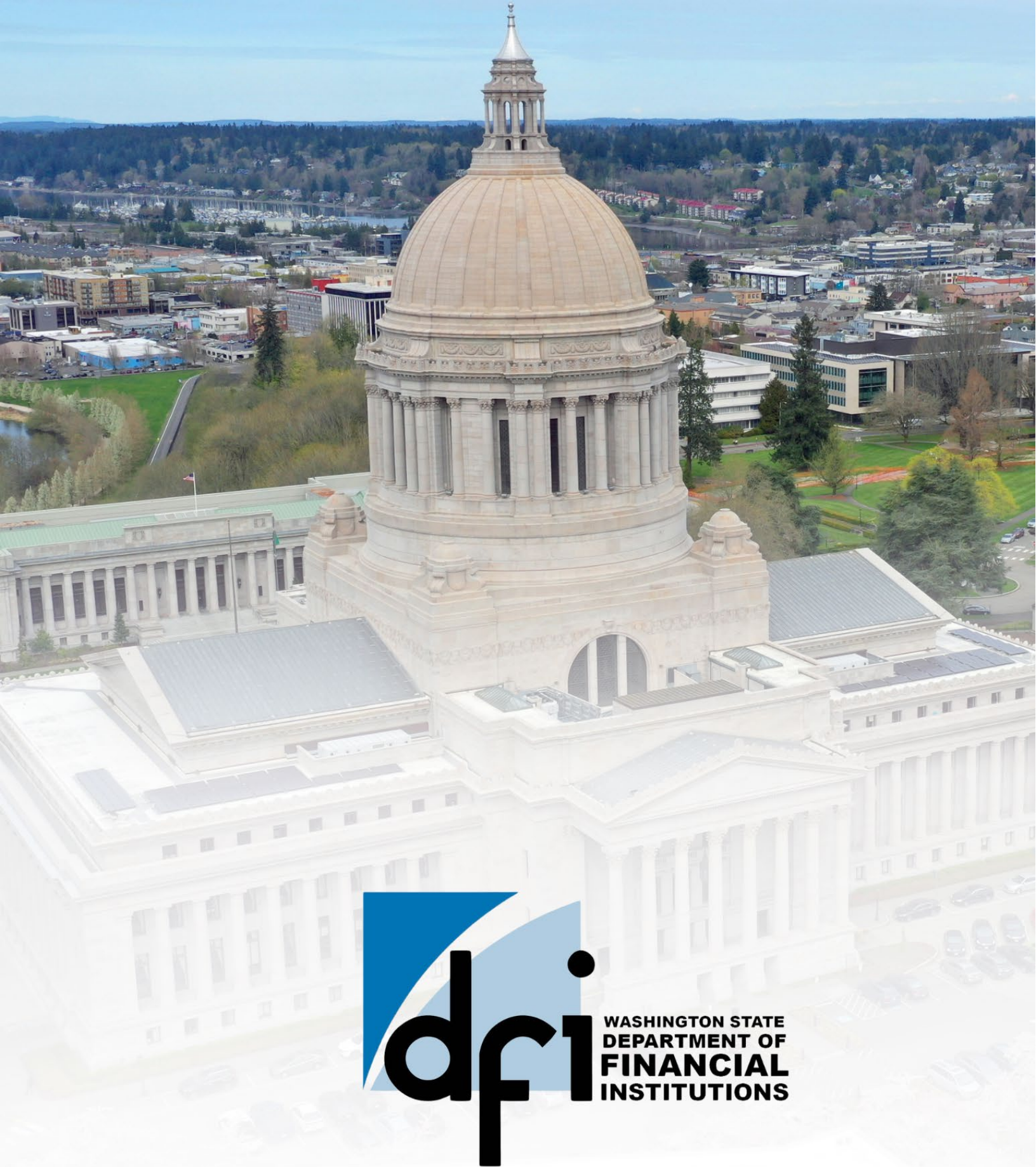


# BIENNIAL REPORT 2022-23



**dfi** WASHINGTON STATE  
DEPARTMENT OF  
FINANCIAL  
INSTITUTIONS

## Letter from DFI Director Charles Clark

The following is the 2022-23 biennial report, submitted on behalf of the staff here at the Washington State Department of Financial Institutions (DFI). This report highlights how each division within DFI serves the people of Washington, consumers, and our regulated financial industries.

DFI regulates financial service providers in Washington State — including banks, credit unions, consumer loan companies, securities brokers, investment advisers, securities issuers, mortgage brokers, mortgage loan originators, mortgage servicers, student education loan servicers, payday lenders, money transmitters, check cashers and check sellers, independent escrows and some fintech industries.

DFI's approximately 200 employees are committed to fulfilling our agency's mission to protect consumers and advance the financial health of Washington State. We do this by providing fair regulation of financial services and educating consumers to make informed financial decisions.

DFI continues to be a leader nationally in the way we conduct our regulatory business:

- 2022 began with a bang as [Washington State DFI joined 41 other states in reaching settlements with 441 mortgage loan originators \(MLOs\)](#) nationwide who claimed to have completed annual continuing education as required under state and federal law, but had not. These multi-state activities help to keep consumers safe across state lines.
- In February 2022, [DFI joined 27 states and the CFTC in filing a civil complaint against Safeguard Metals LLC](#) to stop a fraudulent precious metals scheme that solicited \$68 million from more than 450 customers nationwide. Many of the customers were senior investors.
- We welcomed two new state bank conversions – Washington Federal Bank and Portage Bank that year as well.
- We started 2023 right out of the gate with a [\\$22.5 Million Multi-State, Multi-Agency Settlement with NEXO Capital](#). That proved to be an indicator of things to come, as we joined with our state and federal counterparts several more times throughout the year.
- We advocated for — and were pleased to celebrate the passage and implementation of — the [Washington State Securities Fraud Whistleblower Bill 1370](#). This bill gives DFI's Securities Administrator the ability to offer financial awards to whistleblowers who provide original information to the Securities Division that leads to successful enforcement action under the Securities Act. It also provides protections from retaliation and confidentiality.

These highlights are a small sample of what we do here at DFI. This report provides a snapshot in time of the great work this agency does every day. Together, and independently, DFI's five divisions — Securities, Consumer Services, Banks, Credit Unions and Administration — work to create a stronger, more secure financial services environment for our state's businesses and consumers. We take pride in our work and are honored to serve those who call Washington State "home."

Sincerely,  
Charlie Clark, Director

## Table of Contents

Department Overview	<a href="#">4</a>
DFI Communications Outreach	<a href="#">6</a>
Division of Banks	<a href="#">8</a>
Division of Consumer Services	<a href="#">10</a>
Division of Credit Unions	<a href="#">17</a>
Division of Securities	<a href="#">20</a>

## Department Overview

### *Catherine Mele-Hetter, Deputy Director*

The Department of Financial Institutions (DFI) was established in October 1993 by [RCW 43.320](#). The agency's mission is to regulate financial services, protect and educate the public, and promote economic vitality. DFI 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. DFI also registers entities that offer tax refund anticipation loans. [Verify a License with DFI \(wa.gov\)](#).

DFI conducts four core program activities:

1. Chartering, licensing and registration of the financial institutions and individuals listed above.
2. Examinations for safety and soundness, compliance and for cause.
3. Enforcement activities to detect and take corrective action for violations of the regulatory and anti-fraud statutes applicable to financial institutions.
4. Education and public outreach activities including activities aimed at educating and protecting consumers about financial services, and technical assistance and guidance for regulated entities and individuals.

#### **DFI VISION**

Leading the way in consumer protection and financial services regulation.

#### **DFI MISSION STATEMENT**

We protect consumers and advance the financial health of Washington State by providing fair regulation of financial services and educating consumers to make informed financial decisions.

#### **DFI VALUES**

##### **Protecting Consumers**

- Promoting a financial services marketplace safe from illegal and deceptive practices and products.
- Empowering Washington State residents to be informed consumers of financial services.
- Educating consumers with an emphasis on underserved communities and vulnerable residents.

##### **Promoting a Healthy and Prosperous Economy**

- Growing safe and sound financial institutions.
- Embracing and encouraging technological advancement in the marketplace.
- Building consumer confidence in the marketplace.

##### **Being an Employer of Choice**

- Fostering employee wellbeing and growth in a diverse, equitable, and inclusive work environment.
- Maintaining a knowledgeable, engaged, and highly trained workforce.
- Demonstrating respect, accountability, and responsiveness in all our relationships.

##### **Advancing an Efficient, Effective, and Accountable Agency**

- Continually improving and innovating to drive efficiency and performance.
- Being transparent and fair in all our work.
- Ensuring meaningful and modern laws and regulations.

## Department Overview, Continued

### **DFI's 2022 and 2023 Data**

#### Budgeted Staff:

FY 22 = 210.9

FY 23 = 210.7

21-23 Biennial Budget = \$61,678,000

#### Cash Fines and Penalties:

FY 22 = \$1,184,104

FY 23 = \$1,210,246

#### Staff Composition by gender:

FY 22 = 55.5% female, 44.5% male

FY 23 = 53.8% female, 46.2% male

#### Racial Diversity of workforce:

FY 22 = 26.5% Persons of Color

FY 23 = 26.7% Persons of Color



## DFI Communications Outreach

*Lyn Peters, Director of Communications*

While many organizations opted to postpone in-person presentations in early 2022, we continued to receive and schedule presentations. We made new connections and partners, and DFI's collaboration with the Consumer Protection Washington coalition members kept us connected with seniors throughout the state.

Financial Capability Month in 2022 was better than expected. Five lunch and learn Financial Friday webinars with the Pierce County Library System provided information on topics including: Budgeting vs Tracking Expenses; Credit & Debt; Retirement; Financial Fraud Prevention; and Student Loans. The Budget For Your Bank program successfully delivered 339 banks to students at four elementary schools in 17 classrooms as part of our annual Budget For Your Bank program.



*Communications Director Lyn Peters shared resource tables and presentations on how to identify and avoid financial fraud at multiple senior centers throughout the state this year.*

Students were provided budget sheets with photos of the banks and stickers they can “purchase” with \$10 in play money – with the additional bonus that they could get a prize (a DFI “squishy pig” stress ball) for saving at least \$1. Teachers shared a prepared video walking students through how to use the budget sheet and students selected on the budget sheet which bank they wanted – choices were a blue block, green pig, blue bear or purple paw. Students also indicated whether they wanted to purchase stickers for their banks. Not all students were “super savers” earning the pigs, but they all learned a bit more about budgeting their money and got to keep their new banks and stickers!

Participating schools included:

- South Bay - 5 classes
- Peter G Schmidt - 5 classes
- Bordeaux - 4 classes
- Illahee - 3 classes – with a note of impact submitted by Patrick Dowell (second grade lead teacher) – the students loved the activity! The students especially “clicked” with the video description of saving: “saving is not the opposite of spending; saving is *waiting* to spend.”

We partnered with the Pierce County Library System again in 2023 for another round of Financial Fridays workshops, some in-person, some online:

- April 7 DFI Director of Regulatory and Legal Affairs Ali Higgs provided an online workshop on the basics of cryptocurrency.
- April 14 DFI Director of Communications Lyn Peters provided a workshop on homeownership and foreclosure prevention in Graham.
- April 21 Peters provided a workshop on financial fraud & identity theft prevention in Eatonville.
- April 28 DFI provided a resource table in partnership with American Financial Solutions Director of Strategic Initiatives who provided a workshop on credit.

## DFI Communications Outreach, *Continued*

We added a new position to the financial education outreach team in 2022. This person is a bilingual team member to help us provide education and information to one of our state's largest – and most underserved – demographics: Spanish speakers.

At the start of 2023, we provided a Money Smart Week presentation in Spanish via a national webinar and worked to keep up with an increase in presentation requests.

Financial Education & Outreach Coordinator Nathan Spiecker jumped in with both feet upon starting with DFI – continuing the outreach in high schools, senior centers and growing DFI's Spanish outreach with the development of new partnerships.

Additionally, DFI's Communications Team began focusing on increasing information and resources available online in multiple languages. We look forward to working with our partners to provide more financial education information online to more communities in the languages they prefer.

The team worked closely with the agency DEI Director and a production crew to produce a video spotlighting staff and sharing with viewers a more detailed view of who we are at DFI. You can watch this video at [About the Washington State Department of Financial Institutions](#).

Web Coordinator Jeremy Lushene and Communications Director Lyn Peters worked with their North American Securities Administrators Association (NASAA) Life Stages Project Group to produce several [Real Life Regulators](#) podcasts. These podcasts highlight the work being done by NASAA members to protect consumers from investor fraud and prosecute criminal activity.



*Spiecker's first solo outreach event took him to College Place Elementary School in Lynnwood recently after an invitation from teacher Maestra Palacios.*



## Division of Banks

### ***Roberta Hollinshead, Director of Banks***

The mission of the Division of Banks is to support economic stability and growth in the state of Washington through [chartering](#), regulation, and supervision of commercial and savings Banks, non-depository Trust Companies, and Business Development Companies. The Division of Banks ensures the businesses they regulate comply with the state and federal laws that apply to them. These laws include [RCW 30A Commercial Banks](#), [RCW 32 Savings Banks](#), [RCW 30B Trust Companies](#), and [RCW 31.24 Business Development Companies](#).

The division examines banks and trust companies every 12-18 months depending on the size and condition of the institution. Total banking assets and trust companies' assets under management supervised by the Division as of Dec. 31, 2023, were approximately \$98 billion and \$54 billion, respectively.

Conditions in the banking and trust industries remain generally sound. Bank earnings and cash liquidity levels are under increased pressure because of the Federal Reserve's significant rate hikes over the prior years; however, the industry remains resilient to these economic changes. Although overall loan quality has held steady, there is increasing concern around certain lending markets, such as commercial real estate which includes office space. Industry consolidation is still prevalent.

### **Statutes Administered by the Division of Banks**

Chapter 30A RCW	Banks
Chapter 30B RCW	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



## Division of Banks, *Continued*

### 2022/2023 Licensing Stats (Number of)

	12/31/2022	12/31/2023
Commercial Banks	32	31
Savings Institutions	7	7
Trust Companies	18	17
Branches of Foreign Banks	1	1
SBA (7) A Lenders	1	1
Total Assets of Banks and Assets Under Management of Trust Companies	\$168,046,722	\$152,477,343

### List of Chartering Activity for 2022 and 2023

- 2/4/2022 – Washington Federal Bank, Seattle, Washington converted from a national banking association to a Washington state-chartered bank.
- 5/27/2022 – Seattle Bank, Seattle, Washington reorganized becoming a wholly owned subsidiary of Seattle Bancshares, Inc.
- 6/1/2022 – Portage Bank, Bellevue, Washington converted from Minnesota state-chartered bank to a Washington state-chartered bank.
- 6/1/2022 – Altruist Trust Company & Fiduciary Services, Inc., Fowler, Kansas was issued a certificate of authority to become a Washington state-chartered trust company.
- 8/9/2022 – Riverview Community Bank, Vancouver, Washington changed its name to Riverview Bank.
- 8/31/2023 – Farmington State Bank, Farmington, Washington relinquished its authority to conduct banking business.

### Mergers and Acquisitions

#### 2022

- 1/31/2022 – Northwest Trustee & Management Services, LLC, Spokane, Washington acquired Capstone Trust Company, Olympia, Washington.

#### 2023

- 3/1/2023 – Umpqua Bank, Roseburg, Oregon acquired Columbia State Bank, Tacoma, Washington.
- 6/1/2023 – Guardianship Services of Seattle, Seattle, Washington acquired Partners In Care, Seattle, Washington.
- 8/31/2023 – Bank of Eastern Oregon, Heppner, Oregon acquired Farmington State Bank, Farmington, Washington's loans and deposits.

## Division of Consumer Services

***Ali Higgs, Director of Consumer Services***

### **About the Division of Consumer Services**

The mission of the Division of Consumer Services is to protect, inform, and serve consumers through fair, effective, and prompt regulation of non-depository financial institutions including: Consumer Loan Companies (including Mortgage Bankers), Mortgage Brokers, Mortgage Loan Originators, Residential Mortgage Loan Servicers, Student Education Loan Servicers, Check Cashers and Sellers, Small Loan Agents, Payday Lenders, Escrow Companies and Officers, Money Transmitters and Currency Exchangers, and Facilitators of Tax Refund Anticipation Loans (RALs).

The Consumer Services Division implements state and federal laws regulating the above non-depository financial service providers. These entities provide an array of important and rapidly changing financial services from originating loans and servicing mortgages to payday lending and money transmission. The Division's regulatory system is designed to ensure that our licensing process includes a thorough review of each applicant to determine their fitness to provide regulated financial services, to ensure that companies are examined for compliance with state and federal requirements, and to take effective enforcement action when laws are violated and/or consumers are harmed.

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

Conditions for non-depository licensees remain generally sound. Mortgage licensees saw a lower demand for mortgage loans due to higher-than-normal interest rates, housing shortages in the purchase market, and consumers with low interest rates not wanting to refinance their mortgages. Mortgage licensees modified their business models to lower operating costs and hold on to profits earned during previous years.

The money transmission industry continues to evolve at a rapid pace, with complex ownership and business models. In 2022, several virtual currency money transmission licensees filed for bankruptcy, impacting consumers, and keeping supervisory teams extremely busy.

Check Casher licensees reduced volume in 2023 but remain steady with cashed checks totaling more than \$1.3 billion. The payday lending industry continues to trend downward, with fewer companies and branch offices over time. Payday loans dollar amount of sales increased slightly for 2023, totaling more than \$142 million.

## Division of Consumer Services, *Continued*

### Statutes Administered by the Division of Consumer Services

Chapter 31.04 RCW	Consumer Loan Act
Chapter 19.146 RCW	Mortgage Broker Practices Act
Chapter 31.45 RCW	Check Cashers and Sellers 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	Refund Anticipation Loans
Chapter 19.144 RCW	Mortgage Lending and Homeownership

Industry Facts at a Glance	2022	2023
Mortgage Broker Company Licenses	365	382
Mortgage Broker Branch Office Licenses	239	185
Mortgage Loan Originators (Active)	21,044	17,955
Mortgage Loan Originators (Inactive)	12,756	6,747
Consumer Loan Company Licenses	952	1,005
Consumer Loan Company Branch Office Licenses	3,425	2,915
Money Transmitter and Currency Exchange Offices	268	256
Check Casher Company Licenses	86	84
Check Casher Branch Office Licenses	222	218
Check Seller Company Licenses	0	0
Check Seller Company Branch Office Licenses	0	0
Small Loan Agent	0	0
Payday Lender Endorsement	12	11
Payday Lender Endorsement Branch Office Licenses	27	23
Escrow Company Agents	45	38
Escrow Company Agent Branch Offices	5	6
Escrow Officer (Licensed/Inactive)	76	76
Tax Refund Anticipation Loan Facilitators	241	234

\* *The Check Casher and Seller license is required to obtain a Payday Lender endorsement. Many licensees only conduct payday loan activity under a Check Casher or Seller license.*

## Division of Consumer Services, *Continued*

### Licensing Unit:

#### During 2022, the Licensing Unit conducted the following activities:

- Processed more than 255 increasingly complex new licenses for companies, including 34 new Money Transmitters and 172 Consumer Loan licenses.
- Licensed more than 9,300 new Mortgage Loan Originators with 75% being issued within 15 days.
- Approved nearly 26,000 renewal requests, including more than 17,500 Mortgage Loan Originators.
- Completed more than 6,400 employment changes for Mortgage Loan Originators, the majority finished within five business days to avoid long gaps where the individual cannot work.
- Helped more than 38,000 existing licensees maintain their license.
- Reviewed more than 17,600 criminal and credit background checks to better protect consumers.
- Answered more than 3,400 call center calls to provide assistance to consumers and industry.
- Enhanced the licensing review of Money Transmitter applicants with virtual currency business plans to better protect consumers.

#### During 2023, the Licensing Unit conducted the following activities:

- Processed more than 235 increasingly complex new licenses for companies, including 17 new Money Transmitters and 168 Consumer Loan licenses.
- Licensed more than 3,400 new Mortgage Loan Originators with 97% being issued within 15 days.
- Approved more than 22,500 renewal requests, including nearly 20,300 Mortgage Loan Originator.
- Completed more than 4,700 employment changes for Mortgage Loan Originators, the majority finished within five business days to avoid long gaps where the individual cannot work.
- Helped more than 30,000 existing licensees maintain their license.
- Reviewed more than 11,500 criminal and credit background checks to better protect consumers.
- Answered more than 2,300 call center calls to provide assistance to consumers and industry.
- Led development and presentation of a licensing school for other state regulators attending the Money Transmitter Regulators Association (MTRA) annual conference and training.

## Division of Consumer Services, *Continued*

### Examination Unit

During 2022 and 2023, the Examination Unit conducted the following activities in addition to completing 388 examinations in FY 2022 (July 1, 2021, to June 30, 2022) and 438 examinations in FY 2023 (July 1, 2022, to June 30, 2023):

- DFI's Consumer Services Examinations Unit adopted the State Examinations System in 2022. The unit completes all mortgage origination examinations within the Examination System. The Unit adopted Networked Supervision and One Company-One Examination (OCO) initiative. Most MSB examinations are being conducted as joint-state or OCOE examinations. The Mortgage team adopted One-Company One-Exam scheduling and participation as well. By taking part in Networked Supervision and the State Examination Systems we now have the advantage of being able to accept another state's examination work or leverage their work, thereby reducing the regulatory burden of our licensees.

### Enforcement Unit

Top Complaint Areas:

- Residential Mortgage Loan Servicing (378)
- Virtual Currency/Money Transmission (193)
- Residential Mortgage Loan Origination (179)

The Enforcement Unit continued protecting consumers in 2022 and 2023 by stopping or postponing foreclosures, pursuing formal enforcement actions, and requiring refunds and corrective actions.

Consumers filed more than 2,000 complaints. Of those complaints, as well as some carried over from the prior period, Enforcement closed more than 2,100 resulting in more than \$130,000 in restitution to consumers, 13 foreclosures halted or postponed, and eight loan modifications granted.

The Enforcement Unit handled more than 200 investigations and pursued more than 80 actions against companies and individuals alleged to be in violation of the laws the unit enforces. When facts warranted, the team took immediate actions in the form of Temporary Cease and Desist orders to stop illegal activities. The unit also negotiated settlements in more than 120\* matters resulting in more than \$60,000 in restitution paid to consumers and \$49,500 in payments to the Financial Literacy and Education fund.

\*Includes 63 actions that were part of a large multi-state settlement.

### Rulemaking Activities

#### 2022

- Rulemaking – Implemented rules to set forth the conditions that must be met for a loan originator to work from their residence without licensing it as a branch location. See [WSR 22-24-048](#) (CLA); [WSR 22-24-049](#) (MBPA); [SB 5077](#) (2022). Rules went into effect Dec. 31, 2022.

#### 2023

- Rulemaking – The Division of Consumer Services did not engage in rulemaking in 2023.



## Division of Consumer Services, *Continued*

### Individual Industry Stats

#### Mortgage Brokers

	2022	2023
Companies	365	382
Branch Offices	239	185
Complaints	34	12
Number of Brokered Loans	9,602	6,591
Principal Dollar Amount of Brokered Loans	\$4,497,048,844	\$2,954,077,419

#### Consumer Loan Companies

	2022	2023
Main Offices	952	1,005
Branch Offices	3,425	2,915
Complaints	486	419
Number of RE* Loans Made	113,113	68,110
Principal Dollar Amount	\$48,919,118,863	\$28,514,684,977

\*Refers to real estate loans that use borrower's home as security for the loan

#### Mortgage Loan Originators

	2022	2023
Number of Licensees (Active)	21,044	17,955
Number of Licensees (Inactive)	12,756	6,747
Complaints	Included in Mortgage Broker & Consumer Loan Company Complaints	Included in Mortgage Broker & Consumer Loan Company Complaints

#### Escrow

	2022	2023
Agents	45	38
Escrow Company Agent Branch Offices	5	6
Officers	76	76
Complaints	18	14

## Division of Consumer Services, *Continued*

### Money Services

	2022	2023
Companies	268	256
Complaints	109	134
Volume of Currency Exchanges	98,685,936	77,225,072
Volume of Payment Instrument Sales	3,302,351,176	3,957,688,004
Volume of Stored Value Sales	21,049,804,711	6,204,422,599
Volume of Other Money Transmissions	61,282,680,789	40,919,595,003

### Check Casher

	2022	2023
Companies	86	84
Branch Offices	222	218
Complaints	1	9
Number of Checks Cashed	2,629,519	1,715,212
Dollar Amount of Cashed Checks	\$1,419,644,759	1,344,806,722

### Check Seller

	2022	2023
Companies	0	0
Branch Offices	0	0
Complaints	0	0
Number of Checks Sold*	0	0
Dollar Amount of Checks Sold*	0	0

*\*Check Seller totals are for checks sold as a licensed Check Seller under the CCSA. This total does not include checks sold by Money Transmitters or as an agent for a Money Transmitter licensee.*

## Division of Consumer Services, *Continued*

<b>Payday Lender</b>	<b>2022</b>	<b>2023</b>
Companies	12	11
Branch Offices	27	23
Complaints	12	16
Number of Small Loans	300,750	298,705
Dollar Amount of Small Loans	\$136,186,885	\$142,268,048

<b>Small Loan Agent</b>	<b>2022</b>	<b>2023</b>
Companies	0	0
Branch Offices	0	0
Complaints	Included in CCSA	Included in CCSA

## Enforcement Statistics for All Industries

	<b>2022</b>	<b>2023</b>
Statement of Charges	31	23
Summary Cease and Desist or Suspension	4	2
Final Order or Revocation	20	11
Consent Order	87*	34
Total Enforcement Actions	145*	73
Investigations Opened	140	62
Investigations Closed	116	74
Complaints**	983	1,068

\*Includes 63 actions that were part of a large multi-state settlement

\*\*Includes complaints filed against non-licensees

## Division of Credit Unions

### **Amy B. Hunter, Director of Credit Unions**

Credit unions are nonprofit, cooperative associations organized to create a source of credit for their members at fair and reasonable interest rates and to promote savings among their members. The Division seeks to protect the financial interests of credit union members, including depositors.

The Division examines credit unions at least every 18 months to ensure they have safe and sound practices and no violations of statutes and rules. Credit unions with total assets more than \$1 billion and those who receive an unsatisfactory Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity (CAMELS) rating are examined every 12 months. The Division uses a variety of examination and supervision tools to accomplish its mission. The Division also processes a variety of applications from state-chartered credit unions that require separate approvals, such as mergers, member business loans limits, etc. The Division also works with consumers (members) regarding complaints they submit to the Division about state-chartered credit unions.

#### **Statutes Administered by the Division on Credit Unions**

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

#### **Industry Facts At A Glance**

	<b>2022</b>	<b>2023</b>
Number of state-chartered credit unions	49	48
Number of credit union members in millions	4.3 million	4.5 million
Total loans	\$55.8 billion	\$61.2 billion
Total assets	\$80 billion	\$84.5 billion
Total shares and deposits	\$69.4 billion	\$70 billion
Total net worth	\$8.3 billion	\$9.1 billion
Net income	\$528.2 million	\$597.1 million
Net worth to total assets ratio	11.30%	11.62%

## Division of Credit Unions, *Continued*

### Mergers

#### 2023 Mergers

<u>Merging Credit Union (CU)</u>	<u>Total Assets of Merging CU</u>	<u>Continuing CU</u>	<u>Total Assets of Continuing CU</u>	<u>Date of Merger</u>
State Highway Credit Union	\$33,823,020	Washington State Employees Credit Union (WSECU)	\$ 4,636,126,374	03/31/23

#### 2022 Mergers

<u>Merging Credit Union (CU)</u>	<u>Total Assets of Merging CU</u>	<u>Continuing CU</u>	<u>Total Assets of Continuing CU</u>	<u>Date of Merger</u>
Global Credit Union	\$592,780,205	Alaska USA Federal Credit Union	\$10,587,907,063	09/30/22
Embark Credit Union	\$ 15,095,397	Horizon Credit Union	\$ 1.8 Billion	07/31/22

### Examinations

2022 - 47 total exams completed

2023 - 47 total exams completed

### New Credit Union Charters

2022 - No new credit union charters were issued during the biennium 2023 - No new credit union charters were issued during the biennium

### Charter Conversions

2022 - There were no charter conversions in the biennium 2023 -

There were no charter conversions in the biennium

### Acquisitions

2022 Acquisitions - None

2023 Acquisitions - None

### Rulemaking Activity 2022

Rulemaking - None 2023

Rulemaking - None



## Division of Credit Unions, *Continued*

### **Summary of Conditions:**

Washington State Credit Unions continued to grow in asset size in 2023. DCU conducted 42 safety and soundness examinations, of which 22, were conducted jointly with the National Credit Union Administration (NCUA). Consistent with national trends, concerns about interest rate increases and “liquidity risk” (the ability to convert assets into cash to cover financial obligations, including member deposits) will continue into 2024 for our 48 credit unions. Consumer confidence in the U.S. economy, and consumer demand have contributed to less funds on deposit and higher revolving credit card debt at our credit unions.

Lending demand was soft in 2023 and will continue to remain soft due to the current interest rate environment. Mortgage rates are higher than what current homeowners and homebuyers are used to, and the first mortgage refinance market has decreased significantly. Our credit unions are also seeing a rise in consumer loans of all types and a rise in delinquencies overall (credit cards, auto loans, real estate loans). Commercial loan demand is also slower than it has been over the past few years. On a positive note, our credit unions are well capitalized with solid net worth ratios which will enable them to withstand any economic changes that happen in 2024.

## Division of Securities

### *William Beatty, Director of Securities*

The Division of Securities regulates the offer and sale of investments to people in Washington State. Regulation encompasses registration of securities, 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.

The Division works directly with the entities it regulates through examinations and market surveillance activity (monitoring advertisements, social media, etc. for potentially illegal activity) to assure the public of adequate protection for their investments. It also continues its involvement in national enforcement issues. The bulk of the Securities Division's enforcement activity is in the administrative area, but it is also active in the criminal arena, making several criminal referrals annually.

#### Statutes Administered by the Division of Securities

Chapter 19.100 RCW	Franchise Investment Protection Act
Chapter 19.110 RCW	Business Opportunity Fraud Act
Chapter 21.20 RCW	Securities Act
Chapter 21.30 RCW	Commodities Transactions Act

## Division of Securities Statistics

### Securities Act

	2022	2023
Dollar Amount of Securities Permits, Notifications and Exemptions Authorized	\$262,220,874,521	\$265,129,654,537
Registered Securities Broker-Dealers	1,742	1,710
Registered Investment Advisers	671	641
Investment Adviser Notifications	2,553	2,631
Registered Securities Salespersons	211,453	220,385
Exempt Reporting Advisers	141	146
Registered Investment Adviser Representatives	14,254	14,236
Branch Offices of Broker-Dealers	3,472	3,453
Complaints	201	288
Active Enforcement Cases	125	213
Statement of Charges/Orders	46	52

Division of Securities, *Continued***Franchise Investment Protection Act**

	2022	2023
Registered Franchises	775	996
Registered Franchise Exemptions	320	325
Registered Franchise Brokers	464	448
Complaints	18	21
Active Enforcement Cases	33	34
Statement of Charges/Orders	13	23

**Business Opportunity Fraud Act**

	2022	2023
Registered Business Opportunities	4	3
Complaints	4	1
Active Enforcement Cases	1	1
Statement of Charges/Orders	1	0

**Commodities Act**

	2022	2023
Registered Commodities	0	0
Complaints	5	2
Active Enforcement Cases	1	2
Statement of Charges/Orders	1	2

Division of Securities, *Continued***Registration and Licensing Filing Activity Totals for Calendar Years 2022-2023**

(This data does not include information on registrations or licenses that terminate or fail to renew during the year.)

**Registrations, Exemptions & Notifications**

	2022 NEW	2022 RENEW	2022 AMEND	2023 NEW	2023 RENEW	2023 AMEND
Investment Companies (Mutual Funds)	2,135	22,869	9,433	2,059	22,645	15,446
Securities Registration Files (S-1s)	1	0	0	0	0	0
Reg A – Tier 1 Applications	2	0	0	0	0	0
Other Coordination Filings	27	17	41	16	29	175
Qualifications	3	15	11	2	23	14
SCOR (Small Company Offering Reg.)	0	0	0	0	0	0
Reg A-Tier 2 Notices	275	28	20	144	23	13
Red CF-FED Crowdfunding Notices	3	0	0	2	0	0
Franchise Applications	411	741	118	409	735	103
Exemptions	6,204	0	1,319	4,371	0	1,653
Opinions	0	0	0	0	0	0
Franchise Exemptions	79	241	0	76	265	1
Business Opportunities	2	0	0	1	0	0
Small Business Retirement Marketplace Filings	1	2	0	0	1	0
<b>TOTAL</b>	<b>9,143</b>	<b>23,913</b>	<b>10,942</b>	<b>7,080</b>	<b>23,721</b>	<b>17,405</b>

Division of Securities, *Continued***Firms & Entities**

	2022 NEW	2022 RENEW	2023 NEW	2023 RENEW
Securities Broker-Dealers	108	1,717	92	1,700
Investment Advisers	82	644	92	622
Investment Advisers- Notice Filed	247	2,550	213	2,631
Franchise Brokers	247	412	271	419
Exempt Reporting Advisors	25	141	16	146
<b>TOTALS</b>	<b>680</b>	<b>5,464</b>	<b>630</b>	<b>5,518</b>

**Representatives & Salespersons**

	2022 NEW	2022 RENEW	2023 NEW	2023 RENEW
Investment Adviser Representatives	2,684	14,443	2,596	14,427
Intrastate Securities Salespersons	0	1	0	1
Agents of Issuers	32	36	33	54
Securities Salespersons	51,115	213,934	47,706	222,769
Salespersons with Disclosure History	4,517	0	3,952	0
<b>TOTALS</b>	<b>58,349</b>	<b>228,414</b>	<b>54,287</b>	<b>237,250</b>



## Division of Securities, *Continued*

### **Licensing Unit:**

During 2022, the Licensing Unit conducted the following activities:

- Approved 54 Investment Adviser Applications
- Approved 101 Broker Dealer Applications
- Sent 456 Requests for Additional Information on Pending Applications
- Received 1,746 calls in the Licensing Unit

During 2023, the Licensing Unit conducted the following activities:

- Approved 36 Investment Adviser Applications
- Approved 90 Broker Dealer Applications
- Sent 420 Requests for Additional Information On Pending Applications
- Received 1,377 calls in the Licensing Unit

### **Examination Unit:**

During 2022 and 2023, the Examination Unit conducted the following activities:

- 2022 - 145 examinations with 25 Technical Assistance Visits
- 2023 - 108 examinations with 23 Technical Assistance Visits
- 2 Multi-State Examinations with Idaho and Montana
- Members from the licensing and examination unit participated in community outreach events that focused on investment frauds. These outreach events, which primarily involved underserved segments of the community, provided an opportunity to hear about current frauds, the impact they are having on communities, and ways to detect and defend from such schemes. The events were well attended and the engagement by the participants was strong.

### **Enforcement Unit:**

Top Complaint Issues:

- Cryptocurrency scams
- Investment/brokerage account servicing
- Unregistered securities offering
- Unregistered franchise offering
- Precious metals

## Division of Securities, *Continued*

### Criminal Referrals in 2022 and 2023:

- Charles Richard Burgess, a/k/a Dick Burgess

On Jan. 6, 2023, Charles Richard “Dick” Burgess (Burgess) was sentenced to 75 months in prison, 3 years of supervision upon release, and \$4,383,617.98 in restitution to 32 investors. On Aug. 11, 2022, Burgess pleaded guilty in Federal Court to one count of mail fraud in violation of USC 1341. Between October 2013 and April 2021, Burgess offered and sold approximately \$6.3 million of investments in a pooled investment vehicle to 40 investors, most of whom were Washington residents. Burgess offered and sold participation in the pool to friends, family, and to friends or family of existing pool participants. Burgess sent monthly statements to investors that falsely represented that the pool was successful, and that investors were making a consistent profit. Further, Burgess used funds from the pool to pay himself excessive fees, to pay his own personal expenses, and to make Ponzi payments to investors. The case was investigated by the Securities Division and the FBI and prosecuted by the U.S. Attorney’s Office Western District of Washington.

- Scot Reynolds

On Feb. 17, 2023, Scot Reynolds (“Reynolds”) was sentenced in King County Superior Court to 36 months in prison and ordered to pay restitution totaling \$1.88 million to the victims. On Dec. 19, 2022, Reynolds pleaded guilty to seven counts of securities fraud and one count of theft in the first degree. Between 2010 and 2015, Reynolds raised more than \$2.7 million through the sale of investments in three schemes to at least 46 investors. Reynolds solicited members of his Mormon Church, as well as family, friends, business acquaintances, and people referred by investors. Reynolds sold a variety of different investments, including penny stocks and oil and gas investments. In the fashion of a Ponzi scheme, Reynolds repeatedly used funds from new investors to repay prior investors. The case was investigated by the Securities Division and prosecuted by the King County Prosecuting Attorney’s Office.

- Daniel G. Langley

On March 3, 2023, Daniel Langley (“Langley”) was sentenced to 12 months community custody (as part of a First Time Offender Waiver) and was ordered to pay restitution totaling \$705,900 to victims. On Jan. 11, 2023, Langley pleaded guilty in King County Superior Court to one count of securities fraud and six counts of theft in the first degree. Between 2015 and 2018, Langley raised nearly \$700,000 from a dozen investors. Langley sold “Pre IPO” stock in his business, CarBids.com, which was supposed to be developing an online auto auction website. After depositing investor funds, Langley withdrew hundreds of thousands of dollars in cash and spent tens of thousands of dollars at casinos. After DFI issued a Statement of Charges against Langley in February 2018 for securities violations, he continued to solicit and defraud new investors. In April 2018, Langley raised \$275,000 from three new investors. In a Ponzi-like scheme, Langley used more than \$50,000 from these new investors to make payments to eight prior investors. Langley also spent more than \$70,000 to purchase two automobiles. The case was investigated by the Securities Division and prosecuted by the King County Prosecuting Attorney’s Office.

## Division of Securities, *Continued*

25

- **Gregory Lone**  
 On March 20, 2023, Gregory Lone (“Lone”) was sentenced in Douglas County Superior Court to 96 months in prison and ordered to pay restitution of \$480,000 to the victims. Lone pleaded guilty on Jan. 12, 2023, to five counts of first-degree theft. Although the prosecution and defense had agreed to a 36-month sentencing recommendation, the Court imposed a 96-month exceptional sentence after hearing the testimony of Lone’s victims, including Lone’s parents and sister, who were victims of a previous uncharged scheme by Lone. In this case, from December 2016 to May 2019, Lone offered and sold fictitious investments to seven Wenatchee-area residents, generally former clients of a Wenatchee-area insurance agent whose business Lone had purchased shortly before beginning his fraud. Lone used the funds received from victims to pay his personal expenses or repay earlier victims in the style of a Ponzi scheme. Five of Lone’s victims were seniors in their 80s or 90s. This case was investigated by the Securities Division and the East Wenatchee Police Department and prosecuted by the Douglas County Prosecuting Attorney’s Office.

### Rulemaking Activity

#### 2022

##### **Mortgage Paper Securities Rules Repeal**

The Securities Division repealed WAC 460-33A, which provided an optional method of registration for mortgage paper securities, effective Nov. 14, 2022. Changes in federal law over time, including the Jumpstart Our Business Startups (JOBS) Act of 2012, made these rules obsolete, and no entity had applied to register under this chapter in more than a decade.

#### 2023

##### **Broker-Dealer and Salesperson Rules**

On April 3, 2023, the Securities Division filed a Preproposal Statement of Inquiry to solicit comments on the possible amendment of the rules regarding broker-dealers and salespersons of broker-dealers in Chapters [460-20B WAC](#), [460-21B WAC](#), and [460-22B WAC](#). Many of these rules have not been substantively amended since the 1990s. The Securities Division is considering amendments to bring the rules up to date with federal rules, incorporate the North American Securities Administrators Association, Inc. (NASAA) model rules, and describe the application filing procedures and requirements for broker-dealers and salespersons, among other possible updates.

26

## Division of Securities, *Continued*

### **NASAA Statement of Policy Regarding the Use of Franchise Questionnaires and Acknowledgments**

Effective Sept. 18, 2023, the Securities Division amended the franchise rules set forth in [Chapter 460-80 WAC](#) to adopt the Statement of Policy Regarding the Use of Franchise Questionnaires and Acknowledgments promulgated by NASAA. On Sept. 18, 2022, NASAA adopted the Statement of Policy Regarding the Use of Franchise Questionnaires and Acknowledgments (“Statement of Policy”). The Statement of Policy sets uniform standards for the proper use of questionnaires and acknowledgments in franchise offerings. The Statement of Policy prohibits provisions that would require a prospective franchisee to make statements that are subjective, unreasonable, or that attempt to absolve the franchisor or its agents of liability in connection with the sale of a franchise. These provisions are also inconsistent with the Franchise Investment Protection Act’s anti-waiver provisions. See [RCW 19.100.220\(2\)](#) and [RCW 19.100.180\(2\)\(g\)](#). It is important to note that the adoption of the Statement of Policy does not represent a material change in requirements for franchise offerings in Washington. However, adoption of the Statement of Policy will aid franchisors in complying with existing Washington law by providing specific examples of prohibited questionnaires and acknowledgments, while also increasing compliance with anti-waiver and anti-fraud requirements across the states with such requirements.

### **Franchise Act Interpretive Statement No. 9 – Disclosure of Franchise Fees**

On Nov. 1, 2023, the Securities Division adopted [Franchise Act Interpretive Statement No. 9 RE: Disclosure of Franchise Fees](#). The interpretive statement addresses the question as to whether a franchisor may impose fees through its operations manual or otherwise that were not disclosed in the Franchise Disclosure Document. The interpretive statement concludes that failure to disclose a fee or payment required by the franchisor constitutes an unlawful omission of fact under [RCW 19.100.170\(2\)](#). The interpretive statement further concludes that a franchisor cannot impose a fee through the operations manual or otherwise, without pre-sale disclosure in the Franchise Disclosure Document as required by [16 CFR 436.5\(e\) and \(f\)](#) and [RCW 19.100.170\(2\)](#).



2022 - 2023 BIENNIAL REPORT  
THE WASHINGTON STATE  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
P.O. BOX 41200 | OLYMPIA, WA 98504 -1200  
877.RING DFI | 360.902.8700  
WWW.DFI.WA.GOV | 360.586.5068 FAX  
EN ESPAÑOL: 1.888.976.4422