



Spring brings opportunities – Message from Charlie Clark


Although the recent bank failures and struggles involved institutions chartered in other states, we’ve been “all hands on deck” watching developments around the country and here in Washington. Rest assured, we are watching the issue closely, and our Division of Banks continues to examine our banks for safety and soundness, including liquidity – a significant factor in those failures. *(See our Division of Banks update for details on pages 4 &5.)*



We’re pleased to announce the passage and signing of [HB1370](#) – a DFI-request securities fraud whistleblower award and protection bill. This legislation authorizes DFI’s Securities Division to make awards to qualified whistleblowers who voluntarily provide original information to DFI’s Securities Division that leads to the successful enforcement through an administrative or judicial action. The bill also prohibits retaliation against whistleblowers. This legislation should encourage people who may have information about potential securities fraud to come forward and safely report their concerns to DFI. The effective date of this new law is July 23, 2023.

Thank you to all who joined us at our March 30 “Narrowing the Racial Wealth Gap” event at Highline College. We’re happy to report that 172 people registered – 99 from community and 55 from industry. Having everyone together was inspiring and energizing!

We were pleased to learn so many of you made new connections and contacts at the meeting – exactly the outcome we’d hoped for. Our post-event poll indicated 34 of our attendees made 147 connections. Another 10 people let us know about an additional 17 connections. This is fantastic news for both our community members and industry representatives!

Coming Soon! DFI is launching a series of videos to help give viewers a better understanding of who we are, our commitment to diversity, equity and inclusion, to protecting the people of Washington and to financial education outreach. Watch our social media  accounts for links and details coming soon!

Charlie Clark, DFI Director



Chair-Elect Clark

I'm pleased to share with you that I was officially named Chair-Elect for the Conference of State Bank Supervisors Tuesday, May 16. I look forward to serving again on the CSBS Executive Committee.

CSBS supports state regulators in advancing the system of state financial supervision by promoting consumer protection and fostering innovative, responsive supervision. WA DFI continues to be a leader among state regulators for high quality and effective regulation and supervision of state banking and financial services.

DFI Hosted a Diversity Equity and Inclusion Event Thursday, March 30: “Narrowing the Racial Wealth Gap: Financial Industry Models”

DFI is leading the way for regulators effecting change for narrowing the racial wealth gap. On March 30, DFI hosted a conversation on narrowing the racial wealth gap. In attendance were more than 150 people – both in person at Highline College and virtually. We enjoyed strong engagement with robust representation from industry, community, and government.



DFI Director Charlie Clark giving opening statements to start the March 30 “Narrowing the Racial Wealth Gap” event.

Why was this important? Together we are successful. The layers and complexity of financial institutions often result in people feeling excluded from participating, and that includes making the system work better. This was a co-learning opportunity to have conversation and help everyone be more successful. Even before the event, DFI was receiving phone calls from industry sharing exciting new efforts and opportunities for greater impacts. We also heard from community who want more people to know about this work.

Updates from DFI Director

As the event ended, we were approached by numerous participants who expressed gratitude for the gathering, excitement regarding the multiple connections they had made at the event and hope for more gatherings that are similar. We look forward to working with our licensees and community partners to continue working on ways Washington can do more to narrow the racial wealth gap.



Pictured left to right - Erwin Reeves, Community Affairs Specialist with the Federal Deposit Insurance Corporation (FDIC), Jodie Harris, Director of the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), Erin Lopez, DFI



Pictured left to right - Simon Bai, CFO at UniBank, Ali Sheibani, Director of Homeowner Services for Habitat for Humanity, Tonita Webb, CEO at Verity Credit Union, Erin Lopez, DFI

Bank Failures – Liquidity and Interest Rate Risk



*Roberta Hollinshead, DFI
Director of Banks*

This year brought failures of three large banks, two in a very rapid fashion, Silicon Valley Bank and Signature Bank, followed by First Republic Bank at the beginning of May.

To understand what happened, there are two main concepts to understand: liquidity risk and interest rate risk sensitivity. The failures were caused by the traditional “run on the bank” scenario in which depositors were removing their money from the bank faster than the institution was able to sell assets to generate cash. The way in which these institutions failed is nothing new or novel, other than the potential impact that social media had on the spreading of negative information and the ease by which depositors can now move large sums of money electronically. These commercial banks primarily served business customers. In the case of Silicon Valley, they had a heavy

concentration in loans and deposits from startup businesses, including those specifically funded from venture capital (VC) firms.

Liquidity Risk – Traditionally, banks accept deposits from businesses and consumers and they utilize those funds to invest in assets such as loans and investment securities. Liquidity risk management requires banks to hold certain levels of cash and liquid assets at all times as a means to repay depositors when they request to withdraw their funds. Banks also need to have contingency or secondary sources of liquidity, such as lines of credit which generally require some form of collateral to be pledged, with the amount of borrowing line available based upon the market value of the pledged item. The reason that both of these banks failed was an inability to generate enough cash to keep pace with the withdrawals being made by their customers. In the case of Silicon Valley Bank, it has been reported that as much as \$42 billion in deposits were withdrawn on one day (more than 25% of their total deposits). Social media played a role in this. It has been widely reported that the VC firms who were advisors to many of the business clients at the bank (and also had provided significant amounts of the funding that was on deposit at the bank) were very publicly advising their clients to pull funds from the bank as soon as possible. Also of note, the speed in which we are able to move our funds today through electronic means is far greater than at any time in history. The bank can’t just “close the doors” to customers to shore up liquidity and stop the bank run.

Sensitivity to Market Risk – Banks are in the margin business, they make money based largely on the spread between yield on assets and cost of funding/deposits. Interest rate risk sensitivity is the degree to which changes in market rates can adversely affect that margin/earnings, the balance sheet and capital levels. Banks are required to model and measure the impact that various rate changes would have on their balance sheet, earnings and capital levels. However, as the Federal Reserve has been aggressively increasing rates over the last 18 months, interest rate risk has increased for some banks. Silicon Valley in particular held a significant portion of their assets as investment securities, more than 50% of assets. As market rates rose rapidly, these holdings of investment securities became significantly impaired. As the depositors started to withdraw funds, the bank started selling these investment securities at a loss in order to generate cash to meet the deposit outflows. Normally, if an investment security is underwater a bank is able to hold that investment to maturity, thus potentially lessening the impact of losses. These losses impacted the capital levels at the bank.

On Tuesday, March 28, and Wednesday March 29, respectively Division of Banks Director Roberta Hollinshead and Policy Director Drew Bouton presented to the Washington Senate Business, Financial Services, Gaming & Trade Committee and the House Financial Services Committee on the banking industry and recent failures. DFI reminded the committee members and the public that the bank and credit union industries are resilient and robustly regulated. Director Hollinshead discussed how banks and credit unions are regulated with a focus on liquidity and interest rate risk management. DFI also discussed at a high level the failure of Silicon Valley Bank and Signature Bank along with the U.S. Government's federal actions and safeguards put into place. The swift action by state and federal banking regulators to insure all the deposits of the failed banks seemed to calm the markets and depositor concerns for the time being. At DFI, we continue to work very closely with our state and federal regulatory partners and the industry to monitor emerging risks.



DFI Joins CSBS District 5 Western Regulators Meeting

At left: DFI Director Charlie Clark (third from left) and DFI Division of Banks Director Roberta Hollinshead (front center right) attended the CSBS District 5 Western Regulators Meeting in San Francisco in January.

FDIC Issues Statement on False and Misleading Advertisement for Deposit Insurance

The FDIC (Federal Deposit Insurance Corporation) released a statement demanding that a cryptocurrency exchange, a non-bank financial service provider, and two websites cease the use of false and misleading statements about the FDIC deposit insurance.

Companies involved with this case include CEX.IO Corp. (a cryptocurrency exchange) and Zera Financial (a non-bank financial service provider) and the websites Captainaltcoin.com and Banklesstimes.com. Evidence collected by the FDIC shows that these entities made false representations, stating or suggesting that CEX.IO and Zera Financial are FDIC-insured, that FDIC insurance will protect customers' cryptocurrency, or that FDIC-insurance would protect customers in the event of Zera Financial's failure. These representations are not true and are misleading to consumers.

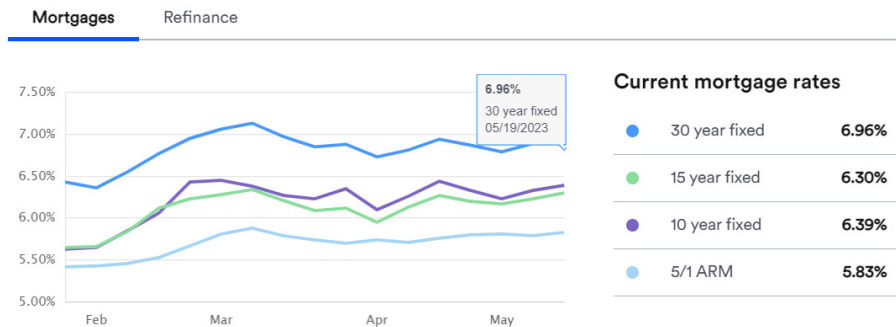
Inaccurate representations like these can create distrust with consumers, is a misrepresentation of FDIC, and could result in potential financial loss for consumers.

DFI reminds consumers to verify whether an institution is FDIC-insured by using the FDIC's [BankFind](#) tool prior to providing an institution access to funds.

Looking Ahead at the Mortgage Market for 2023

In 2022, Washington watched mortgage rates ride a rollercoaster. In Q1 there was a drop in rates, then a huge jump can in Q2. After that, Q3 and Q4 stayed above 5% but continued to move. Now, nearly half way into 2023, there are more climbs and dips.

Weekly national mortgage interest rate trends



Screen capture from [Bankrate.com](https://www.bankrate.com) Weekly National Mortgage Interest Rate Trends gives a visual representation of the mortgage interest rate roller coaster for 2023.

Moving further into 2023, the [Mortgage Bankers Association Mortgage Finance Forecast May 19, 2023](https://www.mortgagebankersassociation.com/finance-forecast-may-19-2023) indicates we can expect a possible downward trend of the 30-year fixed mortgage interest rate for the next few years.

Low inventory, high inflation, increasing interest rates spurred in part by the Federal Reserve Board hikes all play a role in rise and fall within the market. Our job is to consistently ensure the industry operates safely, soundly, and within the law – regardless of what the market is doing.

Throughout the ride, DFI’s Consumer Services Division continues to ensure timely turnaround for licensing requests, consistent examinations and strong consumer protection of the mortgage industry. Our team watches for industry participants failing to timely report changes, providing inadequate or nonexistent MLO supervisory plans, unlicensed processing and underwriting supervisors, advertised trigger terms without disclosing additional terms, and failure to file accurate Mortgage Call Reports (MCRs).

IS&T Exams and Wire Transfers for Credit Unions are Essential for Safety and Soundness

We all know, the financial services sector continues to experience heightened cyber threats. With that increase, it is essential credit unions protect their information systems and member data.

DFI's Division of Credit Unions expects a credit union's board of directors and senior management to not only implement an adequate Information Security & Technology (IS&T) program, but also to continuously adjust the program based on the credit union's current and evolving risks.

Additionally, DFI examiners look to ensure credit unions correct any outstanding IS&T related concerns identified through regulatory examinations and third-party audits. Examiners also review to ensure senior management is keeping the Board of Directors informed of these and any self-identified weaknesses and remediation actions.

In 2022 DFI's Division of Credit Unions added a second IS&T examiner to increase the effectiveness of our IS&T exams. Having two specialty IS&T examiners allows us to spend additional time diving deeper into IS programs.



DFI Information Security Examiner Larry Greiner and DFI Financial Examiner Mike Roe

Consumer Compliance

The Division of Credit Unions conducts compliance reviews during regular safety and soundness examinations as well as during a limited number of concurrent, standalone compliance exams. Safety and soundness exams focus on regular compliance areas such as overall effectiveness of a credit union's compliance program, Bank Secrecy Act/Anti-Money Laundering, TILA-RESPA integrated disclosure requirements, Regulation E, and Regulation Z.

Compliance exams focus on:

- Compliance management systems;
- Fair lending;
- Regulation E;
- Unfair practices under the Consumer Financial Protection Act (auto loan servicing, repossessions, GAP refunds, and freezing deposit accounts); and
- Other consumer compliance areas as needed

Wire Transfers

There has been a significant increase in consumer complaints in regards to wire transfers. Fraudsters and [scammers are becoming more and more clever](#) with their tactics and with the implementation of Artificial Intelligence (AI) tools. Today, more than ever, it's important for consumers to trust their financial institution, especially if someone (scammers) tell them not to.

In order to create more trust in the relationship between consumers and credit unions, as well as make sure all the bases are covered on the business side, [we recommend our credit unions](#) take extra precaution in the way wire transfer complaints are handled. This can be done by creating a written procedure for what to do when dealing with fraudsters and scammers and by reporting wire fraud and other cybercrimes immediately to the FBI's [Internet Crime Compliant Center \(IC3\)](#) page.

Securities Division Celebrates Signing of Whistleblower Bill 1370 and multi-state Nexo Settlement

Whistleblower Bill 1370

DFI's Division of Securities is working hard to protect securities fraud whistleblowers within our state. Recently, the Washington State Legislature passed – and Governor Inslee signed into law - the securities fraud whistleblower award and protection act bill 1370.

Whistleblower complaints can be a source of valuable firsthand information about wrongdoing that may otherwise not come to light. Unfortunately, whistleblowers often risk retaliation, including loss of employment, being blacklisted, and financial hardships.

Washington's whistleblower bill is important for the people who call our state "home" because it will allow people to come forward to report securities fraud, protect them against retaliation, and ultimately allow them to remain confidential.

Washington State is happy to be one of the five states that has added these provisions for whistleblowers.

View: [Whistleblower Bill 1370](#).

Nexo Settlement

DFI joined members of the North American Securities Administrators Association (NASAA) and the Securities and Exchange Commission (SEC) Thursday, Jan. 19, 2023 entering into a settlement totaling \$45 million with Nexo Capital, Inc. (Nexo). In the settlement, Nexo agreed to pay a total of up to \$22.5 million to state securities regulators, an estimated \$424,500 of which will be paid to WA DFI.

Over the past year, Washington DFI led a working group of state securities regulators investigating Nexo's possible offer and sale of securities in the form of its Earned Interest Product (EIP). As a result of the

Division Updates

investigation, DFI and nine other state securities regulators entered charging documents against Nexo that, among other things, alleged violations of state securities registration laws.

A working group made up of Washington, California, Oklahoma, Wisconsin, Indiana, Kentucky, South Carolina, Maryland, New York, and Vermont engaged in negotiations to settle the charges filed against Nexo and came to a multi-state settlement with the company. The negotiations were led by James Kane and Holly Mack-Kretzler of WA DFI.



DFI's James Kane and Holly Mack-Kretzler at the NASAA Enforcement Training and were awarded the NASAA Enforcement Section Team Award

At the North American Securities Administrators Association (NASAA) Enforcement Training meeting in March, James Kane and Holly Mack-Kretzler were awarded the NASAA Enforcement Section Team Award for their work on the settlement. You can read the full [press release](#) on our website.

Rulemaking

DFI's Securities Division has undertaken a project to amend the rules for broker-dealers and salespersons of broker-dealers currently found in chapters 460-20B WAC, 460-21B WAC, and 460-22B WAC. Many of these rules have not been substantively updated since the 1990s.

The Division would like to combine the rules into a single chapter, update references to federal rules, adopt new NASAA Model Rules, describe application procedures for broker-dealers who are not members of FINRA, and make additional updates in the interest of investor protection to the extent permitted by National Securities Markets Improvement Act of 1996 (NSMIA). In the coming months, the Division will conduct a small business economic impact survey, at which time we will release a draft of possible rule amendments on [our website](#).

Financial Capability Month (April) Highlights

April brings more than showers to Washington – it also brings a host of Financial Capability Month financial education outreach opportunities.



DFI Webmaster Jeremy Lushene presented at the Financial Education Public Private Partnership masters conference on online financial education resources.

DFI Director of Communications, Financial Education & Outreach Lyn Peters joined [Consumer Protection Washington](#) (CPW) partners April 5 at the Peter Kirk Senior Center to share resources and talk about how to avoid

financial fraud.

Financial education & outreach coordinator Vanessa Arita Reyes participated in the Clark College Involvement & Financial Wellness Fair, providing financial education resources to students.

DFI again partnered with the Pierce County Library Systems to provide Financial Friday workshops:

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

Arita Reyes made the trek to Pullman and provided a financial education resource table at the Washington State University Pullman campus Financial Wellness Fair.

Arita Reyes provided a presentation online to a national audience in Spanish on why and how to provide financial education to Spanish-speaking communities throughout the country as part of national Money Smart Week® events.

Peters joined CPW partners again at the Pe Ell Senior Center April 20 to talk about how to spot and avoid financial fraud. *(Photos above and at right.)*

DFI Financial Legal Examiner for the Division of Consumer Services Nat McKean, a former service member himself, attended the National Financial Military Expo on Joint Base Lewis McChord to provide financial education resources and talk with service members about a variety of finance-related topics.



Peters rounded out the month with a bang in presenting to Snohomish High School students — four classes on Monday about identity theft prevention and four on Tuesday about the basics of investing.

DFI has honored our commitment to provide financial education outreach statewide since before the 2008 legislation that put it in our mission. “Have wheels, will travel,” is what Peters tells people when they ask if DFI can come speak to their class or community.

If you or your organization is interested in having a financial education presentation, please submit a [request](#) online.

She's been here since the start – Susan Putzier retiring



She's been the heart of DFI since its inception nearly 30 years ago, served five directors, and been the keeper of troves of institutional knowledge. If anyone has a question about letters of approval needed, travel authorization requirements, how to find a state approved location for meetings (and oh, so much more) DFI's Executive Confidential Secretary Susan Putzier has provided the answer for almost three decades.

Now, after 40 years of service in state government, Putzier is retiring.

We were happy to give her a small send-off with a few surprises – including family who secretly flew in for the occasion and colleagues from decades past.

Susan's contributions to DFI have been immense – professionally and personally. She's been a steady hand on the rudder at DFI, a constant source of support, and will be greatly missed.

Above: DFI Director Charlie Clark tells attendees at Susan Putzier's retirement celebration a little about the depth of her knowledge and impact on the agency.

At Right: DFI Director Clark presents Putzier with a plaque noting her years of service and a letter of appreciation from Governor Inslee.

Below: DFI's first director, John Blye, presents Putzier with a plant (an inside joke related to Administrative Professional's Day they referred to as "Da**ed Plant Day.")

