2nd Quarter 2005

FOCUS on OFIS

Newsletter of the Michigan Office of Financial and Insurance Services

OFIS Targets Predatory Practices

The Office of Financial and Insurance Services (OFIS) is the primary state agency in Michigan responsible for combating predatory lending.

Predatory lending is best described as an activity, in the course of loan origination or lending, that results in financially disadvantaging the consumer - whether intentional and direct or unintentional and indirect. Examples include interest rates that do not relate to the risk of the loan, extremely high closing (origination) costs that do not relate to the cost of processing the loan, and loans with much higher costs or interest rates at closing than were disclosed previously.

Complaints of fraud, unlicensed activity and predatory practices are being reported at an accelerating pace. OFIS is the front line of defense against bad actors engaging in unscrupulous practices and handles complaints of mortgage flipping, predatory lending, appraisal fraud, and equity stripping.

In addition to traditional complaint-based investigations, OFIS has begun using new techniques to target those using predatory practices, including expanding annual reports filed by lenders (see accompanying article on mortgage lenders).

Because information to both consumers and the industry is key, OFIS provides free quarterly regulatory information seminars and other proactive initiatives to educate mortgage industry licensees and registrants on relevant provisions of Michigan law and regulations. Information regarding the seminars is available on the OFIS website at www.michigan.gov/ofis. OFIS has also requested more spending authority for enforcement against predatory lenders. Currently, OFIS has 17 full-time employees responsible for regulating 5,274 mortgage licenses and registrants doing business in Michigan. The additional spending authority was included in Governor Granholm's budget.

Targeting Bad Actors

OFIS is targeting predatory practices by using the OFIS annual survey of licensed and registered mortgage companies to identify potential bad actors. The survey now has questions designed to assess the risk presented by the practices of each mortgage licensee or registrant. Nondepository mortgage lenders are more likely to attract potential predators because their regulatory scheme is not as stringent as that accorded to other depository institutions (such as banks).

The new information collected in the annual survey will help OFIS better regulate the Michigan mortgage industry by more efficiently identifying and targeting for enforcement those companies that are engaging in potentially predatory practices.

OFIS currently has 5,274 licensees and registrants that operate in the Michigan mortgage marketplace. Complaints of unlicensed activity are growing at an alarming rate. In 2004, OFIS received 1,176 complaints from consumers, which represents an increase of 69% from 2001. Sixty-four of these complaints were found to warrant agency investigation, an increase of 12% from 2001.

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Commissioner's Corner

Welcome to the second edition of *Focus on OFIS*. After a successful launch of this newsletter, I have received much positive feedback and will to continue to provide this service to the industry and consumers of Michigan.

This has been a busy quarter, and we have much to report. After doing a data call for information from home and auto insurance companies, OFIS released a report on the competitiveness of the home and auto insurance markets in Michigan and has included recommendations designed to address the issue of insurance affordability to consumers. Identifying ways to target predatory lending continues to be a priority, as does providing consumers with information to make good financial decisions. We have increased our consumer education efforts and are reaching out to stakeholders who will ensure that our messages resonate with Michigan citizens.

As always, OFIS is available to assist consumers and the industry. Please don't hesitate to contact our office toll-free at 1-877-999-6442 (to speak with an OFIS communications center team member) or at www.michigan.gov/ofis.

Sincerely,

Linda A. Watters

Linda A. Watters

OFIS Commissioner

Electronic Distribution Saves Thousands of Industry Dollars

The Office of Financial and Insurance Services began converting paper mailing lists to electronic mailing lists this quarter, saving thousands of industry dollars.

For many years, OFIS has distributed several publications, including: OFIS bulletins, List of Municipalities Participating in the Fire Insurance Withholding Program, List of Municipalities Participating in the Auto Insurance Fire Loss Program, news releases, other reports or publications of general interest through the U.S. mail.

In order to save mailing costs, postcards were sent to individuals and entities that receive one or more OFIS publications to advise that OFIS publications will be sent electronically effective April 1, 2005. Recipients were asked to provide OFIS with email information to receive these publications electronically.

The List of Municipalities Participating in the Fire Insurance Withholding Program is mailed quarterly, and the cost saving from that mailing alone will be $4,800 annually. The costs of mailing bulletins vary depending on the length of the bulletin and topic, and the annual savings realized will vary based on the number of bulletins issued annually. In 2004, OFIS issued 6 bulletins, costing a total of approximately $1,200.

Recently, OFIS embarked on a project to assist state-chartered credit unions in updating their bylaws. The project will be completed mostly by electronic means. OFIS will email appropriate information to credit unions with electronic capabilities (89% of all Michigan credit unions), who will then respond electronically. This will save costs in time and money for OFIS and the credit unions.

There has been tremendous response from interested parties, and OFIS staff are proud to utilize electronic resources to improve efficiency and timeliness.

Bulletins & Letters Recently Released

(Bulletins and letters can be viewed on the OFIS website at www.michigan.gov/ofis under the Bulletins section.)

February 23, 2005 - Letter to the Board of Directors and Management of Michigan-Chartered Credit Unions Providing Notice of Michigan Credit Union Act Amendments, Michigan Credit Union Rules Pronouncements and the Pending Bylaw Amendments

February 23, 2005 - Letter to the Board of Directors and Management of Michigan-Chartered Credit Unions Providing 2004 Fourth Quarter Financial Results

Consumer Education Rep Informs Public

OFIS takes consumer education on financial issues very seriously. Financial literacy is so important that OFIS employs Judi King as its full-time Consumer Outreach Coordinator.

Judi is responsible for identifying, developing, coordinating and implementing OFIS financial literacy programs, publications and presentations. As Outreach Coordinator, Judi serves as a direct link between Michigan consumers and OFIS, generating a greater degree of consumer awareness of OFIS' role in regulating financial service entities as well as informing Michigan citizens about the assistance OFIS provides to consumers. Representatives from community based groups and organizations across the state contact Judi to arrange for presentations. Judi coordinates with OFIS staff to ensure that each presentation is tailored to the specific needs of the intended audience. Through such presentations, consumers receive the information and guidance they need to make sound financial choices when dealing with OFIS regulated entities. When consumer requests for assistance fall outside OFIS regulatory parameters, Judi serves as a referral link between consumers and other agencies.

Judi is an active member of the Community Reinvestment Initiative (CRI) Task Force and the Senior Exploitation Abuse Quick Response Team (SEAQRT) Task Force. The CRI Task Force is comprised of credit union officials, state and federal regulators and other organizations who work together on partner-based initiatives aimed at strengthening communities in Michigan, particularly under-served segments of the population. The SEAQRT Task Force was created as a joint effort among representatives from state regulatory agencies and organizations to provide local advocates with assistance in dealing with elder exploitation. She is also currently contributing monthly *"OFIS Consumer Tips"* for newsletters published by two Services to the Aging county offices in Michigan.

Judi has eighteen years of state service. She has been with OFIS since its inception, and prior to that served in the Michigan Insurance Bureau.

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Interstate Insurance Product Regulation Compact

Early in 2002, members of the National Association of Insurance Commissioners (NAIC) discussed options for achieving true uniformity in product filing standards. They recognized that the financial services marketplace has changed in recent years and continues to evolve with increased competition in certain product lines from entities such as banks and securities firms. They also recognized that there is increased mobility of the population and greater need for uniformity of some product lines. A working group was established to identify and analyze possible options to modernize the process of product filing and make formal recommendations. In March 2002, the working group proposed the development of an interstate compact whereby state insurance regulators would jointly set uniform product standards and establish a single point of filing for designated insurance products. If properly structured, an interstate compact would allow the states to address the issue of state variations affecting product standards, while ensuring uniformity in participating jurisdictions.

The NAIC has developed model legislation for the creation of the Interstate Insurance Product Regulation Compact "for presentation to interested state lawmakers and policy makers for their review, input, and approval". Amendments were added to this model legislation which addressed such items as publishing bylaws, conducting open meetings, making information regarding the operations of the interstate commission available to the public, and preserving the authority of state attorneys general. The NAIC and the National Conference of Insurance Legislators (NCOIL) adopted resolutions in support of the proposed interstate compact.

This proposal is on the legislative priority list for OFIS in 2005, and staff plan to work with the Legislature in an attempt to have product standards adopted. Nationally, state regulators are working with policymakers with the intent of having the Compact operational in at least thirty states or states representing 60% of the premium volume for life insurance, annuities, disability income insurance and long-term care insurance products entered into the Compact by year-end 2008.

The Compact has already been enacted in ten states (CO, HI, IA, ME, NE, NH, RI, UT, VA, WV) and is expected to be introduced this year in Michigan as well as eighteen other states (AL, CT, FL, ID, IL, IN, KS, KY, MD, MT, NC, NJ, NM, NY, PA, TX, VT, WA). For updates on this Compact nationwide, you can check the NAIC website at http://www.naic.org/compact/.

Recent Commissioners Orders

March and April 2005

- Robert James Wohlscheid of Bay City, MI was ordered to Cease and Desist from acting as an unlicensed securities agent or broker-dealer.
- Henry J. Vos, Sr. of Jenison, MI was ordered to Cease and Desist from acting as an unlicensed securities agent or broker-dealer.
- Dennis Hartwig (President of First Fidelity Financial, Inc.) was ordered to Cease and Desist from conducting securities business.
- Harold Brothwell (Golden Sports Club) of Marion, MI was ordered to Cease and Desist from conducting securities business.
- John M. Huizenga of Hudsonville, MI was ordered to cease and desist conducting mortgage business without a license and was ordered to pay a $1,000 civil fine
- Enterprise Mortgage Corp's mortgage broker and lender license is revoked.
- Direct Mortgage Funding, LLC of Davison, MI violated state and federal law and was ordered to pay a $3,000 civil fine.
- Ultimed HMO of Michigan, Inc violated the Michigan Insurance Code and was ordered to pay a $50,000 civil fine.
- Bruce and Susan Auten violated the Insurance Code and had their licenses cancelled.
- Barclay Mortgage Financial Services, LLC of Oak Park, MI violated the Mortgage Broker, Lender, Servicer Act and was ordered to pay a $3,000 civil fine.
- Hall's Mortgage, Inc. violated the Mortgage Broker, Lender, Servicer Act and all licenses/registrations issued are revoked.

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Credit Union Advisory Council

To facilitate effective communication between OFIS and Michigan state-chartered credit unions, the Credit Union Advisory Council was established in the late 1980's by the Financial Institutions Bureau (which was later incorporated into OFIS). The council serves at the pleasure of the OFIS Commissioner to provide informal advice and counsel on credit union issues and regulatory matters. The council consists of twelve members appointed from time to time by the Commissioner. Council members are selected by Commissioner Watters from various geographical areas of the state and various size credit unions. Council meetings are scheduled at the Commissioner's discretion, although they generally meet during the second and fourth quarters of each calendar year.

The Credit Union Advisory Council is getting some new blood this year, and Commissioner Watters would like to commend the retiring members for their service. They are:

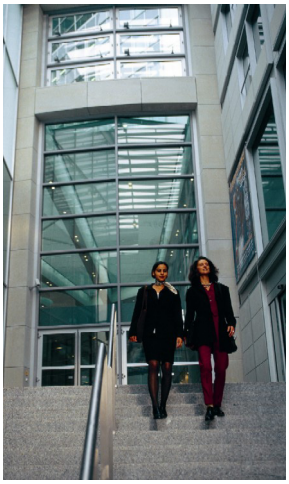
- Armando Cavazos, President/CEO of Credit Union One in Ferndale, a founding member of the council.
- James Falvey, former President/CEO of Ottawa County School Employees Credit Union in Grand Haven, who has been a member of the council since 1998.
- Robert Hunt, CEO of Educational Community Credit Union in Kalamazoo, a founding member of the council.

New members joining the council are:

- Terry Denmark, CEO of Dearborn Village Community Credit Union
- Dorothy Lester, General Manager of First General Credit Union in Muskegon
- Jeff Noe, CEO of Postal and Federal Family Credit Union of Metro Detroit

Other council members are:

- Linda Doan, President/Treasurer of COPOCO Community Credit Union of Bay City
- Jo Anne Fillwock, President/CEO of Financial Health Credit Union of Lansing
- Dennis Hanson, President/CEO of Dow Chemical Employees' Credit Union of Midland
- Daniel Hewitt, President of Soo Co-op Credit Union of Sault Ste Marie
- Pam MacCready, General Manager of Farm Bureau Family Credit Union of Lansing
- William Walby, CEO of Southfield CENCORP
- Konnie Werner, President/CEO of Team One Credit Union of Saginaw
- Daniel Witkowski, President/CEO of Members Credit Union of Traverse City
- Michele Wollard, President/CEO of Auto Club Group Credit Union of Dearborn



4th Quarter CU Info

OFIS compiles information on state-chartered credit unions, both individually, and in the aggregate and has issued the 4th Quarter Financial Results.

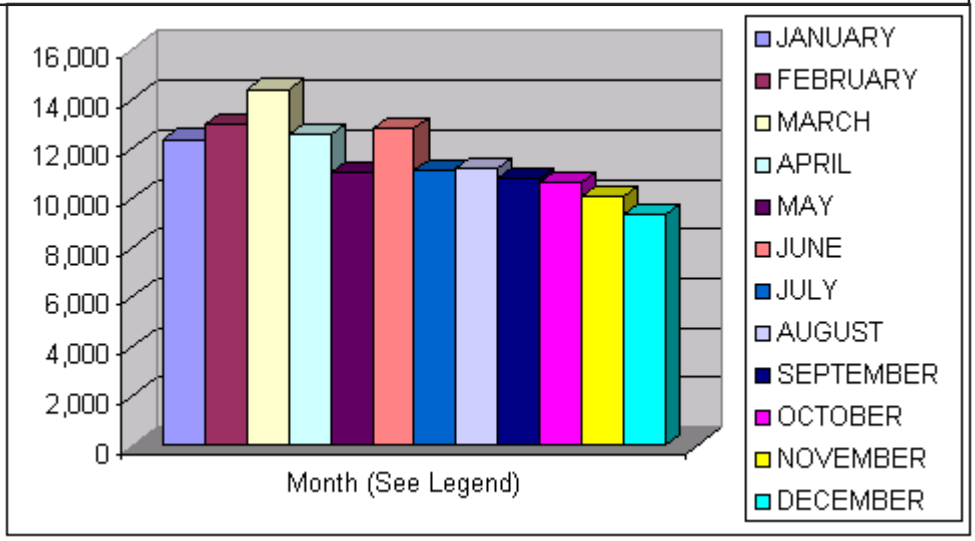
The number of state-chartered credit unions declined by four during the fourth quarter of 2004, from 262 to 258. Asset growth remained stable at 6.70% for the year. The net worth ratio for credit unions increased from 11.02 at year-end 2003 to 11.36 at year-end 2004. Operating expense and return on average assets remained stable during 2004. The aggregate delinquency and net charge-off ratios remained stable at 1.03% and 0.55% (respectively) during the year. However, the number of credit unions reporting adverse trends in these areas increased during the fourth quarter of 2004.

More detailed 4th quarter information (including charts and graphs) about state-chartered credit unions can be found at the Credit Union Division website at www.michigan.gov/ofis under Industry Services/Credit Union/Credit Union Letters.

OFIS Consumer Protection: Communications Center Calls Received

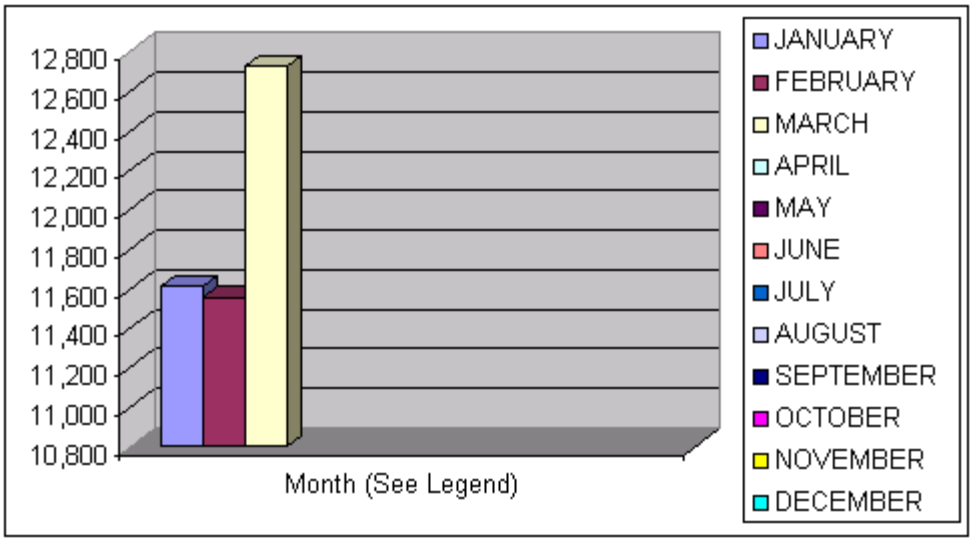
2004 Consumer and Regulatory Calls

JANUARY	12,367
FEBRUARY	13,005
MARCH	14,403
APRIL	12,588
MAY	11,040
JUNE	12,841
JULY	11,124
AUGUST	11,197
SEPTEMBER	10,791
OCTOBER	10,636
NOVEMBER	10,061
DECEMBER	9,358



2005 Consumer and

JANUARY	11,615
FEBRUARY	11,557
MARCH	12,726



Consumer Dollars Recovered

2004:
$8,765,576.50

2005 (through March):
$3,053,607.49

OFIS consumer protection actions often result in money recovered for Michigan consumers. These recoveries include dollars recovered by OFIS for consumers filing insurance, securities, banks, credit unions, and mortgage companies complaints.

Commissioner's Orders (partial list)

3rd and 4th Quarter of 2004:

Insurance	Action
Nations Hazard Insurance Company, Michael F. Napadow, and Hartford Casualty Insurance Co.	Ordered to cease and desist from doing business in Michigan
James Edward Parks and JE Parks, Inc.	Licenses revoked and were ordered to cease and desist from acting as licensed insurance agent
Gentry Group	Ordered to cease and desist from transacting insurance business without a license
Michael Kroll of Commerce Township	License revoked and fined $1,500
Clarence K. Jackson	Insurance adjuster license revoked and fined $500
Donald R. Deaton, Jr. of Lansing	Refused licensure
Michigan Pioneer Title Insurance Corporation and Sean B. McDermott of Southfield	Licenses to practice as resident title insurance producers in Michigan revoked

Securities	Action
Direct to Locomotives, Richard Strauchman, and Edward J. LaCroix	Ordered to cease and desist from acting as unlicensed securities broker-dealers or agents
Scott Machuta, CEO of Sterling Blackthorn, Inc. in Mt. Pleasant	Ordered to cease and desist selling securities
International Bond Headquarters (IBH), Hope Mills, and Kathleen Wood	Ordered to cease and desist from acting as unlicensed securities broker-dealers or agents
Golf Emporium Corporation, Eport Sports Corporation, and Gary Shultz	Ordered to cease and desist from unregistered securities sales, and from acting as broker-dealers or registered sales agents
Walter F. Robinson of Dreams Agency, Inc.	Ordered to cease and desist from selling promissory notes to Michigan investors
International Vacations, Ltd. (IV), Franz E. Bader (President of IV), and Jodie Napolitan (VP of IV)	Ordered to cease and desist from selling securities in Michigan and attempting to defraud Michigan citizens
Ryan J. Fontaine of Birmingham, MI and Simpleton Holdings Corporation (a/k/a Signature Investments Hedge Fund)	Ordered to cease and desist from acting as an unlicensed investment adviser or company, and to pay a civil penalty of $2,000

Debt Management	Action
Brian Nelson (of First Financial Services, LLC)	Ordered to cease and desist transacting debt management
Financial Solutions, Inc.	Ordered to cease and desist conducting debt management without a license
1Debtfixer, Inc.	Ordered to cease and desist conducting debt management without a license
Professional Business Solutions and Michael Heath (President of PBS)	Ordered to cease and desist conducting debt management without a license
Advanced Financial Debt Services and John Mash (President of AFDS)	Ordered to cease and desist conducting debt management without a license
CDS Operations, Inc. and Allen Boyarsky (General Counsel of CDS)	Ordered to cease and desist conducting debt management without a license
Debt Rescue, LLC and Kian Soleimanpour (President of Debt Rescue)	Ordered to cease and desist conducting debt management without a license
Tri Debt Free	Ordered to cease and desist conducting debt management without a license

Mortgage	Action
Moore Capital Funding of Detroit	Ordered to cease and desist from conducting mortgage business without a license and restitution be made to consumers who were defrauded
Hieu Van Le of Loan Depot, LLC	Ordered to cease and desist from operating as a mortgage broker without a license, pay a civil penalty of $1,000 for operating without a license, monitor and ensure compliance with state and federal law, familiarize himself with OFIS policies, and designate a compliance officer
Andrew Slovik (doing business as Mega Mortgage)	He agreed to pay a civil fine of $1,000 as well as comply with all licensure procedures before he is allowed to be granted a license.
Ronald James Uganski	License revoked, was ordered to pay a penalty of $375 for late annual filings of reports, and was ordered to pay a civil fine of $1,000 for not paying his license fees.
Arthur Taylor of Katz Diversified Consultant Services	License as a mortgage broker was revoked and his license as an insurance producer was revoked

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Rhino Financial, Inc. (doing business as Tri-State Mortgage) of Livonia	Denied a license as a mortgage broker
Delta Financial Corp	Ordered to cease and desist from acting as an unlicensed mortgage broker
VIP Financial Brokerage	Ordered to cease and desist from acting as an unlicensed mortgage broker
Greg Tankersley and Stohr Capital Group, Inc. (doing business as Source Financial and doing business as Preferred Investors Group)	Ordered to cease and desist from doing business in Michigan

Predatory Mortgage Lenders

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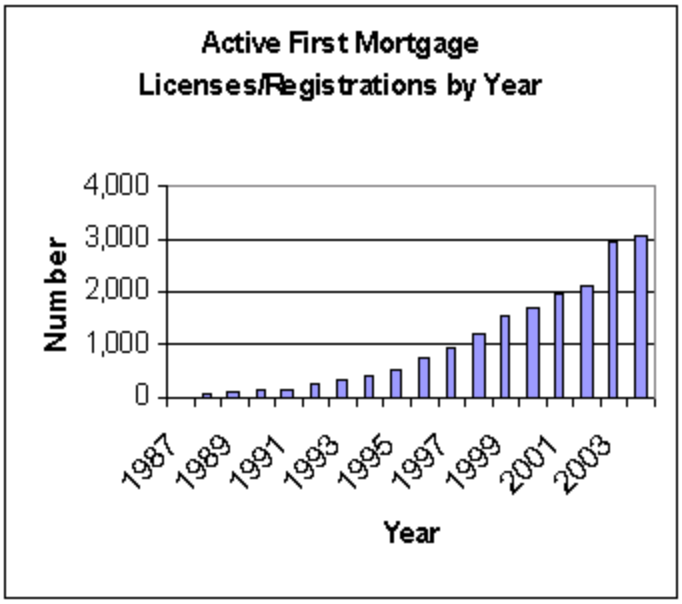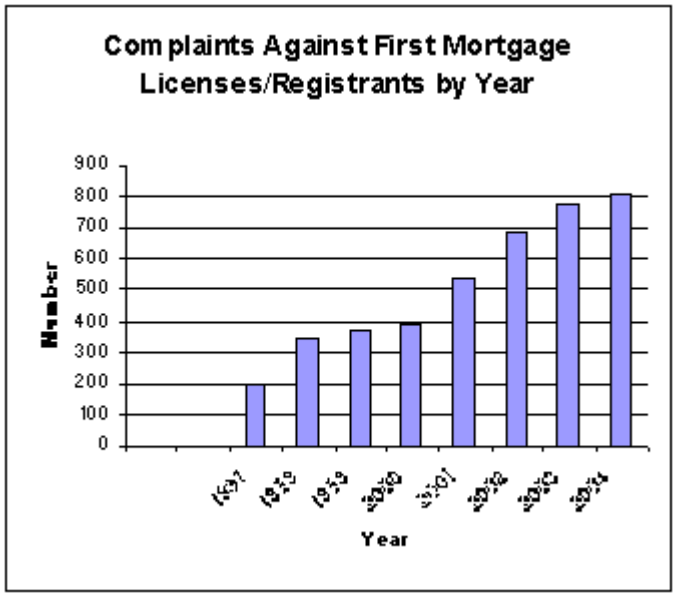
The population of active first and second mortgage licensees and registrants has exploded in recent years, with an increase of 438% and 444% in 8 years (see charts). In 1980, banks, savings banks and credit unions accounted for about 80% mortgage lending for residential properties of 1-4 families. The remaining 20% of residential mortgage transactions were through non-depository mortgage companies. Today, depositary institutions account for about only half of residential mortgage loans. Independent mortgage companies generate the other half.