Minnesota Commerce Department

1982 Annual Report

The Department of Commerce

The Department of Commerce is a regulatory and licensing agency which also has a major consumer advocacy role in providing protection, assistance and information to consumers. The Department's objective is to provide a marketplace through efficient regulation, examination and supervision which adheres to legal standards and which meets the needs of consumers in the areas of banking, insurance, securities and real estate.

The department is administered by the Commerce Commission and the Director of the Office of Consumer Services. The Commission is composed of three commissioners and the executive secretary.

The commissioners each head one of three separate regulatory divisions of the Department – banking, insurance and securities. The Director administers the Office of Consumer Services, which provides consumer information and representation, as well as administering the regulation of cosmetology in Minnesota. The Administrative Services Division, directed by the Executive Secretary, provides administrative and financial management, public information and legal services for all department units.

The Department of Commerce also provides housing and administrative services for seven non-health occupational licensing boards: The Minnesota Abstracter's Board of Examiners; The State Board of Accountancy; The State Board of Architecture, Engineering, Land Surveying and Landscape Architecture; The Board of Barber Examiners; The Board of Boxing; The Board of Peace Officers Standards and Training; and The Minnesota Board of Examiners in Watchmaking.

Michael J. Pint
Commissioner of Banks
Chairman, Commerce Commission

Mary Alice Brophy
Commissioner of Securities and Real Estate

Michael D. Markman
Commissioner of Insurance

Kris Sanda
Director of Consumer Services

Matthew F. Glover
Executive Secretary

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INTRODUCTION

PURPOSE AND SCOPE

Under the direction of Commissioner of Banks Michael J. Pint, the Banking Division has, over the past four years, developed administrative, informational, and supervisory capabilities to fulfill its overall objective to provide the best, most responsive regulatory system capable to supervise a growing and rapidly changing financial institutions industry.

The Banking Division, created in 1909, supervises and regulates all state-chartered financial institutions and consumer credit licensees that serve the citizens and business community throughout Minnesota. These institutions and licensees operate at 1,242 locations and include commercial banks, savings and loan associations, credit unions, industrial loan and thrift companies, regulated lenders (formerly small loan companies), motor vehicle sales finance companies, insurance premium finance companies, debt prorate companies, and safe deposit companies. All locations are examined by a field staff of 57 financial institution examination professionals stationed in ten districts. Detailed and comprehensive analytical reports are submitted to the St. Paul headquarters for review and appropriate supervisory action.

STATE CHARTERED FINANCIAL INSTITUTIONS
(In Millions of Dollars)
As of June 30, 1982

Institutions	Number	Branches/ Facilities	Assets
Commercial Banks	556	145	$11,733
Trust Companies	4	–	40
Investment Companies	3	–	1,642
Credit Unions	251	–	1,079
Savings and Loan Associations	4	5	138**
Regulated Lender Licensees*	18	–	12**
Industrial Loan & Thrift Companies	28	121	281**
Insurance Premium Finance Companies	23	–	20**
Motor Vehicle Sales Finance Companies	72	5	790**
Debt Prorate Companies	5	1	N/A
Safe Deposit Companies	1	–	N/A
Totals	**965**	**277**	**$15,735**

*Formerly Small Loan Companies.
**Assets as of December 31, 1981.

FUNDING

The Division's operations are fully supported by revenues generated from fees and assessments paid by the supervised institutions and licensees. The Division operates with a staff complement of 81, including supervisory personnel, field examiners and administrative support personnel.

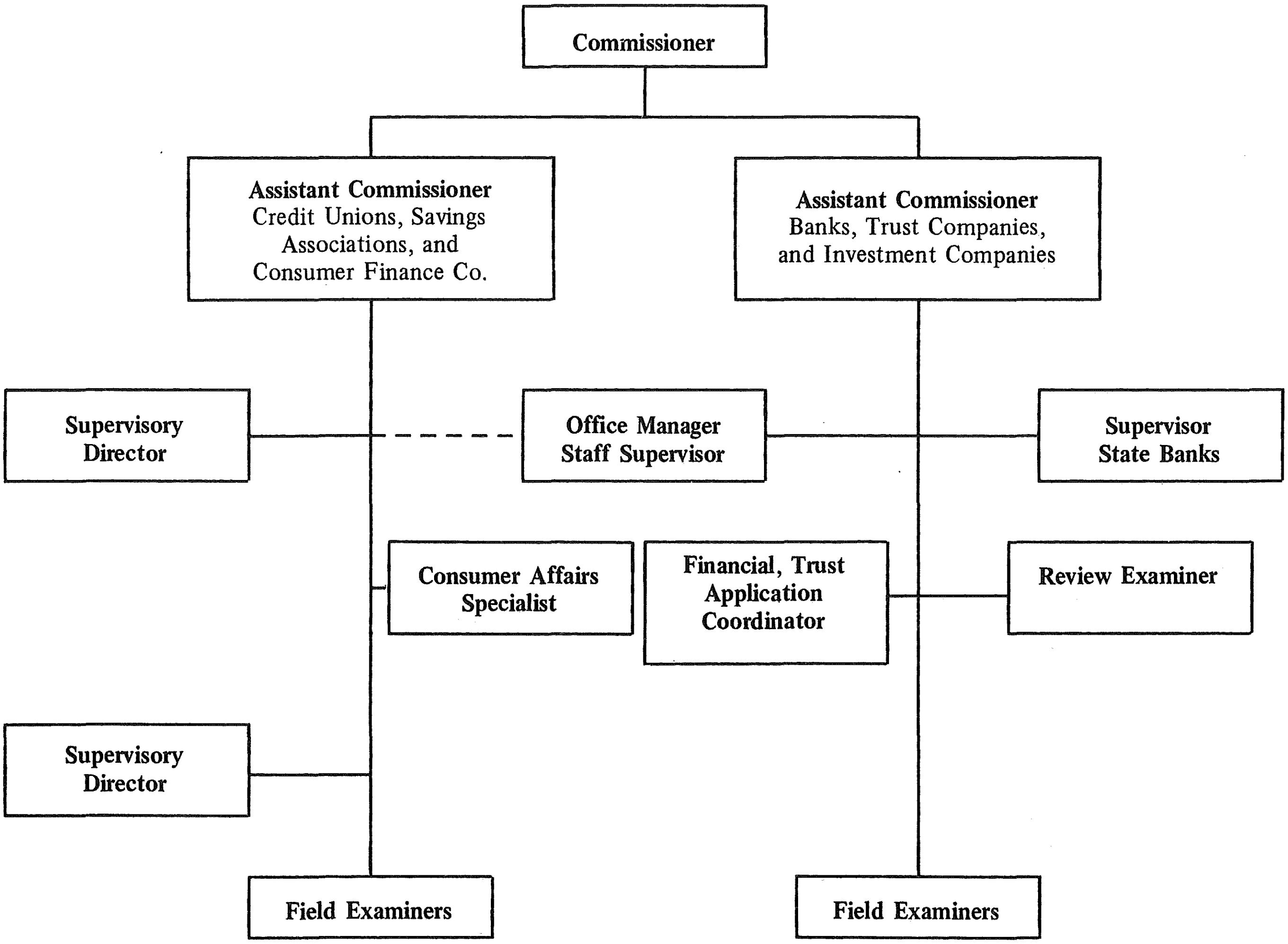
REORGANIZATION

The effectiveness with which the Banking Division carries out its statutory responsibilities was the result of a significant reorganization and reemphasis of its objectives beginning in the second half of FY 1979. This was the beginning of a period seldom witnessed in the 73 year history of the Banking Division. Financial institutions in general, according to Commissioner Pint in his 1979 fiscal year report to the legislature, were to face some very significant challenges as they entered the 1980s. "Changes are inevitable in the areas of increased competition and broader powers for all types of financial institutions." To prepare for these changing conditions and the hazards to the safety and soundness of supervised institutions, three key areas were identified as critical and needing immediate attention to accomplish the overall objectives of the Division:

1. To be more effective and responsive to the needs of the supervised industries and the public they serve.
2. To improve examination procedures in terms of frequency, quality, and timeliness of action.
3. To change the Division operations both internally and externally in how it deals with supervised industries and the public.

In the second half of 1979, the following reorganized Division began to function toward the accomplishment of the above goals:

Banking Division Organization Chart



The functional reorganization of the Division resulted in two units each headed by an assistant commissioner reporting to the Commissioner of Banks. Also by redefining the duties of existing personnel, a key administrative position of office manager was created to coordinate day-to-day workflow and administrative responsibilities. A position of consumer affairs specialist was established to provide prompt and uniform handling of general consumer complaints and information requests. Both of these positions improved the operations of the Division and removed duplications among other staff positions. With the benefit of this reorganization, the following operational changes and improvements have been implemented over the past four years:

OPERATIONAL IMPROVEMENTS

- Formal rating systems have been implemented for all depository institutions which identify institutions requiring more than normal supervision.
- On average, 40% of examination staff has annually received formal training attending various schools for examination personnel, including training to improve writing skills and report preparation.
- Regular weekly communications have been made to keep examiners informed and policy and procedural matters have been formalized and included in policy manuals.
- Monitoring of all depository institutions is now maintained by systems of on-line data availability in cooperation with federal regulatory authorities and in-house summaries of key financial or statistical data on problem institutions.
- Joint supervisory programs were entered into between the state and the appropriate federal regulatory authority for commercial banks. Under this program, scheduling of examinations is coordinated and those institutions requiring normal supervision are subject to only one examination annually by either state or federal examiners on an alternate year basis. This program allows for better allocation of resources of those institutions requiring closer supervision.
- Application processing has been simplified by adopting common forms to be used by both the Banking Division and the Federal Deposit Insurance Corporation for bank charters, mergers, detached facilities (branches) and trust powers.

- Turnaround time for transmittal of examination reports to the financial institutions has been significantly reduced. Average time in the first quarter of 1979 was 43 to 82 days depending on the type of institution. Currently the average for all types of depository institutions is less than 34 days.
- An advisory group was formed in 1979 representing liaison with Minnesota's savings and loan officials. Existing credit union and consumer credit industry advisory groups were effectively utilized to address current and policy level issues.
- A consumer information number was installed to provide 24-hour access to the maximum lawful interest rates for various types of transactions including those based on the Federal Reserve Discount Rate and for municipal bond rates.
- Standard documents and procedures were developed for all types of depository institution remedial and supervisory actions.
- The Division's filing system was standardized eliminating duplication and minimizing space requirements, while reducing time and effort to locate or identify information needs.
- Examination report review, typing and editing procedures were improved with problem or sensitive reports identified for expeditious processing. The frequency of errors has been substantially eliminated and quality standards established.
- All professional examination and supervisory positions have been reevaluated with newly established position responsibilities. Salary levels consistent with responsibility were improved which are more competitive with similar positions in government and the private sector.
- A plan for consolidating examination districts has been adopted which will provide for improved supervisory control and staff compensation. This will make crew size more flexible to meet the requirements of the increasing number of larger, more complex banks and other financial institutions in the districts.
- Management of applications and correspondence has been closely controlled to permit decisions to be made within statutory time frames and more timely responses to the industry and general public.

LEGISLATIVE ACCOMPLISHMENTS

Fifteen bills were sponsored by the Banking Division in the 1978-1982 sessions. The legislation was necessary to implement and support operational and supervisory changes and industry improvements. All 15 bills were passed and their provisions are included in the following brief summary:

1980 – Required insurance for industrial loan and thrift companies and clarified the law that all depository institutions must insure accounts up to $100,000.
- Permitted loans to board members, officers and employees up to $25,000 without prior board approval subject to subsequent ratification.
- Authorized commercial banks to make loans secured by junior liens on real estate up to 80% of overall loan-to-value ratio.
- Obtained authority to examine bank holding company records pertaining to transactions with state bank affiliate.
- Obtained authority to issue temporary cease and desist and officer removal actions comparable to federal regulatory agencies.

1981 – Made the application procedure for detached facilities identical with federal authorities to remove any inequities in notice and comment requirements.
- Permitted bank and trust company directors to use holding company stock to qualify as directors in affiliated banks.
- Increased the time for submitting regular financial reports by banks from 15 to 30 days consistent with federal regulators.
- Authorized credit unions to invest in "Fed Funds" and to sell real estate mortgages in the secondary market. Also, required credit life and disability insurance commissions to be included in credit union income.
- Supported the recodification of the consumer credit and lending laws under the Regulated Loan Act of 1981. This Act provided higher loan limits, more flexible repayment terms and authority to make second mortgage loans.
- Established statutory criteria for industrial loan companies to make applications for approval to accept deposits, provided accounts are insured or guaranteed up to $100,000.
- Repealed outdated and inflexible statutory liquidity reserve requirements for all depository institutions and required boards of directors to develop liquidity policies subject to the Commissioner's review upon examination.
- Removed the requirement for annually examining all banks thereby allowing use of the divided examination program with federal regulators.
- Provided for more equitable assessment of overhead costs of Banking Division levied on institutions and licensees based on asset size.
- Reduced the frequency of examinations for well-run regulated lenders and motor vehicle licensees.
- Clarified the bank merger law to permit bank mergers and to allow expeditious handling of mergers in the case of failing banks.
- Provided language and support for savings associations to obtain authority to form stock chartered associations or convert from mutual to stock form of ownership.

1982 – Permitted Banking Division clerical employees to do any business with supervised institutions. Clarified that borrowing transactions with national banks and deposit accounts in supervised institutions did not constitute a conflict for examination personnel.
- Expanded certain fixed asset investment limitations for banks, including removing all but insider leases from approval requirements and authorized depreciation at levels consistent with generally accepted accounting principles.

1982 – Clarified the procedure under which approval of a relocation of a bank or trust company can be made by the Commissioner of Banks.
- Removed the application and approval procedures for IRA, Keogh and individual housing account authority.
- Eliminated the requirement for filing annual directors oaths and permitted use of common form with the federal authorities for quarterly financial reports by banks.
- Clarified authority for banks to transact repurchase agreements in connection with the pledge of U.S. Government or agency securities.
- Extended the term of the Credit Union Advisory Council.
- Provided authority for acquisition of a troubled Minnesota savings bank by an out-of-state bank holding company.

MERGERS, CONSOLIDATIONS AND LIQUIDATIONS

Mergers, consolidations and liquidations of financial institutions have become more frequent as the financial services industry continues to move toward the goal of free market competition. Attainment of this goal during a period of time when the volatility of interest rates has been unprecedented has challenged the financial services industry in terms of safety and soundness causing a reduction in the number of supervised institutions. Over the past four years, the Banking Division has closely monitored the condition of the regulated industries and supervised the merger, consolidation and liquidation of 43 depository financial institutions.

There follows a brief summary of the activity over the past four years for each industry:

(1) **COMMERCIAL BANKS** – Commercial banks have had the least amount of activity with respect to mergers or liquidations over the past four years. We have seen three voluntary mergers over the past four years of state banks wherein one bank acquired another bank within 25 miles and operated it as a branch. No state bank failed over the past four years.

(2) **SAVINGS BANKS** – Probably the most notable merger ever in Minnesota and one which received national attention was the unique merger initiated by the Banking Division between F&M, the states only savings bank, with $872 million in assets, and Marquette National, a commercial bank with $428 million in assets. It was the first cross-industry merger between a savings bank and a commercial bank since the 1930s. Furthermore, the state adopted special legislation permitting an out-of-state acquisition by a bank holding company to acquire F&M as a commercial bank. While the legislation in the end was not utilized, its effect had a positive impact on the amount of financial assistance provided by the Federal Deposit Insurance Corporation. The merger was structured as an open-bank transaction to prevent any loss to depositors, debenture holders, or creditors.

While it was unfortunate to see an institution like F&M be merged out of existence since it had served the community well for 107 years, the process which occurred in that merger is an excellent example of how regulators, legislators, and bankers can work together to avert a banking crisis.

(3) **SAVINGS ASSOCIATIONS** – There have been many voluntary mergers of savings and loan associations in Minnesota. Also, those remaining state-chartered savings and loans have applied to convert to federal charter. The number of state-chartered savings and loans has been reduced to four, down from sixteen just four years ago.

The largest savings and loan merger was the supervisory merger the Banking Division initiated between Home Savings Association with assets of $690 million and First Federal with assets of $805 million in January 1981. At the time, it was the largest supervisory merger in which the Federal Savings and Loan Insurance Corporation had ever provided financial assistance. All deposits and liabilities were assumed by First Federal with no loss to depositors or creditors.

(4) **CREDIT UNIONS** – State-chartered credit unions have been reduced by 20 during the past four year period. Most were merged into other credit unions with the primary reason being small size, credit problems and/or lack of adequate management.

There were three credit unions placed into receivership by the Banking Division and one voluntary liquidation the past four years. The three credit unions which failed were paid out by the National Credit Union Share Insurance Fund with no loss to depositors.

(5) **CONSUMER FINANCE COMPANIES** – The number of consumer finance offices has been reduced by 175 over the past four years due primarily to voluntary branch closings based on economic factors. Finance companies, especially those that are consumer oriented, have been severely affected by the sharp and prolonged increase in interest rates. These higher rates have significantly raised their cost of funds and reduced – and in some cases, eliminated their earnings.

The Money Shops Industrial Loan and Thrift Company, which had deposit authority, closed its doors in St. Cloud, Minnesota, in May 1982. It had deposits totaling $2.8 million on December 31, 1981, all of which were uninsured. A pay out was arranged by the Banking Division with no loss to depositors.

SUMMARY

Supervised financial institutions have and will continue to experience some very significant challenges, as well as opportunities, as the financial services industry continues its deregulation. These challenges and new opportunities have increased the risk factor impacting very directly the supervisory efforts of the Banking Division. Factors contributing to this increased risk and the increased supervisory efforts have been the economic recession, the prolonged high and volatile interest rates, and the intense competition from nonbank sources. Deregulation of the financial services industry began in 1980 with 1986 the target for complete deregulation of deposit rate ceilings. Expanded powers for depository institutions are being implemented with further legislation being proposed for product expansion. While deregulation of the industry has increased competition benefiting the general public directly, it has challenged the industry in terms of safety and soundness. Profit margins have become much more narrow, institutions have taken greater risks and sources of funds have become much more volatile. This has negatively impacted earnings, created liquidity problems and caused a deterioration in asset quality. Mergers and consolidations have become more frequent as some financial institutions are not equipped to meet the challenges to operate in an environment of free-market competition. The Banking Division's supervisory efforts have been intensified to identify and monitor the new activities, risks and problems. Computerized off-site data gathering and analysis has been implemented, as well as changes in the scope and focus of on-site examination. Increased emphasis has been placed on training staff to handle the increased supervisory efforts of the Division. Efforts must continue to develop new techniques and better trained staff to meet the increased burden of supervising a rapidly changing financial services industry.

COMMERCIAL BANKS, TRUST COMPANIES, SAVINGS BANKS, INVESTMENT COMPANIES

This unit is responsible for carrying out the Division's functions relating to the supervision and regulation of state-chartered commercial banks, trust companies, savings banks, and certificate investment companies. In discharging this responsibility, this unit performs three primary, interrelated functions:

(1) Examinations of each financial institution are conducted to assess financial and managerial conditions and compliance with State Law.
(2) Applications are processed for new bank charters, detached facilities, charter conversions, mergers, trust powers, debenture issues, and bank premises investments.
(3) Consumer complaints concerning supervised institutions are investigated.

COMMERCIAL BANKS

State-chartered commercial banks comprise the largest segment of the Division's responsibilities both in number and dollar volume of assets supervised. There are 556 state-chartered commercial banks operating in 701 locations at the end of fiscal 1982, controlling in excess of $11.7 billion of assets. Compared to the end of fiscal 1981, this represented no change in the number of banks, an increase of 22 locations, and $1.1 billion of assets, respectively. Minnesota Statutes, Chapters 47 and 48, are the primary governing statutes under which the commercial banks operate.

Structural Changes for Minnesota State Banks

No applications were filed for **de-novo** bank charters in fiscal 1982. However, two applications approved in prior fiscal years received charters and opened for business in fiscal 1982. These include the Renville County State Bank, Renville, Minnesota, chartered March 2, 1982, and the Crow River State Bank, Delano, Minnesota, chartered on June 24, 1982. There remain two unopened banks approved in prior fiscal years. These banks are to be located in St. Paul and Waconia. Merger activity included the First State Bank of Littlefork being absorbed by the First National Bank of International Falls on January 8, 1982, and the State Bank of Hokah being acquired by the Caledonia State Bank on June 9, 1982. In addition, two phantom bank charters were issued in fiscal 1982. The Farmers and Merchants Interim Bank (Preston) was chartered to absorb the Farmers & Merchants State Bank of Preston under the new name of Farmers & Merchants State Bank of Preston; and the F&M Interim Bank (Minneapolis) was chartered to absorb the Farmers & Merchants Savings Bank (Minneapolis) and simultaneously thereafter was absorbed by the Marquette National Bank of Minneapolis under the name of F&M Marquette National Bank, Minneapolis, Minnesota.

Detached Facilities

Since August 1, 1977, Minnesota law has permitted banks and trust companies to establish detached facilities (two for each) at locations up to 25 miles from the main office after approval by the Commissioner of Banks. Since 1980, the facilities can be full service branches.

Examinations

The Banking Division examined 303 or 54% of all state banks during fiscal year 1982. Minnesota law was changed in 1981 to require that each bank shall be examined at least once annually. In satisfying this examination requirement, the Commissioner may accept reports of examination prepared by a federal agency having comparable supervisory powers and examination procedures. The Banking Division regularly receives and reviews bank examination reports of state banks prepared by federal supervisory agencies.

Following is a four-year comparison of key data describing the state-chartered banking industry.

(In Millions of Dollars)
As of June 30

	1979	1980	1981	1982
Principal offices	553	556	556	556
Detached facilities	80	102	123	145
Total banking offices	**633**	**658**	**679**	**701**
Total Loans	$5,606	$5,858	$6,107	$6,638
Less allowance for possible loss	41	46	48	52
Net Loans	**$5,565**	**$5,812**	**$6,059**	**$6,586**
Total Deposits	$7,988	$8,621	$9,455	$10,290
Total Assets	$8,947	$9,654	$10,649	$11,735
Total Equity Capital	$674	$769	$877	$972

TRUST COMPANIES

There are five state-chartered trust companies under supervision of the Banking Division. One of these, Northwestern Bank and Trust Company, St. Cloud, legally operates as a commercial bank (with FDIC insurance) and is supervised as such, although it was originally chartered as a trust company. Each trust company is examined annually. There are also 17 state-chartered banks authorized to perform trust services. The trust departments are examined along with their respective banks. Minnesota Statutes, Chapters 47 and 48 are the primary governing statutes under which trust companies and trust departments of commercial banks must operate. In fiscal 1982, legislation was passed that required all trust companies accepting deposits to have insurance of accounts not later than July 1, 1983.

INVESTMENT COMPANIES

There are three investment companies under supervision of the Banking Division. Two, Investors Syndicate of America, Inc., Minneapolis, and State Bond and Mortgage Company of New Ulm, sell face-amount investment certificates to the general public on periodic payment plans. As such, these two companies operate in accordance with the Investment Company Act of 1940. The other investment company, Investors Diversified Services, Inc., Minneapolis, is the parent company of Investors Syndicate of America and has not been in the business of selling face-amount investment certificates since 1970. Nevertheless, it remains under State supervision. The investment companies are examined annually by the Banking Division. Investment companies in Minnesota operate primarily under Minnesota Statutes, Chapter 54. There was no significant legislation enacted in 1982 that affected investment companies.

CONSUMER CREDIT, CREDIT UNIONS, SAVINGS ASSOCIATIONS

This unit is responsible for examination, supervision, and administration of laws relating to state-chartered credit unions, savings and loan associations, industrial loan and thrift companies, licensed regulated lenders, motor vehicle sales finance companies, debt prorate companies, safe deposit companies, insurance premium finance companies and conventional home mortgage lenders.

These financial institutions and licensees operate at 534 locations in the state and provide various services, including consumer lending, retail financing, commercial lending, mortgage lending, and acceptance of deposit accounts. Examinations are conducted to determine compliance with laws and prudent, safe investment of depositor funds. Depositor funds are insured by the National Credit Union Administration for all state-chartered credit unions and by the Federal Savings and Loan Insurance Corporation for state-chartered savings associations. Insurance of deposits for industrial loan and thrift companies is required by law by July 1, 1983.

The Consumer Credit, Credit Union, and Savings Association Unit has a trained consumer affairs specialist to respond to individual citizen requests for information and assistance in resolving problems relating to the supervised industries. Since May 1976, the unit has also been responsible for implementation of the Conventional Home Loan Assistance and Protection Act, including registration, annual reporting, and publication of the monthly rate for conventional home loan lending and contracts for deed.

CREDIT UNIONS

Credit unions are cooperative associations organized under the provisions of Chapter 52, Minnesota Statutes. The services of credit unions are available only to shareholding members who have a common bond of employment, association, or residence in a well-defined community or rural district. No credit unions were organized in the year ending June 30, 1982; however, there were seven mergers, two liquidations, and one conversion from federal to state charter. Examinations of 182 of the 251 credit unions were conducted during the fiscal year 1982.

The trend in the credit union movement is toward fewer and larger credit unions. Total assets of credit unions have increased 30% since 1977 and at June 30, 1982, assets equaled $1.08 billion. Reserves increased 32% over the same period.

The share and deposit accounts of all credit unions are insured up to $100,000 per depositor by the National Credit Union Administration.

The Credit Union Advisory Council advises and consults with the Commissioner. This five-member council meets quarterly.

Following is a four-year comparison of key data describing the state-chartered credit union industry.

(In Millions of Dollars)
As of December 31

	1978	1979	1980	1981
No. of Credit Unions	271	268	261	256
Members	498,786	569,225	568,847	592,820
Savings Deposits	666.2	725.9	856.6	894.2
Loans	626.7	682.3	651.8	670.7
Total Assets	765.2	828.7	942.7	998.0
Total Reserves	64.2	75.0	75.5	84.8

SAVINGS AND LOAN ASSOCIATIONS

The number of state-chartered associations has been declining rapidly from 16 at December 31, 1978, to 4 at June 30, 1982. This is due to mergers of smaller associations and conversions to federal charter. The charter conversions were due in part to the fact that federal laws and regulations applying to federally chartered savings and loan associations allow operating powers much more favorable than under state law.

While the Banking Division strongly supports the dual chartering system, the state does not have the flexibility to make changes in the same manner as the actions taken by the Federal Home Loan Bank Board. With the problems facing all thrift institutions, these state-chartered, insured associations must exercise whatever options are immediately available to them in order to continue to operate safely and soundly and to serve their depositors and members. While state associations have been among the strongest in Minnesota in terms of reserves and net worth, the action taken to minimize losses and allow maximum flexibility was a necessity to effectively compete in the current deregulated environment.

One application has been approved to organize a capital stock association under 1981 legislative amendments. It will be the first stock chartered savings and loan association in the state.

All associations have their accounts insured through the Federal Savings and Loan Insurance Corporation and were examined in the 12-months ending June 30, 1982.

Following is a four-year comparison of key data describing the state-chartered savings and loan industry.

(In Millions of Dollars) As of December 31	1978	1979	1980	1981
Principal offices	16	13	10	9
Branch offices	21	45	43	23
Total Assets	500.3	1,219.7	512.1	518.5
Mortgage Loans Outstanding	442.3	1,068.7	433.2	432.7
Savings and Deposits	427.2	931.1	448.5	477.9
Total Operating Reserves	26.5	50.1	26.0	22.7

INDUSTRIAL LOAN AND THRIFT COMPANIES

Industrial loan and thrift companies operate under Chapter 53, Minnesota Statutes, and make direct consumer loans and purchase retail finance contracts. Since 1978, the number of companies has declined significantly to 28 companies operating at 149 locations as of June 30, 1982. Several factors caused this reduction, including closing unprofitable branch offices and the recent conversion of 10 locations to regulated lender licenses. Beginning August 1, 1981, second mortgage real estate loans were permitted for the first time. In the five months ended December 31, 1981, $50.2 million real estate secured loans were made averaging $13,627.

Three companies held deposits of $53 million on December 31, 1981. One company closed its office in May 1982. All depositors were paid in full through Banking Division action. On June 30, 1982, the remaining two companies held $47.9 million in deposits. All offices of these deposit taking companies, which included 43 branches, were examined in the 12 months ending December 31, 1981.

Several regional and national industrial loan and thrift companies will be applying for deposit authority under the provisions of the Thrift Implementation Act of 1981. All deposits are required to be insured up to $100,000 for each depositor by July 1, 1983, or before an application is approved.

Following is a four-year comparison of key data describing the industrial loan and thrift industry.

(In Millions of Dollars) As of December 31	1978	1979	1980	1981
Number of Companies	41	41	39	31
Number of Branches	172	175	162	132
Total Assets	312.5	330.8	296.2	280.9
Loans Outstanding	237.4	249.2	225.3	252.2
Deposits	60.4	57.0	58.3	53.0
Total Capital	66.0	65.9	63.5	85.3
Number of Loans Made	101,494	94,705	74,322	72,147

LICENSED REGULATED LENDERS (Formerly Small Loan Companies)

Regulated Lenders are licensed and operate under Minnesota Statutes, Chapter 56. Effective August 1, 1981, new legislation increased their lending limit from $1,200 to $35,000 and permitted second mortgage real estate lending. The changes came at a time when the industry had already been reduced to primarily those operating in the same office as affiliated industrial loan companies. However, the Regulated Loan Act of 1981 permitted industrial loan companies to make regulated, Chapter 56 loans to $35,000 without a separate license. The result was significant deregulation, the surrender of 79 licenses, and the end of the "dual operations" of small loan and industrial lenders in the same office.

On June 30, 1982, regulated lenders were licensed at 18 locations operated by 15 companies, 9 of which are independent and locally owned. As a result of the expanded lending authority, $2.2 million in second mortgage loans were made averaging $10,296 in the five months ending December 31, 1981.

Following is a four-year comparison of key data describing the regulated lender industry.

(In Millions of Dollars) As of December 31	1978	1979	1980	1981
Licensed Locations	124	126	112	13
Total Assets	37.8	36.2	32.9	11.6
Loans Outstanding	22.0	21.5	17.3	11.0
Number of Loans Made	38,119	33,107	22,032	2,358
Average Loan Made	695	682	705	2,062

MOTOR VEHICLE SALES FINANCE COMPANIES

Motor Vehicle Sales Finance Companies operate under Minnesota Statutes, Sections 168.66 to 168.77. They purchase retail installment sales contracts which originated between retail sellers and retail buyers of motor vehicles, trailers, motorcycles, and manufactured or mobile homes. During 1981, 72 licensees operated at 77 places of business. This substantial reduction, down from 230 locations in December 1980, is due to significant deregulation efforts by the Banking Division.

Following is a four-year comparison of key data describing the motor vehicle sales finance industry:

(In Millions of Dollars) As of December 31	1978	1979	1980	1981
Number of Companies	116	121	100	72
Number of Licensed Locations	245	232	230	77
Contracts Outstanding Balances	897.8	692.1	592.6	790.4
Number of Contracts Purchased	N/A	N/A	74.2	96.4
Finance Charges	98.6	47.7	45.5	62.8

DEBT PRORATE COMPANIES

Debt Prorate Companies operate under the provisions of Minnesota Statutes, Chapter 332. Funds are received into a trust account from which fees are deducted and the remainder disbursed to creditors within 35 days. Four companies were examined in the 12 months ended June 30, 1982.

Following is a four-year comparison of key data describing the debt prorate industry.

(In Thousands of Dollars)
As of December 31

	1978	1979	1980	1981
Number of Licensees/ Locations	5/7	5/7	5/7	5/6
Funds Received	2,009.3	2,196.6	2,672.0	2,738.0
Fees and Charges	163.1	193.1	250.1	236.8
Number of Client Applications	2,830	2,723	2,882	2,780

SAFE DEPOSIT COMPANIES

Safe Deposit Companies operate under the provisions of Chapter 55, Minnesota Statutes. The Vault, Inc., Edina, Minnesota, is the only safe deposit box company as of June 30, 1982, and opened for business in January 1982. It is the first safe deposit box company not affiliated with a financial institution. Since 1980, all financial institutions are exempt from licensing. Additional private companies are expected to apply for licenses to provide 24-hour safe deposit box and safekeeping services.

INSURANCE PREMIUM FINANCE COMPANIES

Insurance Premium Finance Companies are licensed under Chapter 59A, Minnesota Statutes. They are generally affiliated with insurance companies and finance insurance premiums on policies for the insured.

Following is a four-year comparison of key data describing the insurance premium finance industry.

(In Millions of Dollars)
As of December 31

	1978	1979	1980	1981
Licenses	22	23	24	23
Number of Contracts	7,101	8,232	10,847	12,442
Contract Outstanding Balances	14.9	18.4	23.0	20.4

CONVENTIONAL HOME LOAN MORTGAGE LENDERS

Conventional home loan mortgage lenders are regulated by Minnesota Statutes, Section 47.20. The state requires registration with the Banking Division by lenders who are not supervised financial institutions and make more than five loans a year. Seventy-six lenders are registered. All lenders, including state and federally chartered financial institutions, make an annual report of their activities. Lenders filing annual reports for the year ended December 31, 1981, numbered 639 and reported making 20,744 conventional loans totaling $873 million, including 3,733 loans totaling $206 million made for newly built residential units in Minnesota.

The maximum rates allowed for conventional loans in Minnesota follow national market rate trends; however, preemption of states' first mortgage real estate usury laws became effective on December 28, 1979. The 1981 Minnesota Legislature passed a bill which overrides the federal preemption and adopted an identical state moratorium on maximum rates until August 1, 1984. The maximum lawful rate of interest which now only applies to a few types of mortgages and contracts for deed is published in the St. Paul Legal Ledger and State Register. A Banking Division 24-hour telephone hot line provides information on lawful interest maximums on (612) 297-2751.

Following is a four-year comparison of key data describing conventional mortgage lending as reported to the Banking Division.

(In Millions of Dollars)
As of December 31

	1978	1979	1980	1981
Total Number Loans	65,273	47,144	25,056	20,744
Total Dollar Volume	2,344.6	1,932.2	1,050.8	873.1
Newly Built-Number	18,725	13,039	6,033	3,733
Newly Built-Dollar Volume	780.9	636.0	308.2	206.4
Lowest Lawful Interest Rate	9.25%	10.25%	13.00%	15.00%
Highest Lawful Interest Rate	10.00%	13.50%	17.25%	19.25%

With an approved complement of seventy-two persons and a fiscal year 1983 budgetary appropriation of $2.0 million, the Insurance Division is charged with the task of regulating all aspects of insurance transactions which occur in this state. Through its enforcement of the insurance laws of this state, the Insurance Division attempts to assure that: all insurers, self-insurers, and health maintenance organizations in Minnesota meet the applicable standards of financial solvency to ensure the payment of all claims made under their policies; that rates charged for insurance are not excessive, inadequate or unfairly discriminatory; that insurance agents and company representatives meet applicable standards of integrity and quality of service; that insurance policy forms meet standards consistent with law and public policy; and that violations of insurance laws and standards of conduct are dealt with in a timely manner.

The efficient performance of its licensing function is paramount to the attainment of the Insurance Division's regulatory objectives. Toward this end, licenses are issued to insurers (including nonprofit health service plan companies, fraternal beneficiary associations, surplus lines insurers, township mutual insurance companies, and health maintenance organizations): insurance agents and claims adjustors; automobile no-fault and workers' compensation liability self-insurers; and vendors of risk management services.

INSURERS

As of the beginning of calendar year 1982, 1,140 insurers were licensed to transact insurance in Minnesota; 219 of which are domiciled in Minnesota. The combined assets of these insurers was approximately $727.7 billion. In 1981, Minnesota premium volume of these insurers was $4.051 billion. In addition, 74 companies were approved as eligible surplus line companies that provide insurance coverage when a particular type or amount of insurance is unavailable in the state. Additionally, 129 township mutual insurance companies were operated by various political subdivisions throughout the state. In 1981, the total amount of premium taxes collected by the Insurance Division (including interest, penalties and surcharges) was $56.4 million.

AGENTS AND ADJUSTORS

During 1982, approximately 39,000 agents held licenses for the sale of life/health or property/casualty insurance in Minnesota. 150 persons were licensed for the sale of farm property and liability insurance only. The number of public adjustors licensed to provide claims assistance to Minnesota residents was approximately 530. Approximately 600 applicants are tested each month for the purpose of qualifying for insurance agents' licenses.

SELF-INSURERS AND RISK MANAGEMENT VENDORS

Approximately 120 companies have met the financial solvency standards required for issuance of workers' compensation liability self-insurance authority. Approximately 35 companies are authorized to self-insure automobile no-fault liability coverages. Similarly, 12 companies were registered with the Insurance Division as qualified vendors of risk management services which are needed for the administration of various self-insurance programs.

STATE AID APPORTIONMENT

The Insurance Division, through its premium tax audit is also charged with the task of apportioning state aid to fire and police relief associations. This state aid is derived from tax surcharges on property/casualty insurance sold in this state. In 1982, the total amount of state aid apportioned to fire and police relief associations was $21.5 million.

The ongoing functions of the Insurance Division are carried on through the work of its three regulatory units: the Financial Standards and Audits unit; the Enforcement and Regulatory Standards unit; and the Workers' Compensation and Regulatory Policy unit. Each unit is headed by an assistant commissioner.

FINANCIAL STANDARDS AND AUDITS (FSA) UNIT

The overall function of the FSA unit is to monitor the solvency of all companies licensed in Minnesota and to review all changes affecting the financial condition of licensed insurers. All applications for admission in Minnesota, and all insurer mergers and acquisitions are reviewed by this unit. All required financial examinations of licensed insurers and premium tax audits are conducted by this unit. Where the financial examination of a company indicates that the insurer's financial condition is impaired, recommendations for rehabilitation, receivership, or liquidation are forthcoming. The fiscal year 1983 approved complement for this unit is 13 professional/managerial employees. The fiscal year 1983 budgetary appropriation for this unit (including clerical employees) was $615,788.

ENFORCEMENT AND REGULATORY STANDARDS (ERS) UNIT

The regulatory functions of this unit are divided among three separate components: the life and health section, the property/casualty section, and the consumer assistance and investigative section. Through the activities of these three sections, the Insurance Division exercises review and approval of all policy forms and rates intended for use in Minnesota. In 1982, the life and health section reviewed 11,364 policy form submissions which resulted in the approval of 4,458 accident and health policy forms and 5,718 life policy forms, and resulted in the disapproval of 1,188 life or health policy form submissions. The property/casualty section reviews policy form and rate filing submissions for all property/casualty and liability coverages (including private passenger automobile and no-fault coverages, homeowners coverage, inland marine coverage, umbrella liability coverage, etc.). During 1982, 3,075 property/casualty submissions were reviewed.

The life/health and property/casualty sections are also responsible for overseeing the activities of the following residual market associations created by the Legislature to provide insurance coverage to consumers in instances where the voluntary market fails to do so: the Minnesota Comprehensive Health Association (for accident and health insurance coverage to uninsurable persons); the Auto Assigned Claims Plan and Auto Insurance Plan (applicable to no-fault liability coverages); the Minnesota Fair Plan (for the placement of insurance on buildings and dwellings).

The property/casualty section has also conducted studies and/or special projects as required by legislative enactments: including a study of liquor liability coverage availability, automobile no-fault surcharge disclosures, homeowners insurance reporting requirements; and product liability claims reports.

The consumer assistance and investigation section acts upon inquiries, claims and complaints from consumers regarding insurance products and the methods by which they are marketed by companies and agents. This section acts as arbitrator between the state's citizens and the insurance companies in all matters involving claims and complaints regarding unfair trade practices. During calendar year 1981, this section processed in excess of 7,500 consumer inquiries resulting in the recovery of approximately $915,000 on behalf of the residents of this state. For the first ten months of calendar year 1982, this section processed in excess of 5,400 inquiries, resulting in recovery of approximately $740,000 for citizens. During calendar year 1981, this section's activities with respect to allegations of misconduct by insurance agents resulted in the additional recovery of $308,000 for Minnesota residents.

The total professional/managerial complement of the ERS unit is 24 persons. The fiscal year 1983 appropriated budget is $704,032 (inclusive of clerical personnel).

WORKERS' COMPENSATION AND REGULATORY POLICY (WCRP) UNIT

The WCRP unit serves the function of administering the Insurance Division's ongoing administrative requirements arising from the workers' compensation insurance system, and performs such related analytical and evaluative studies as are required for the development of sound public policy initiatives by the Insurance Division. In light of the recent legislative initiatives for reform of the workers' compensation insurance system in Minnesota, the WCRP unit has been involved in the development of workers' compensation self-insurance rules and rules designed to govern the transition from administered pricing of workers' compensation insurance rates to a system of open competition. This unit has also been involved in the extensive efforts to develop rules relating to medical providers fee restraints, and completion of reports on qualified rehabilitation counselors as well as a study on health care cost containment methods. This unit has also had extensive involvement in administrative hearings for the promulgation of workers' compensation insurance rates and was extensively involved in the authorship of the 1982 report to the Governor on the workers' compensation insurance system.

The approved professional and managerial complement of this unit is 8 persons. The fiscal year 1983 budget appropriation was $289,903.

SIGNIFICANT ACCOMPLISHMENTS

Several major changes in insurance regulation in Minnesota have occurred over recent years as the direct result of Insurance Division action.

REDLINING

Legislation prohibiting redlining in homeowner's insurance sales offered new protections to homeowners in the provision of this basic insurance coverage. The law prohibits insurance companies from refusing to offer, cancelling, or not renewing an insurance policy solely because of the age or location of a house, or because the insured had been refused insurance by another insurance company. In addition, no insurance company may charge a differential rate for any of these factors. Requirements for annual disclosure by companies of their homeowners insurance business and increased remedies for insureds decreased problems in availability of homeowners insurance.

MEDICARE SUPPLEMENT INSURANCE

Confusion and lack of understanding about medicare supplement insurance by the elderly has prompted exploitation and abuses in the sale of this insurance. In 1981, a law was enacted to establish minimum levels of coverage for all medicare supplement insurance policies and required insurers to make certain consumer disclosures.

TOWNSHIP MUTUAL INSURANCE COMPANIES

Township mutual insurance statutes previously limited unnecessarily the investment capability of these companies and provided no financial reporting standards. Recent legislation broadens the investment authority of township mutual insurance companies; gives the Commissioner of Insurance explicit authority to regulate the business affairs of these companies and requires independent triennial examinations of township mutual companies.

FINANCIAL REGULATION

Previous insurance regulatory statutes did not allow the Commissioner to efficiently or effectively undertake financial regulation of insurance companies. Examination requirements did not prove to be effective in detecting or reducing the risk of insolvency but contributed significantly to the cost of regulation. In order to protect policyholders, as well as to enable the Insurance Division to carry out effective financial regulation while using resources more efficiently, legislation in 1981 eliminated mandated triennial examination of companies and granted the Commissioner increased powers in this area.

WORKERS' COMPENSATION

Over the past four years several changes in workers' compensation insurance were proposed by the Insurance Division. New law addressed creation of the Workers' Compensation Reinsurance Association, use of the Administrative Procedures Act in workers' compensation rate and manual changes, deregulation of workers' compensation insurance, and establishment of standards for workers' compensation self-insurance programs.

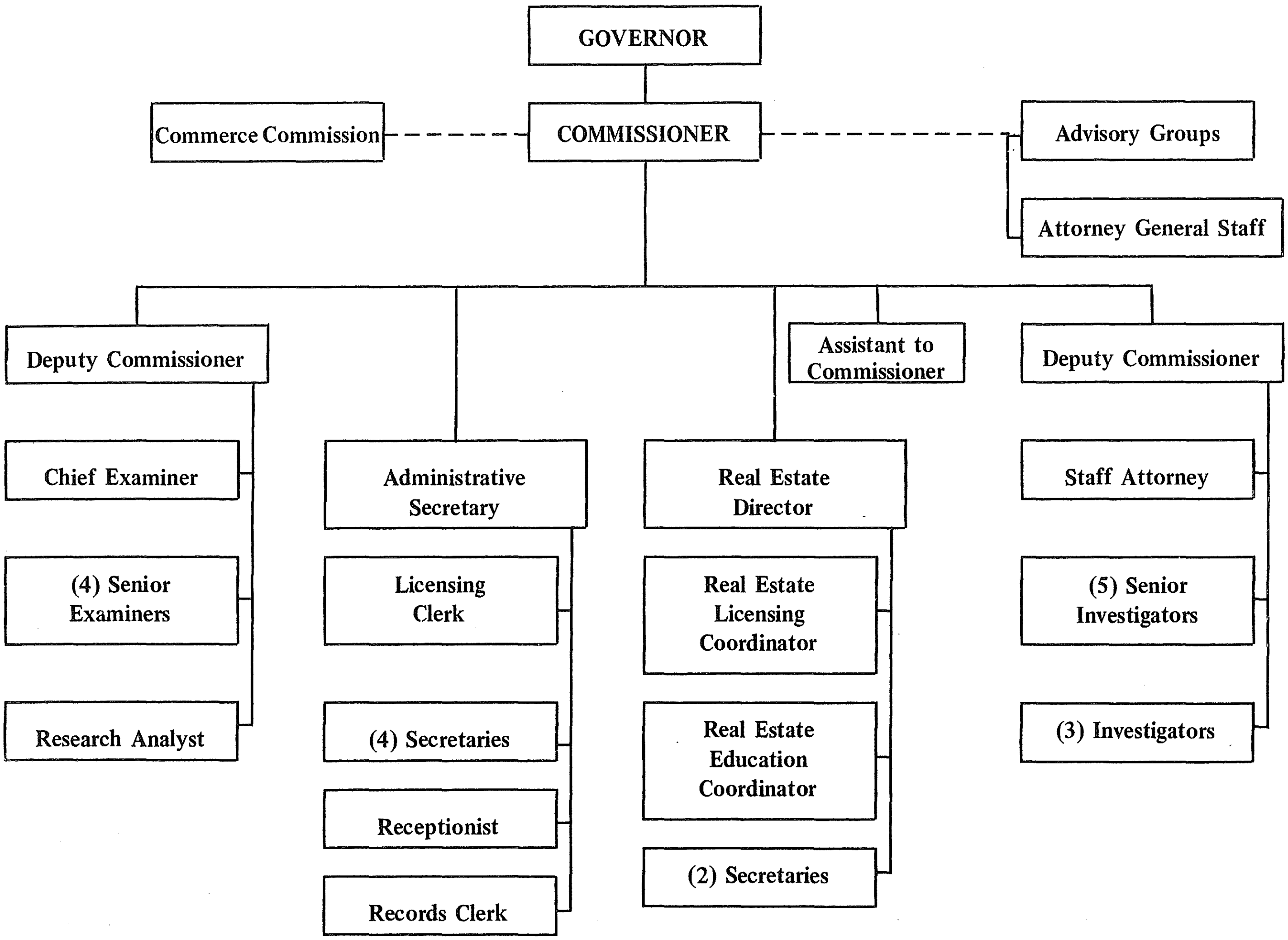
ISSUES TO BE ADDRESSED

Major policy issues facing the Insurance Division include the continued transition to a competitive workers' compensation rate system, health care cost containment through insurance regulatory methods, continued improvements in company financial regulation, increased and effective assistance for consumers including promulgation of unfair claims settlement practices rules, and continued oversight of self-insurance practices in Minnesota.

Securities and Real Estate Division

The Division is a regulatory agency responsible for the administration and enforcement of seven Minnesota statutes governing securities, corporate takeovers, franchises, real estate licensing, subdivided land sales, charitable organizations and collection agencies.

Securities and Real Estate Organizational Chart



The Division has an authorized personnel complement of 34 who are organized and assigned based on the functions of the Division rather than by separate sections for each of the laws administered. The Commissioner directs the overall policy and management of the Division. There are two Deputy Commissioners. One Deputy is responsible for the registration and licensing functions and the other directs investigative and enforcement operations. In 1980, the non-enforcement real estate licensing, education and examination activities were combined into a self-contained section within the Securities and Real Estate Division. Licensing had previously been located in the Administrative Services Division of the Department of Commerce and the real estate education program was conducted from the campus of the University of Minnesota pursuant to a contractual agreement.

Securities licensing functions were also relocated to the Securities and Real Estate Division from the Administrative Services Division. In 1979 Minnesota ceased administering its state securities examination and joined a nationwide effort using the Uniform Securities Agent State Licensing Examination (USASLE).

In 1982 Minnesota became the twenty-fifty state to participate in the Central Registration Depository (CRD), a computerized licensing system designed to facilitate securities licensing throughout the country. Licensing data contained on a uniform application form is electronically transmitted from the CRD headquarters in Washington, D.C. to Minnesota and other jurisdictions in which application is being made. Fees are mailed from the CRD on a weekly basis and licensing is accomplished via the computerized network. The CRD has increased the Division's efficiency by dramatically reducing paperwork and by providing access to the largest securities data base in existence. In addition, the system is estimated to save $30-40 million annually for industry members who were formerly required to file separate applications and checks with up to sixty state, federal and self-regulatory bodies.

LEGISLATION AND RULEMAKING

During the past four years legislative changes were initiated which have helped to streamline the responsibilities of the Division and provide greater organizational effectiveness. Bingo and public cemeteries were appropriately transferred to county authorities for regulation. The Continuing Care Facilities Act was redrafted by Division personnel resulting in a self-executing statute which does not require the oversight of a department of state. The review of industrial revenue bond projects under Minn. Stat. Ch. 474 was returned to the Department of Energy, Planning and Development. Charitable Trust documents are now required to be filed directly with the Attorney General's office. The Division had merely served as custodian for those records while the Attorney General had complete enforcement jurisdiction. Combining those functions in one office allows for a more efficient administration of the law.

Major revisions to the Securities Act and rules were enacted. The Division has made a concerted effort to delete unnecessary filings and requirements placed on the regulated industry, while promoting uniformity with other regulatory jurisdictions including, whenever possible, the federal regulatory scheme.

The Real Estate Licensing Law was amended and the real estate rules were comprehensively revised as of 1982. One of the most significant statutory refinements pertains to the Real Estate Education, Research and Recovery Fund. In 1980 the fund was restructured in order to provide a reasonable level of relief for parties aggrieved by real estate licensees, preserve assets, and improve its administration. The fund is currently self-supporting, with sufficient cash flow to cover expenditures. It is noteworthy that interest income during 1982 totaled $71,035.50, an amount which exceeds the total interest earned for the previous nine years of the fund's existence. The fund now has maximum flexibility for investment of its assets as a result of these amendments. All available cash is currently invested in Treasury Bills maturing in one year or less. Despite recent increases in the amounts paid to claimants for recovery ($111,456.59 in 1982), it is not anticipated that there will be a need for special assessments of licensees unless there are repeated annual recovery claims which reach the $400,000 maximum liability. Of the $99,774.12 spent during 1982 for education and research, $11,087 and $25,000 were paid to the University of Minnesota and St. Cloud State University, respectively, for development and implementation of their real estate education programs. In 1982 a new three-year $100,000 contract was entered into with the University of Minnesota for continuation and expansion of its program. Nearly $8,000 has been repaid to the fund under the Revenue Recapture Act by licensees whose fraudulent acts have caused payments to be made to aggrieved parties.

Real Estate Education Research and Recovery Fund

Fiscal Year	Receipts	Interest	Recovery	RE News	Education and Research	Balance
1973	$ 118,160.00					$118,160.00
1974	209,670.00			$ 2,696.30		325,133.70
1975	53,675.00		$ 12,603.10	2,763.65	$ 14,691.01	348,750.94
1976	73,280.00	$ 1,627.43	6,872.31	9,245.19	40,975.52	366,565.35
1977	101,260.00	8,277.01	24,865.13	11,190.87	34,533.08	405,513.28
1978	142,418.36	7,295.03	4,771.08	12,940.97	37,835.87	499,678.75
1979	70,205.00	11,115.00	5,162.26	14,209.50	57,214.99	504,412.00
1980	57,750.00	10,555.38	61,251.21	14,064.50	89,969.86	407,431.81
1981	740,950.52	18,432.50	284,619.98*	13,150.00	102,903.75	766,141.10
1982	277,345.20	71035.50	111,456.59*	17,251.13	102478.27	883,335.81
TOTALS	**$1,844,714.08**	**$128,337.85**	**$511,601.66**	**$97,512.11**	**$480,602.35**	

*Calendar Year Expenditures.

In 1975 the Commissioner of Securities and Real Estate was authorized, pursuant to Minn. Stat. 507.09, to appoint an advisory committee on uniform conveyancing forms to recommend to the Commissioner amendments to existing forms or the adoption of new forms.

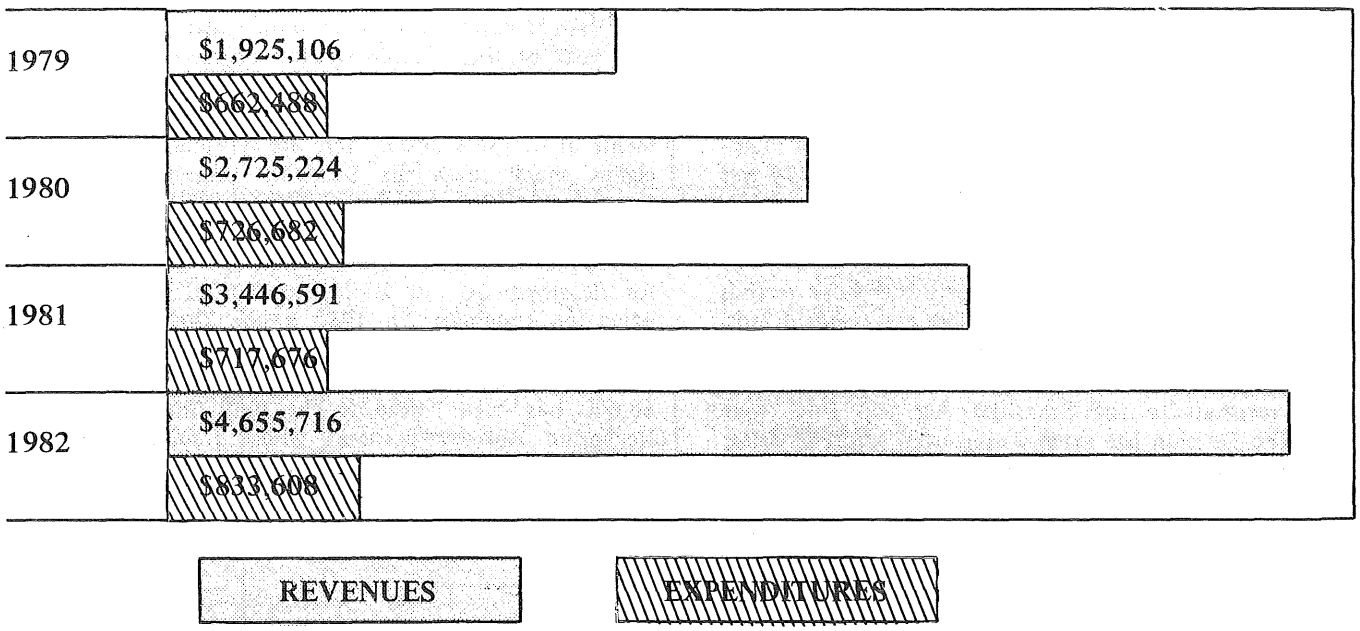
The committee, which is comprised of real estate attorneys, county recorders and individuals from the real estate industry, has revised and simplified numerous forms, including probate, warranty and quitclaim deeds, mortgage forms and contracts for deed. The Division has adopted the forms as rules in accordance with the Administrative Procedure Act.

The committee serves at the pleasure of the Commissioner and without compensation. It is the successor to the Uniform Conveyancing Blanks Advisory Commission, which was created in the 1920's.

REVENUES AND EXPENDITURES

The Division's revenues have steadily increased in recent years, primarily because of large fees being paid by issuers of money market mutual funds. In 1982 more than $4 million (86%) of the Division's total revenues were derived from issuers of securities and securities licensees. The Division received $5.59 in revenues for each dollar spent in 1982, as compared to $1.84 in 1976.

Securities and Real Estate Division



1982 expenditures amounted to $833,608. Due to severe budgetary cutbacks the Division's discretionary spending has been markedly decreased. Certain fixed costs, such as salaries, fringe benefits, rent, telephone and postage have risen sharply. Because approximately 90% of the budgeted expenditures are for salaries and fringe benefits, it has been necessary to leave several positions unfilled in order to operate within the parameters of available funds. Division-initiated mail and long distance telephone calls have been significantly curtailed, along with decreases in travel, supplies and equipment.

Expenditures

	1979	1980	1981	1982
Salaries and Fringe Benefits	$569,805	$621,706	$621,903	$722,876
Rent	38,922	44,139	53,516	58,713
Telephone	18,340	21,192	19,555	26,218
Travel	15,090	15,565	6,900	2,442
Supplies and Equipment	20,331	24,260	15,802	23,359
TOTAL	**$662,488**	**$726,862**	**$717,676**	**$833,608**

Despite fiscal constraints, the Division staff has increased its productivity and efficiency and has been able to handle an increased workload with fewer resources.

1982 Revenues

SECURITIES	
Securities Registration, General	$ 413,514
Redeemable Securities Registration	2,761,268
Amendment	10,328
Exemption	51,786
Annual Report	120,901
Opinion	4,940
Broker/Dealer License	13,280
Agent License	95,708
Investment Adviser License	2,050
Broker/Dealer Renewal	88,633
Agent Renewal	395,481
Investment Adviser Renewal	13,315
Agent Transfer	12,500
Recission	760
Fine/Penalty	17,930
Miscellaneous	362
Subtotal	**$4,002,756**
CORPORATE TAKEOVER	
Registration	0
Hearing	0
Miscellaneous	38
Subtotal	**$ 38**
FRANCHISE	
Registration	31,610
Amendment	12,500
Annual Report	25,800
Opinion	100
Exemption	1,000
Miscellaneous	62
Subtotal	**$ 71,072**
REAL ESTATE	
Broker License	25,270
Salesperson License	63,515
Corporate/Partnership License	10,260
Broker Renewal	140,770
Salesperson Renewal	132,770
Corporate/Partnership Renewal	27,550
Salesperson Transfer	37,945
Broker Transfer	3,960
Reinstatement	10,215
Miscellaneous	694
Subtotal	**$ 452,949**
SUBDIVIDED LAND	
Registration	19,434
Amendment	50
Exemption	1,000
Annual Report	2,310
Opinion	80
License	11,980
License Renewal	63,580
License Transfer	10,220
Miscellaneous	10
Subtotal	**$ 108,664**
CHARITABLE ORGANIZATIONS	
Professional Fund Raiser License	250
Miscellaneous	2
Subtotal	**$ 252**
COLLECTION AGENCIES	
License	2,900
Investigation	2,700
License Renewal	14,100
Miscellaneous	285
Subtotal	**$ 19,985**
TOTAL	**$4,655,716**

Revenues By Source

	FY 1979	**FY 1980**	**FY 1981**	**FY 1982**
Securities	$1,150,881	$2,076,408	$2,733,635	$4,002,756
Real Estate	603,403	477,864	507,391	452,949
Subdivided Land	91,739	82,539	118,186	108,664
Franchises	56,520	68,925	67,950	71,072
Collection Agencies	21,738	18,716	18,616	19,985
Charities	525	672	763	252
Corporate Takeover	300	100	50	38
TOTALS	**$1,925,106**	**$2,725,224**	**$3,446,591**	**$4,655,716**

REGISTRATION AND LICENSING

The registration and licensing responsibilities of the Division are those most affected by prevailing economic conditions. Shifts in the types of registration or exemption filings are dictated largely by market fluctuations. $33.5 billion of securities were registered for sale during 1982. Of that total, approximately 85% were debt, mutual fund and limited partnership offerings.

Registration Activity

	1979	1980	1981	1982
SECURITIES				
Registrations	924	985	1,537	1,617
Dollar Volume of Registrations	$13.3 billion	$13.6 billion	$29.4 billion	$33.5 billion
Applications withdrawn or denied	116	94	214	175
Amendments	186	253	342	359
Exemptions	374	440	703	1,306
Annual Reports	962	796	846	1,095
CORPORATE TAKEOVER				
Applications	2	1	0	0
FRANCHISE				
Registrations	65	78	100	127
Applications withdrawn or denied	9	15	41	11
Amendments	148	144	218	263
Annual Reports	262	255	248	240
SUBDIVIDED LAND				
Registrations	10	16	20	15
Applications withdrawn or denied	9	3	1	15
Amendments	40	3	0	4
Exemptions	68	87	83	85
Annual Reports	18	19	16	16
Inspections	18	11	5	5
CHARITABLE ORGANIZATIONS				
Registrations	140	165	145	177
Annual Reports	544	625	911	986
BINGO				
Annual Reports	N/A	–	–	–
CHARITABLE TRUSTS				
Current filings	1,250	1,299	1,275	0
Annual Reports	N/A	677	665	0
CEMETERIES				
Annual Reports	61	60	55	0
MUNICIPAL INDUSTRIAL REVENUE PROJECTS				
Approvals	284	350	396	221[1]
CONTINUING CARE FACILITIES				
Applications	–	0	0	–

[1] Responsibility for approving applications for Municipal Industrial Revenue Bonds was transferred from the Securities and Real Estate Division to the Department of Energy Planning & Development as of January, 1983. The number of approvals therefore represents only six months of fiscal 1982.

Licensing activity for securities broker-dealers remained relatively constant, yet there has been a significant increase in agent registrations. Real estate, which comprises the Division's largest licensing volume, appears to have stabilized at a slightly reduced level from previous years. The troubled housing market has undoubtedly been a primary factor in such reductions and also in the increased numbers of salespersons who transfer from one broker to another. In 1981 that number reached an unprecedented 32% and in 1982 dropped to a still generous 25%.

Licensing Activity

	1979	1980	1981	1982
SECURITIES				
Broker/dealer applications	26	29	64	55
Broker/dealer total	282	306	337	341
Investment adviser applications	13	12	20	19
Investment adviser total	91	102	103	109
Agent applications	2,500	1,350	1,472	1,819
Agent transfers	909	521	473	625
Agent total	6,225	5,087	6,493	7,611
REAL ESTATE				
Broker applications	650	583	491	476
Broker transfers	318	148	407	398
Broker total	6,500	5,376	5,148	5,400
Corporation/Partnership applications	310	253	193	223
Corporation/Partnership total	N/A	1,585	1,562	1,701
Salesperson applications	2,875	2,385	2,554	2,376
Salesperson transfers	4,142	3,430	4,197	3,272
Salesperson total	22,500	13,696	13,146	13,300
SUBDIVIDED LAND				
Applications	1,222	949	576	603
Transfers	800	894	910	829
Total	7,747	7,716	6,726	6,800
CHARITIES				
Professional fund raiser applications	10	12	18	11
COLLECTION AGENCIES				
Applications	10	5	22	25
Total	145	150	141	141

In 1981 Minnesota became the second state to coordinate its subdivided land registrations with the U.S. Department of Housing and Urban Development (HUD) under the Interstate Land Sales Full Disclosure Act. After becoming certified in this program, the Division was able to lessen the administrative burden on individual developers arising from duplicative federal and state registration and disclosure documents without affecting the level of protection given to purchasers or lessees.

ENFORCEMENT

The Division's enforcement capabilities have been greatly taxed in recent years as the volume of citizen complaints has increased during these difficult economic times. The staff has been inundated with reports of alleged abuses under each of the laws it enforces. There has been a continuing need to reprioritize the focus of investigative efforts in order to protect the public. Investment scams dealing with oil and gas, coal, precious metals and various non-traditional securities have lured large sums of money from unsuspecting victims. Advance fee loan schemes, fraudulent contracts for deed and trust account violations have been major priorities for enforcement of the real estate law. Unregistered sales of subdivided land and franchises have also created problems, as well as increases in collection agency and charities complaints.

Enforcement Activity

	1979	1980	1981	1982
Administrative Orders	107	101	167	175
Cease and Desist Orders/Injunctions	55	64	77	61
Stipulations/Fines	4	N/A	6	13
License Revocation			18	15
License Suspension	47	30	27	37
License Censure			6	9
License Denial	2	4	2	6
License Reinstatement	N/A	N/A	1	4
Orders to Show Cause	2	5	18	26
Criminal Referral/Charges	16	15	12	20
Formal Investigations	275	353	384	270
Informal Investigations	600	614	501	605
TOTAL	**875**	**967**	**885**	**875**

Millions of dollars have been diverted from legitimate capital formation markets as a result of the aforementioned fraudulent activities. Although the effect of a strong enforcement effort is difficult to measure in precise terms, the overall impact far exceeds the actual dollar losses. A strong enforcement posture is critical for the preservation of investor confidence and the prevention of even greater economic losses to residents of Minnesota.

The Office of Consumer Services (OCS), a section of the Minnesota Department of Commerce, is managed by the Director, Krista L. Sanda, and the Deputy Director, Judith C. Green. The office is divided into three program functions: Complaint Mediation Unit; Residential Utility Unit; and Cosmetology Unit. Each of the program reports is compiled in this booklet. In addition to the individual program reports, as a four-year cost/benefit analysis of the operation of this office, there is a list of the twelve most significant accomplishments of the Office of Consumer Services in the past four years.

Our operations have been guided with policy input from our two statutorily-mandated citizen advisory boards. The Board of Residential Utility Consumers is headed by former Congressman Ancher Nelsen, Chairman. The Minnesota Cosmetology Advisory Council elected Clyde Duncan, owner of three northern Minnesota cosmetology schools, as Chairman. We would like to express our appreication to the 18 citizens, all appointed by the Governor, who have served on these two boards over the past four years.

ACHIEVEMENTS DURING 1979-1982

1. CIRCUIT RIDERS

Consumer Services initiated a "Circuit Rider" program in June, 1980, to carry the direct services of this agency to rural communities throughout Minnesota. A Circuit Rider employee of Consumer Services visited each of 33 cities on a once-per-month basis to discuss consumer complaints with rural citizens and farmers, responded to inquiries and conducted consumer education programs. (In the first year of its inception alone, staff members served 1,663 rural consumers and handled over 1,000 formal complaints. The resolution of those complaints returned over $67,000 to Minnesota consumers in resolved complaint settlements.) Due to state budget cuts, the Circuit Rider Program now serves 11 outstate areas.

2. CONSUMER EDUCATION PROGRAM

The Consumer Services Complaint Unit initiated an extensive statewide consumer education program to inform Minnesota rural consumers regarding current economic and safety issues. The Consumer Services staff has presented consumer-oriented seminars throughout the State of Minnesota on such issues as landlord/tenant law, medicare supplemental insurance, how to shop wisely, infant safety, chain saw safety and how to evaluate energy-saving products such as insulation, etc. In 1981 alone, Complaint Unit members from the Office of Consumer Services participated in more than 250 radio and TV consumer education events and contributed to over 80 newspaper articles in rural Minnesota.

3. INTERAGENCY AGREEMENTS

Consumer Services has initiated several interagency agreements which allow each agency to provide greater service for more efficient expenditure of Minnesota state revenues. The following interagency agreements within the State of Minnesota are representative of this initiative:

a) Consumer Services/Economic Security agreement provided funding and still provides facilities for the outstate operation of the Circuit Rider Program;

b) Consumer Services/Handicapped Council cooperate to provide T.T.Y. instrument and interpreter services for hearing-impaired consumers;

c) Consumer Services/Division of Vocational Rehabilitation shares information and complaint services;

d) Consumer Services/Federal Consumer Product Safety Commission cooperate in public education efforts and product recall programs;

e) Consumer Services/Human Rights cooperate in providing Duluth, Minnesota, regional office for intake of Human Rights complaints, to assist area citizens following the closing of the Duluth Human Rights office due to state budget cuts;

f) Consumer Services/Department of Natural Resources cooperate to provide consumer education and joint facilities for the Minnesota State Fair. In 1980, more than one million citizens viewed the Consumer Services booth at the Department of Natural Resources Building on the Minnesota State Fairgrounds.

g) Consumer Services/Department of Energy, Planning and Development cooperate to provide consumer education regarding energy saving systems and to coordinate complaint activity and reporting;

h) Consumer Services cooperates with the University of Minnesota, School of Agriculture, and Minnesota Women for Agriculture, Metro Chapter, to conduct the annual Minnesota Ag-Day Seminar, which is held on National Agriculture Day. The 1982 Seminar registered more than 500 consumers, food producers, and agribusiness persons.

4. LEGISLATIVE ACTIVITY

The Consumer Services Complaint Unit initiated two pieces of successful legislation in the 1981 Minnesota legislative session:

a) The Auto Purchase Disclosure Bill (H.F. 509) requires motor vehicle purchase agreements to carry language which alerts consumers to the extent of their obligation under a purchase agreement; *Minn. Stat. section 168.78;*

b) The Repair Invoice Bill (H.F. 462) extends consumers' rights to receive adequate documentation regarding items which they have had repaired; *Minn. Stat. section 325F.60.*

Consumer Services is working toward introduction of a bill in the 1983 legislative session which would increase consumers warranty rights after a new car purchase (Lemon Car Bill).

5. INTERPRETIVE RULES

The Minnesota Supreme Court has ruled that Consumer Services has the authority to write interpretive rules under the Consumer Protection Statute. That ruling was the result of a landmark court case in Minnesota. State of Minnesota vs. Minnesota-Dakota Retail Hardware, 279 NW 2d 360 (Minn. 1979).

6. STATE DESIGNEE FOR CONSUMER PRODUCT SAFETY COMMISSION

We have greatly strengthened the role as state designee for the Federal Consumer Product Safety Commission by activist posture and media work, as well as several Purchase of Service contracts from the Federal government which provided additional funding for the Office.

7. MODERNIZATION OF OFFICE METHODS

We have instituted use of modern office methods and word processing to increase the efficiency of our state operation. Despite five budget cuts due to state budget deficits, we have maintained our workload of 75,000 incoming phone calls per year and our complaint load average of 4,000 written complaints per year, with only one layoff.

8. COST/BENEFIT ANALYSIS, COMPLAINT UNIT

Total Number Consumer Inquiries	130,815
Total Written Complaints Handled	114,535
Total Money Returned to Consumers in Settlement Values (includes 1982 estimate)	$786,361
Total Complaint Unit Budget Expenditure (general fund appropriations)	$735,600

This represents a $1.07 return on every $1.00 spent in the area of settlement values alone. This does not take into account all of the information, referral, and educational efforts for which no direct dollar value can be assigned.

9. RATE CASE INTERVENTION

Consumer Services Utility Unit has intervened in more than 37 utility rate cases before the Minnesota Public Utilities Commission in the past four years. We have expended $860,000 for salaries and expert witnesses for the cases and have saved the Minnesota utility consumer $215,560,909. **That is a return of $250 for every taxpayer dollar invested.** (See chart following Item 10.)

a) Four years ago, the Utility Unit was little more than a legislative proposal on paper. In four years, we have succeeded in molding an effectively functioning unit of five professional people who have earned the respect of the Public Utilities Commission for integrity and reasonableness. Our objective of advocating the interests of **residential** utility consumers is pursued in the highly complex forum of a utility rate case, before Hearing Examiners, the PUC and the courts.

b) The Utility Unit has provided an invaluable consumer education function by instructing consumer advocates and rural groups on the intricacies of public utility operations and regulations. We have assisted these groups throughout Minnesota in developing a more effective voice to represent their constituents in the utility regulation process and in public rate hearings before the Public Utilities Commission.

c) We have become one of the first states in the nation to successfully incorporate the concept of citizen/consumer advocacy in the utility rate process by administering this office with policy guidelines from a 9-member citizen board appointed by the Governor. (Board of Residential Utility Consumers.)

10. 4-YEAR COST/BENEFIT ANALYSIS; RESIDENTIAL UTILITY CONSUMER UNIT

RATEPAYER SAVINGS

The Utility Unit of the Office of Consumer Services has saved Minnesota ratepayers $215,560,909 from 1979-1982:

1979	$ 16,432,841
1980	18,626,770
1981	126,650,699
1982	53,850,599
4 year aggregate saving	$215,560,909

GENERAL FUND EXPENDITURES

The Utility Unit of the Office of Consumer Services cost Minnesota taxpayers $859,701, from 1979-1982:

1979 –	$126,300
1980 –	240,900
1981 –	241,475
1982 –	251,076
4 year aggregate total cost	$859,701

ANNUAL COST/BENEFIT ANALYSIS

The Utility Unit's impact on decisions of the Public Utilities Commission has resulted in savings to Minnesota consumers as detailed in the following chart.

In 1979 the OCS saved ratepayers $130.11 for every $1.00 spent by the Unit:

$$\frac{\text{Savings to customers}}{\text{Cost to taxpayers}} \quad \frac{\$16{,}432{,}841}{\$126{,}300} = \$130.11$$

In 1980 the OCS saved ratepayers $77.32 for every $1.00 spent by the Unit:

$$\frac{\text{Savings to customers}}{\text{Cost to taxpayers}} \quad \frac{\$18{,}626{,}770}{\$240{,}900} = \$\ 77.32$$

In 1981 the OCS saved ratepayers $524.49 for every $1.00 spent by the Unit:

$$\frac{\text{Savings to customers}}{\text{Cost to taxpayers}} \quad \frac{\$126{,}650{,}699}{\$241{,}475} = \$524.49$$

In 1982 the OCS saved ratepayers $214.52 for every $1.00 spent by the Unit (through September 15):

$$\frac{\text{Savings to customers}}{\text{Cost to taxpayers}} \quad \frac{\$53{,}850{,}599}{\$251{,}026} = \$214.52$$

CUMULATIVE COST/BENEFIT ANALYSIS

Over the 4-year period of 1979 to September 15, 1982, the OCS saved ratepayers $250.74 for every $1.00 spent by the Unit:

$$\frac{\text{Savings to ratepayers}}{\text{Cost to taxpayers}} \quad \frac{\$215{,}560{,}909}{\$859{,}701} = \$250.74$$

11. COSMETOLOGY REGULATION

Consumer Services was given additional regulatory responsibilities in the 1981 session of the Minnesota legislature, when 30,000 cosmetologists and 5,000 beauty shops were placed under our licensing and regulatory administration.

a) Cosmetology licensing and regulation generates revenue equal to or in excess of appropriation to the State of Minnesota each year;

b) Consumer Services is in the process of the first complete new rule-making for the Minnesota Cosmetology industry in more than 26 years;

c) We have successfully integrated a 9-member citizen council into the policy formulation for Cosmetology regulation in the State of Minnesota. (Minnesota Cosmetology Advisory Council)

12. 2-YEAR FEES/COST ANALYSIS; COSMETOLOGY UNIT

The Cosmetology Unit of the Office of Consumer Services has processed the following license fees for the general fund of the State of Minnesota:

1981	$ 417,900
1982*	$ 812,200
Total	$1, 230,100 fees to General Fund

The Cosmetology Unit of the Office of Consumer Services cost Minnesota taxpayers the following:

1981 General Fund Costs	$ 356,500
1982 General Fund Costs**	321,800
Total General Fund Costs	$ 678,300
Total fees paid to General Fund	$1,230,100

The accumulated difference for the 2-year period:

***$1,230,100 – $678,300 = $551,750 NET CONTRIBUTION TO THE GENERAL FUND.

*1982 figure reflects one-time increase due to implementation of 3-year license cycle mandated by the 1981 Legislature.

**Note reduction in operating costs 1981-1982 of $34,700.

***Reflects one-time increase of 3-year license cycle.

1982 ANNUAL REPORT COMPLAINT MEDIATION UNIT

The Complaint Mediation Unit provides information, referral, mediation and law enforcement services for Minnesotans who are experiencing consumer problems in their relationship with business or government. The unit also conducts an extensive consumer education program to promote increased awareness of consumer, economic and safety issues.

The Complaint Unit handled 29,740 consumer inquiries in 1982. Many of these inquiries are requests for consumer information, for advice on how an individual can handle a problem on his/her own, or for an explanation of consumer laws in such areas as tenant rights or estimates and repairs. One formal written complaint file is opened for every nine consumer inquiries. In fiscal year 1982, 3,250 written complaints were handled, which resulted in an estimated $196,450 in money returned to consumers in case settlements. This figure represents a direct return to Minnesota consumers from the Complaint Unit budget of over 72%.

The investigation function of the Complaint Unit deals primarily with retail advertising and consumer complaints related to false and misleading advertising and/or deceptive acts and practices in connection with the sale of consumer goods and services. In 1982, the Complaint Unit initiated 154 conferences with specific businesses to enforce compliance with state statutes.

The Complaint Unit Circuit Rider Program has expanded access to the expertise and services of the office to eleven outstate communities providing face-to-face contact with staff members formerly available only to residents of the Twin Cities and Duluth. The program has also served as an entry point for rural people into the programs and services of many additional state and federal agencies.

A major educational initiative has been undertaken in 1982 to inform Minnesotans on economic and safety issues. Complaint Unit staff have presented consumer-oriented seminars throughout the state on such issues as landlord/tenant law, medicare supplemental insurance, chain saw safety and how to evaluate energy-saving products. Complaint Unit professionals participate in over 250 radio and television "consumer watch" programs each year.

The Complaint Unit has initiated several interagency agreements which allow each agency to provide greater service with a more efficient expenditure of state and federal revenues. Cooperative agreements of a formal or informal nature are currently in place with the Department of Economic Security, Handicapped Council, Division of Vocational Rehabilitation, Federal Consumer Product Safety Commission, Department of Human Rights, Department of Natural Resources, and the Department of Energy, Planning and Development.

1982 ANNUAL REPORT COSMETOLOGY UNIT

In July, 1981, the Minnesota Legislature transferred the regulatory authority for cosmetology to the Office of Consumer Services. The Consumer Services Cosmetology Unit initiated a program to solicit comments and ideas from the cosmetology industry in preparation for rule-making mandated by the Legislature. We presented 16 get-acquainted meetings throughout the state. Nearly 500 licensees participated in the meetings and the meetings produced numerous suggestions for the proposed rules.

At the direction of the Legislature, the Consumer Services Cosmetology Unit is in the process of the first complete rules revision in 26 years. The Unit is currently in the final stages of the administrative process leading to revised rules appropriate to today's fast-moving cosmetology industry. We have also integrated many valuable suggestions which were received from members of the industry with regard to the proposed rules.

The Consumer Services Cosmetology Unit has worked closely with the Minnesota Cosmetology Advisory Council created by the 1981 legislature. Seventeen meetings have been held with the Minnesota Cosmetology Advisory Council which is comprised of representatives of consumers, licensed cosmetologists, schools and manufacturers. We worked closely with the members to create the proposed rules and policy changes in regulation of cosmetology in the State of Minnesota.

The Consumer Services Cosmetology Unit has revised industry and office policies to increase the efficiency of our unit operation. We are currently evaluating every procedure used by the former Board of Cosmetology Examiners. Policies and forms which have proven burdensome and ineffective are being eliminated or redesigned to save time and manpower.

Consumer Services Cosmetology Unit has informed consumers as to the need for utilizing only licensed salons and has warned against use of professional products by untrained individuals. We use media coverage, press releases, and speeches to educate consumers in the dangers of using professional products for home use. We continue to inform consumers of the facts concerning illegal "kitchen shops" and the benefits of licensed salons.

Cosmetology Unit-Office of Consumer Services
Fee/Revenue Projections

Title of Fee	Cost per Application	FY 81 Actual	FY 82 Actual	FY 83 Estimate
Operator Examination	\$21/\$17.50/\$7.50	\$ 34,065	\$ 33,065	\$ 30,051
Manicurist Examination	\$21/\$17.50/\$7.50	115	378	252
Senior Instructor Examination	\$25/\$17.50/\$10	1,225	1,476	1,519
Verification	\$15		2,175	7,200
Manager Operator Renewals	\$30	160,240	333,402	158,850
Operator Renewals	\$30	94,846	189,670	104,460
Manicurist Renewal	\$30	1,910	4,040	2,250
Senior Instructor Renewal	\$30	4,139	8,620	2,880
Junior Instructor License	\$30	1,250	780	840
Junior Instructor Renewal	\$30	700	1,270	5,820
Change to Manager Operator	\$20	8,932	17,213	12,600
Reciprocity, Operator	\$15	2,055	2,595	2,445
Beauty Shop Registration	\$55	15,953	17,773	34,540
Beauty Shop Renewals	\$45	61,109	129,535	74,565
School Registration	\$250	100	0	750
School Renewals	\$250	7,750	10,000	10,000
Duplicate License	\$5	650	380	375
Operator License	\$30	14,700	34,482	36,900
Manicurist License	\$30	30	490	900
Senior Instructor License	\$30	430	710	1,710
Certificate of Identification	\$10	400	605	630
Change of Owner	\$55			0
Change of Location	\$25			0
Reciprocity – Manicurist	\$15		35	
Miscellaneous		446	443	621
Penalties		6,839	22,557	–
Rescheduling Exams	\$10		505	510
Penalty – Persons	\$10			28,450
Penalty – Shops	\$50			0
Penalty – Schools	\$100			0
Esthetician Examination				
Esthetician License				
Manicure Shop – Registration				
Manicure Shop – Renewals				
TOTAL		**\$417,884**	**\$812,199**	**\$519,118**

1982 ANNUAL REPORT RESIDENTIAL UTILITY UNIT

The Residential Utility Consumer Unit was created within the Office of Consumer Services by the 1978 Legislature to represent the interests of residential utility consumers in public utility matters.

When publicly-owned telephone, electric or gas utility companies file for rate increases with the Public Utilities Commission (Commission), the Unit researches and analyzes materials relevant to the rate increase. The Unit prepares its case specifically from the residential consumer's point of view. The Utility Unit's effort is to assure first that the amount of the rate increase is justified and, second, that the rate structure does not place an unreasonable burden on residential consumers. Legal expertise is provided by attorneys from the Office of the Attorney General. Some of the activities of the staff relating to intervention before the Commission include economic forecasting, econometric modeling, analyses of company proposals concerning rate design, cost of service, rate of return, cost accounting and related issues.

The Utility Unit is also authorized to represent Minnesota residential consumers in federal utility proceedings involving gas and electrical matters. Minnesota consumers have benefited from the Unit's active participation with the National Association of State Utility Consumer Advocates (NASUCA). The association has submitted briefs on the Federal level in the AT&T divestiture case. It is also involved in federal legislation and administrative proceedings affecting utility rate payers, such as the hearings on the deregulation of natural gas prices before the Federal Energy Regulatory Commission. The Consumer Services Utility Unit edits and publishes the NASUCA periodical.

The Unit is funded as part of the general legislative appropriation for the Office of Consumer Services. It has a budget for purchase of professional and technical services, including expert technical consultants to augment staff expertise as necessary in particular rate filings. Unit resources are budgeted to cover rate filings in the three types of utilities: gas, telephone and electric. The Utility Unit has utilized consultants in a manner designed to maximize opportunities for staff training as well as to secure the consultants' testimony in the specific case at hand.

SYNOPSES OF INVOLVEMENT IN UTILITY PROCEEDINGS

During fiscal year 1982 the Utility Unit was involved in 14 rate cases before the Minnesota Public Utilities Commission. Testimony sponsored by the Office of Consumer Services formed the basis of decisions by the Commission which resulted in savings to Minnesota ratepayers of $119,540,982.

A. NATURAL GAS

1. Peoples Natural Gas – The Commission issued its final order in the Peoples Natural Gas rate case. While the Commission did not accept the major rate design proposals of OCS, the Commission did accept the OCS contention that the company's proposed "contingency refund" plan be rejected. The result was a savings of $2.1 million to Minnesota consumers.

2. Northern States Power Company Natural Gas – On October 1, 1981, Northern States Power Company filed for a gas rate increase amounting to $16.58 million. This represents an 11.72% increase for residential customers on the Northern Natural System and 4.49% increase on the Midwestern System.

The OCS intervened and filed testimony on accounting and rate design issues. The final order is due on September 30, 1982.

3. Minnegasco – In May 1982, Minnegasco filed a $29 million rate increase request. The OCS filed a joint intervention with the Minnesota Department of Energy, Planning and Development in order to address issues of mutual concern relating to rate design and conservation. Financial and accounting issues are also being addressed.

B. ELECTRIC

1. Interstate Power Company – On June 30, 1982, the Commission issued its final order in Interstate Power Company's request for a $5.6 million increase. The Commission granted a $4.9 million increase. OCS testimony on rate of return resulted in savings of $450,000 to ratepayers. While the Commission did not accept the OCS' proposal for a flat residential energy rate, it did order that the tail block receive a greater increase than the initial energy blocks.

2. Minnesota Power Company (Minnesota Power & Light) – On April 30, 1982, the Commission issued its order in Minnesota Power's request for a $47.5 million rate increase. The Commission approved an increase of $25.6 million. The Commission accepted elements of the OCS position on rate of return and accepted the OCS position that recreational facilities should be removed from the rate base. The OCS was also successful in convincing the Commission to adopt an adjustment to the company's depreciation expenses. The company had attempted to charge current ratepayers for projected costs of plant decommissioning and site restoration. The result of OCS' efforts was a savings of $16,838,000.

In the area of rate design, the OCS was successful in convincing the Commission to reject the requests of taconite companies and other intervenors to shift a greater burden of the increase to the residential class. In addition, the Commission accepted the OCS's proposed rate design for the residential class, which included a reduction in the monthly customer charge and a greater increase in the rates for high use customers. These changes provide incentives for conservation and efficient energy use.

3. Northern States Power Company Electric – The NSP electric general rate was concluded by the Commission. The rate case filed by NSP requested an increase of $115 million. Testimony by OCS resulted in various revenue requirement adjustments by the Commission which produced savings for consumers of $35 million.

4. Otter Tail Power Company – On June 15, 1982, the Commission issued its order in Otter Tail Power's request for a $18.1 million rate increase. The Commission approved a $15.6 million increase. OCS adjustments in the area of rate of return and cash working capital resulted in savings of $1.3 million to ratepayers. The Commission also accepted the OCS position to retain the conservation rate break

C. TELEPHONE

1. Northwestern Bell Private Line – On May 5, 1981, the Commission's order was issued in the Northwestern Bell Telephone private line rate case. OCS presented testimony recommending that any revenue increase granted NWB in the private line service be offset against local exchange rates in NWB's service area. Based on OCS testimony in this case, the Commission increased the private line rates of NWB by $5,000,000 in the general rate case.

2. Northwestern Bell General Rate Case – The Northwestern Bell general rate case filed in 1980 was concluded. The OCS participation in this rate case had a very positive impact on residential consumers. The Commission accepted most of the rate design proposals of OCS including a $5 million saving deferred from the Northwestern Bell private line case.

In addition, the Commission acceptance of OCS-sponsored rate of return and revenue requirement testimony resulted in additional savings to consumers of $58.6 million.

3. Central Telephone – On May 13, 1982, the Commission issued its order in Central Telephone Company of Minnesota, awarding the company a rate increase of $2,442,076.

The company asked for a rate increase of $3,368,353. OCS sponsored witnesses on its behalf in this proceeding, presenting evidence on revenue requirement, rate of return and rate design. The testimony of OCS led to a revenue requirement adjustment of $40,016.

4. **Continental Telephone** – On December 18, 1981, Continental Telephone Company of Minnesota filed a request for a rate increase of $6,732,595. Local service access and extended area service rates would increase on average by 32% and installation charges by 127%. OCS intervened to present testimony in the area of rate design and revenue requirement. OCS also presented testimony supporting a lower rate of return, and adjustments to rate base and operating income.

5. **Northwestern Bell Installation Charges** – The OCS appeared before the Commission in opposition to Northwestern Bell's hourly rate plan for installation charges. The OCS felt that the issue should be addressed in Northwestern Bell's general rate case and that the company was circumventing the Commission's order in the 1980 rate case. The Commission rejected the OCS position and approved the company's plan.

6. **United Telephone** – At the end of the fiscal year, United Telephone filed a general rate case requesting to increase rates by $5.6 million. As part of the proposal, United is requesting a realignment of business vs. residential rates which would result in residential consumers being burdened by an increase of approximately 35% while business customers would experience increases of about 16%. OCS has intervened and is preparing to file testimony to recommend both a lower increase allowance and rejection of the realignment.

7. **Northwestern Bell** – At the end of the fiscal year, Northwestern Bell filed a new general rate case. The company proposed to increase rates by $96 million with local exchange rates increasing by 36%. The OCS began its investigation of the rate case in order to intervene and present testimony representing residential customers of Northwestern Bell.

The impact of the OCS involvement in these rate cases is summarized in the following table.

OCS IMPACT ON RATE CASES
Savings to Residential Class
Fiscal Year 1982

Case	Savings
Natural Gas:	
Peoples Natural Gas	$ 2,100,000
NSP Natural Gas	Pending
Minnegasco	Pending
Total Natural Gas	**$ 2,100,000**
Electric:	
Interstate Power	$ 450,000
Minnesota Power	16,838,000
Northern States Power	35,002,899
Otter Tail Power	1,519,684
Total Electric	**$ 53,810,583**
Telephone:	
Northwestern Bell Private Line (Deferred to general rate case)	($ 5,000,000)
Northwestern Bell	63,590,383
Central Telephone	40,016
Continental Telephone	Pending
Northwestern Bell Installation Charges	No net savings
Northwestern Bell	Pending
United Telephone	Pending
Total Telephone	**$ 63,630,399**
GRAND TOTAL	**$119,540,982**

D. COURT PROCEEDINGS

OCS also represented Minnesota consumers in five court proceedings during fiscal 1982.

1. **Tyrone Expense Pass-Through** – OCS participated in the court proceedings in an attempt to stop NSP from charging Minnesota consumers the cost of cancelling the aborted Tyrone nuclear power plant. OCS joined with the Department of Public Service and the Public Utilities Commission to argue that Minnesota ratepayers had no voice in the decisions and thus should not be burdened with the cancellation costs.

2. **Northwestern Bell 1979 General Rate Case** – OCS participated in an appeal of the 1979 general rate case. The case was remanded to the Commission for further findings. OCS is preparing testimony to present in additional hearings regarding the issues in dispute.

3. **Minnesota Power 1980** – The OCS successfully argued in court that the procedures developed by the Commission to protect residential consumers from the financial consequences of Minnesota Power's excessive reliance on the taconite industry were appropriate.

4. **Northern States Power Electric 1981** – OCS appealed the Commission's final decision in the 1981 NSP general rate case. OCS contends that the Commission's decision is contrary to the interpretation of federal statute found by the Federal Courts of Appeal.

5. **Central Telephone 1981** – OCS appealed the Commission's final decision in the 1981 Central Telephone rate case. The OCS position is the same as the position taken in the Northern States Power Electric appeal.