

Department of Banking



At a Glance

HOWARD F. PITKIN, Commissioner

Established - 1837

Statutory authority - Titles 36a and 36b CGS, and Related Laws

Central office - 260 Constitution Plaza, Hartford, CT 06103-1800

Average number of full-time employees - 114

Recurring operating expenses 2010-11 - \$18,619,261

Organizational structure -

Administration

Consumer Credit

Financial Institutions

Securities and Business Investments

Mission

The mission of the Department of Banking is to protect users of financial services from unlawful or improper practices by requiring that regulated entities and individuals adhere to the law, assuring the safety and soundness of state chartered banks and credit unions, educating and communicating with the public and other stakeholders, and promoting cost-efficient and effective regulation.

Statutory Responsibility

The Department of Banking is responsible for the regulation and examination of financial institutions and various related entities chartered, licensed or registered by the state. The Banking Commissioner is charged with administering the banking and credit union laws of the state as well as the laws regarding securities, tender offers and business opportunities. The Banking Commissioner also administers the Truth-in-Lending Act and other consumer credit laws and a major portion of the law concerning rental security deposits.

Specific regulatory functions are assigned to divisions within the Department.

The Consumer Credit Division regulates the activities of mortgage lenders, brokers, and loan originators; small loan companies; sales finance companies; debt adjusters; debt negotiators; consumer collection agencies; money transmitters; issuers of money orders and travelers checks; and check cashing services. The Division is responsible for the licensing and examination of these entities and the enforcement of related Connecticut laws. The Division also administers Truth-in-Lending laws and retail installment sales financing laws.

The Financial Institutions Division is responsible for the supervision of state-chartered bank and trust companies, savings banks, savings and loan associations and credit unions. The Division also licenses foreign banking organizations that establish and maintain representative offices, agency offices or branch offices in Connecticut, and supervises bank holding companies. It has responsibility for analyzing applications for new bank or credit union charters, acquisitions, mergers, branches, changes in corporate structure, and credit union field of membership expansions. In addition, the Division licenses business and industrial development corporations and certain non-banking corporations that exercise fiduciary powers.

The Securities and Business Investments Division is responsible for the registration of securities and business opportunity offerings for sale in Connecticut; the registration of broker-dealers and investment advisers, along with their agents and branch offices; the examination of broker-dealer, investment adviser and branch office registrants; and enforcement of the state's securities, business opportunity and tender offer laws.

The Department's customers include the general public, representatives of the public, regulated entities and consultants. The public at large, including depositors, borrowers, investors, landlords and tenants, and others who use the services of regulated financial entities, benefits broadly from agency activities. Agency services protect public funds in depository institutions, offer important investor and consumer protections, assist in dispute resolution and provide helpful public information.

Representatives of the public including the Governor and the General Assembly, other elected and appointed officials and federal, state and municipal agencies, receive information, advice, proposed legislation, case referrals and other important services from the Department.

Financial entities are subject to regulatory oversight. Consultants, including law firms, accounting firms, consumer advocacy groups, trade associations and others, receive information, advice, policies and guidelines from the Department.

Public Service

The Department of Banking is strongly committed to maintaining a standard of excellence in meeting its regulatory responsibility, while being responsive to Governor Malloy's desire to promote a business friendly climate in Connecticut.

In order to provide the public with convenient 24-hour, 7-day access to information on agency programs, licensing activity and educational resources, the Department maintains a website on the Internet at www.ct.gov/dob. During 2010-2011 approximately 270,000 visitors viewed over 2 million pages on the agency website.

A weekly News Bulletin, now sent electronically or accessed weekly on the agency website, provides information on applications before the agency, orders and intended changes in regulations. The Securities Division continued publication of its quarterly Securities Bulletin, also sent electronically and posted to the website, to advise the industry of new regulatory developments.

As a fundamental part of its mission, the Department is committed to protecting Connecticut citizens in transactions with financial institutions, as directed by state law, and in assisting with consumer complaints and dispute resolution.

Consumers are encouraged to contact the Department whenever they need assistance in dealing with financial institutions. Agency employees will promptly assist consumers with issues involving banks, credit unions, mortgage lending and other consumer credit matters, rental security deposits, and matters relating to securities and business opportunity investments.

During the fiscal year 2010-2011, examiners in the Government Relations and Consumer Affairs Division handled approximately 11,275 calls telephone inquiries and 2,252 written complaints from the public. As a result of their efforts, the Department obtained approximately \$904,130 in adjustments and reimbursements on behalf of consumers during the period. The agency's online customer assistance form, which had allowed the public to submit their complaints electronically via the website, was off-line for most of the fiscal year due to security concerns raised by the Department of Information Technology. A new secure system was set up in April 2011.

The Foreclosure Assistance Hotline, established in 2007, has continued to be a valuable resource for Connecticut residents. Callers to the 800-number receive pertinent advice and guidance regarding their mortgage problems. During the 2010-2011 fiscal year, the hotline received 4,773 calls, with an average of 20 calls per day. Between October 1, 2010 and June 30, 2011, staff handled 1,359 foreclosure assistance cases.

The agency received 3,693 telephone calls for landlord/tenant questions and complaints in the fiscal year. The agency's security deposit investigator resolved 399 landlord/tenant disputes and recovered \$157,511.30 for Connecticut residents who had complained to the Department that landlords had unjustly withheld their refundable rental security deposits.

The Division continued its focus on enforcement activities as evidenced by the taking of approximately 310 actions resulting in penalties in excess of \$338,600 and restitution to the public of \$615,668. The public received additional restitution of approximately \$131,878 as a result of penalties imposed upon licensees by the Consumer Credit Division as part of the examination process.

Intervention by the Securities and Business Investments Division during the fiscal year resulted in restitution and rescission offers to the investing public totaling \$2,855,970,115. Most of this amount resulted from Division settlements executed in 2010 with several securities firms that purchased auction rate securities from Connecticut investors. Auction rate securities (“ARS”) are financial instruments that include auction preferred shares of closed-end funds, municipal auction rate bonds and various asset-backed auction rate bonds. ARS are long-term instruments where the interest/dividend is reset weekly or monthly. The Division also imposed \$10,783,911 in fines for violations of the state’s securities and business opportunity laws.

Other cases brought by the Securities Division zeroed in on such matters as inadequate brokerage firm fee disclosures; unregistered promissory note investments; supervisory lapses by brokerage firms; unregistered sales of oil and gas investments to the elderly; and fraudulent conduct that promised inflated rates of return and ultimately led to the misappropriation of investor funds.

On September 26, 2010, the Securities and Business Investments Division received The National White Collar Crime Center’s (“NW3C”) Member Agency Award for Excellence. Funded for over thirty years primarily by the Department of Justice through the Bureau of Justice Assistance, NW3C is a leader in the fight against economic and high-tech crime.

With respect to licensing, the Securities and Business Investments Division adopted revised Part 2 of Form ADV. Part 2 is the disclosure document that investment advisers provide to prospective clients. The revised form would be written in plain English using a narrative format to give clients a better picture of an adviser’s services, background and potential conflicts of interest. In addition, the Division continued to prepare for the July 21, 2011 implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

As of the end of the fiscal year, there was one state-chartered domestic bank in organization which received its Temporary Certificate of Authority on June 19, 2009; Sachem Bank to be located in Madison, CT with a branch office in Branford. Start Community Bank, located in New Haven, CT with a branch office in the Fair Haven section of New Haven, received its Final Certificate of Authority on December 20, 2010.

On September 30, 2005, the Banking Commissioner closed Circle Trust Company, a Connecticut state-chartered trust bank with operations in Connecticut and Vermont. The Banking Commissioner was appointed Receiver and finalized the liquidation of the company on December 16, 2010.

Connecticut hosts five foreign banking organizations in this state, four branch offices and one representative office.

During this fiscal year, the Banking Commissioner participated in a number of industry related meetings with CEOs of banks and credit unions. The fifth Annual CEO Roundtable hosted jointly with the Connecticut Bankers Association was held in September 2010. The Commissioner spoke at the Credit Union League of Connecticut’s State & Federal Issues Government Affairs Conference in July 2011 and at the Bankers Forum sponsored by the Center for Financial Training in February 2011. Financial Institutions Division staff participated in a number of industry events sponsored by the Connecticut Bankers Association or the Credit Union League of Connecticut.

The Financial Institutions Division continues to produce its quarterly “DeNovo Report” for the benefit of bank executives and boards of directors, industry representatives and consultants. The report offers a comparative view of the financial performance of new banks in Connecticut. The Department also produces the “Connecticut Banks Performance Report” which highlights financial performance on a semi-annual basis of institutions operating between five and ten years.

Each year the Department, with the coordination of the Government Relations and Consumer Affairs Division, conducts an active legislative program. During the 2011 legislative session, three agency proposals were enacted into law.

Public Act 11-50, An Act Concerning Banks, clarifies the fees for out-of-state branch relocations and deletes a redundant and confusing provision. The act allows the agency to grant investors conditional preliminary approval to organize more than one bank to acquire failed banks.

Public Act 11-216, An Act Concerning Consumer Credit Licenses and the Connecticut Uniform Securities Act, impacts, in different ways, all of the industries licensed by the Consumer Credit Division. With regard to mortgage licensees, the act 1) requires certain individuals engaged in loan processing or underwriting to obtain a loan processor or underwriter license; 2) creates an ability for entities exempt from licensing requirements as mortgage lenders, correspondent lenders, or mortgage brokers to register as exempt registrants on the NMLS for purposes of sponsoring and bonding individuals required to hold mortgage loan originator licenses; and 3) clarifies bonding requirements for mortgage loan originators and their sponsoring entities.

With regard to debt negotiator licenses, the proposal requires certain individuals who are engaged in such activity in connection with residential mortgage loans to obtain mortgage loan originator licenses under the mortgage chapter. The proposal further addresses attendant bonding requirements and exempt entity registration capability for debt negotiators, as applicable.

In addition, Public Act 11-16 conforms Connecticut law with federal law exempting all investment advisors from the requirement that investment advisers are exempted from the registration requirements set forth in the Connecticut General Statutes.

Public Act 11-110, An Act Concerning Revisions to the Banking Statutes To Reflect Changes Made Pursuant To The Dodd-Frank Wall Street Reform And Consumer Protection Act, adds references to the federal Bureau of Consumer Financial Protection to various provisions of the banking laws and Uniform Commercial Code, as well as certain other sections of the general statutes concerning consumer credit transactions. The addition of these references reflects the transfer of consumer financial protection functions from several federal entities to the bureau, which is scheduled to take place on July 21, 2011.

The act also allows the Banking Commissioner to exempt any person or class of people from registration requirements and related provisions of the Uniform Securities Act, upon finding that the exemption is in the public interest and consistent with investor protection and the act.

As a benefit to industry and the public, agency attorneys prepared compilations of the statutes and regulations within the Department’s jurisdiction and certain other related laws. The compilations are continually revised to reflect new legislation or changes in regulations and are available for free download on the agency website.

The Department also posts on its website copies of administrative actions taken by the agency against various entities, as well as indices to advisory opinions issued by the Commissioner concerning bank, credit union, consumer credit, landlord/tenant and business opportunity matters.

The Department emphasizes educational efforts to help the public understand financial services offered in the marketplace and recognize fraudulent investment offers and banking scams. Agency staff conducted numerous talks and presentations during the fiscal year regarding personal finance, credit and debt management, investment fraud, identity theft, reverse mortgages and foreclosure. Their audience ranged from high school students to seniors and from low income residents to professional groups.

Government Relations and Consumer Affairs Division personnel continue to actively participate in monthly foreclosure prevention clinics during the year, giving presentations and providing one-on-one counseling to homeowners having mortgage problems.

The New Haven Free Public Library enlisted our services to implement their "Smart Investing @ your library" program. Department staff presented "Debt Management Tips for the Times" in July 2010, and in October 2010 provided information on investment fraud as part of the library's four-week "Get the Facts Scam and Fraud" series.

In partnership with the North Central Area Agency on Aging, the agency hosted an "Elder Financial Fraud Seminar" in July 2010 at The Club at Rentschler Field in East Hartford. The audience was primarily social workers and caregivers. During the half-day conference, four Securities Division employees gave presentations and provided pertinent information regarding choosing a financial planner and avoiding investment fraud.

The Department of Banking's annual Affirmative Action Plan was submitted to the Commission on Human Rights and Opportunities on October 30, 2010 and approved on January 13, 2011. The Department continues its strong commitment to promoting equal employment opportunity on the basis of merit; to assuring nondiscrimination in all policies, practices and procedures; and also implementing affirmative action and contract compliance programs as required by law.

Improvements/Achievements 2010-11

Thanks to a grant from the Investor Protection Trust, a nonprofit organization dedicated to investor education, the agency designed and developed four investor education booklets. The publications are important resources to educate consumers about the risks of investment products and to help protect them from fraud. Online versions were posted to the Department's website. Thousands of booklets have been circulated to date, primarily to libraries and town halls. In addition, agency staff distributed over 3,000 copies of the newlywed guide to Connecticut's town clerks at their association's spring conference in April 2011.

The Human Resources Office continues to offer programs to enhance employee awareness of the rich culturally diverse community that we work and live in.

The Business Office worked closely with the Department divisions to implement several efficient and effective cost savings measures. During this difficult budgetary time, staff provided fiscal control, constricting total operating expenses to \$18,619,261, or 92.3% of the appropriated budget of \$20,169,701. Total savings was \$1,550,440, or

7.7%. The Business Office continued to fulfill its mission to protect the public through its day to day operations by expeditiously handling over 6,100 checks and total receipts of over \$40,996,000.

The Consumer Credit Division continued to implement the requirements in the mortgage area to coincide with the provisions required under the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E). Mortgage Loan Originator requirements include the completion of pre-education and continuing education, national and state testing, standards for financial responsibility, and the submission of fingerprints through the Federal Bureau of Investigation for production of background checks.

The Division's enforcement efforts saw an increase in the licensing and regulation of debt negotiators. The Division's primary focus was on consumer protections, including the setting of maximum fees. Numerous enforcement actions were taken against out of state entities that collected advanced fees and did not perform services as promised for loan modifications, debt settlement and foreclosure rescue activity.

The Consumer Credit Division staff actively participates in working groups associated with the Conference of State Bank Supervisors to help improve the examination process not only in the mortgage area, but in the money services businesses as well. These working groups, involving members from other states, provide a forum for discussion and feedback toward national reform within the consumer finance area.

The Financial Institutions Division remains committed to continuing its communication with industry representatives through issuance of industry letters and active participation in industry related activities. At the conclusion of each regulatory examination, the institution has the opportunity to provide feedback directly to the Banking Commissioner by completing a streamlined two-page post-examination survey. Institutions are given the opportunity via the survey to comment on staff performance, examination efficiency and examination time demands in an effort to improve future examinations.

The Division continues to update and maintain information on the Department of Banking's website which includes financial and industry information related to the financial institutions operating in Connecticut. Relevant financial information is updated quarterly for banks and credit unions, in addition to providing the public with easy access to such public filings as the quarterly Call Report information. Additionally, any public enforcement actions undertaken by the Banking Commissioner are posted on the website. In June 2011, the Department issued the findings of the Year End 2010 Electronic Banking Survey completed by State Chartered banks and credit unions. Findings were shared directly with the participants and posted on the website.

The Financial Institutions Division staff remain active members of both the Conference of State Bank Supervisors (CSBS) and the National Association of State Credit Union Supervisors (NASCUS). Financial Institutions Division staff serve on a variety of committees, actively participate in webinars and conference calls, and assist in the development of regulatory and best practice standards. The Department of Banking received its accreditation from CSBS in February 2008, and from NASCUS in May 2010.

Banking Department Manager Todd Prout successfully graduated from the Aspiring Leaders Executive Development Program in June 2011.

The Securities Division is assisted by a Securities Advisory Council, comprised of industry representatives, academics and members of the bar, all of whom serve without compensation. The Securities Advisory Council offers the Commissioner and staff insight on proposed regulatory initiatives. On October 19, 2010, the Department held its 22nd annual Securities Forum in New Haven, Connecticut. Spotlighting the Dodd-Frank Wall Street Reform and Consumer Protection Act, the theme of the program was Revolution in Reform. Presentations by Department speakers, Securities Advisory Council members and others kept securities industry members abreast of critical regulatory and compliance developments. David B. Fein, United States Attorney for the District of Connecticut, delivered the keynote address.