

# Department of Banking



## *At a Glance*

**HOWARD F. PITKIN, Commissioner**

*Established - 1837*

*Statutory authority - Titles 36a and 36b Connecticut General Statutes and Related Laws*

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

*Average number of full-time employees - 115*

*Recurring operating expenses 2013-14 - \$18,779,948.90*

*Organization 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, including debt buyers; 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. As a result of legislation proposed by this Division, effective January 1, 2015, mortgage servicers will be licensed and regulated in our state.

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 and 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, including limited purpose trust companies.

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](http://www.ct.gov/dob). During the 2013-2014 fiscal year over 194,000 visitors viewed approximately 910,000 pages on the agency website.

A weekly News Bulletin, 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.

The Department is committed to protecting Connecticut citizens in their transactions with financial institutions and assisting them with consumer complaints and dispute resolution.

Consumers are encouraged to contact the Department whenever they need assistance in dealing with financial institutions. Agency employees 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 2013-2014, examiners in the Government Relations and Consumer Affairs Division handled approximately 11,223 telephone inquiries and 1,976 written complaints from the public. As a result of their efforts, the Department obtained approximately \$905,443.29 in adjustments and reimbursements on behalf of consumers during the period.

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 2013-2014 fiscal year the Hotline's incoming and outgoing call total was 14,340, with an average of 57 calls per day. In the same time period, the number of individual constituents assisted was 2,178, with an average of 9 per day. [N.B. Previous Administrative Reports did not account for multiple calls by the same constituent.]

The agency received approximately 2,058 telephone calls for landlord/tenant issues in the fiscal year. The agency's security deposit investigator resolved 258 landlord/tenant disputes and recovered \$80,776.05 for Connecticut residents who had complained to the Department that landlords had unjustly withheld their refundable rental security deposits.

The public received restitution of approximately \$354,532.73 as a result of penalties imposed upon licensees by the Consumer Credit Division as part of the examination process. The Division continued its focus on enforcement activities as evidenced by the taking of

approximately 99 actions resulting in penalties in excess of \$4,635,500 and restitution to the public of \$330,636.91.

Intervention by the Securities and Business Investments Division during the fiscal year resulted in restitution and rescission offers to the investing public totaling \$6,926,553. The Division also imposed \$7,763,058 in fines for violations of the state's securities and business opportunity laws.

The Division continued its aggressive enforcement efforts in responding to securities complaints from the Connecticut investing public. Investigations focused on schemes involving the misappropriation or conversion of investor funds; fraudulent sales of securities to Connecticut residents at unrealistic rates of return; sales of thinly traded securities of shell issuers to investors at inflated prices; "pump and dump" schemes; sales of securities by unlicensed firms and individuals; elder fraud; and brokerage firm supervisory lapses.

During the fiscal year, the Division initiated a comprehensive review of the Regulations promulgated under the Connecticut Uniform Securities Act to ensure that they were up to date and reflective of legislative changes occurring since the Regulations were last amended. Preliminary draft amendments were circulated internally and to members of the Commissioner's Securities Advisory Council (which consists of members of the bar, academia and the securities industry) for feedback and discussion before the formal Uniform Administrative Procedure Act amendment process began. In the fall of 2013, the Division publicized the project on the agency's website and invited other members of the Connecticut bar to add their recommendations for change, drawing on their specialized expertise in the area of securities law.

The Securities and Business Investments Division also continued to monitor the progress of the Jumpstart Our Business Startups Act (the "JOBS Act") and other federal legislation enacted to foster capital formation, as well as federal regulation amendments impacting private offerings. Although the JOBS Act preempted state regulation of crowdfunding, the Division joined other states in voicing concerns over a possible increase in fraud if the provisions were not carefully implemented.

The Division was also actively involved in the agency's educational outreach program (described more fully elsewhere in this report), providing presentations regarding investor fraud and abusive sales practices.

The Division faced special challenges stemming from staff attrition; the resulting need to reallocate staff; and an increase in the number of cases involving complex fact patterns or securities fraud.

As of the end of the fiscal year, there was one state-chartered domestic trust bank (Voya Institutional Trust Company) in organization. There was one failed bank; The Community's Bank was closed on September 13, 2013.

Connecticut continues to host 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 Annual CEO Roundtable hosted jointly with the Connecticut Bankers Association was held in October 2013. The Commissioner spoke at the Bankers Forum sponsored by the Center for Financial Training in February 2014. The Department's General Counsel spoke at the Credit Union League of Connecticut's State and Federal Issues Government Affairs Conference in May 2014, and Financial Institutions Division staff participated in a number of industry events sponsored by the Connecticut Bankers Association and the Credit Union League of Connecticut.

The Financial Institutions Division continues to produce its "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 of Banking conducts an active legislative program coordinated by the Government Relations and Consumer Affairs Division. During the 2014 legislative session, five department proposals were incorporated into two bills that were enacted into law by the General Assembly. These bills also included various other proposals from industry and legislators.

*Public Act 14-7, An Act Concerning The Banking Laws, The Uniform Commercial Code, The Electronic Fund Transfer Act And Mortgageors In Good Standing* makes a number of unrelated changes. Among other things, it: (1) expands the licensure and bond requirements for businesses that make residential mortgage loans or act as mortgage lenders, mortgage correspondent lenders, or mortgage brokers that engage the services of mortgage loan originators to act on their behalf; (2) creates a bond requirement for certain bona fide nonprofit organizations that are exempt from mortgage broker licensure and choose to sponsor a mortgage loan originator; (3) limits the recovery of judgments against a debt negotiator's bond by prospective mortgageors of certain types of mortgages; (4) expands licensure requirements for debt negotiators who are also mortgage loan originators; (5) modifies the process by which a debtor's funds held by a financial institution can be obtained to satisfy a judgment, including expanding the circumstances when a bank must leave the lesser of \$1,000 or the balance in a person's account; and (6) expands the types of banks that may offer savings promotion raffles.

*Public Act 14-89, An Act Concerning Mortgage Servicers, Connecticut Financial Institutions, Consumer Credit Licenses, The Foreclosure Mediation Program, Minor Revisions To The Banking Statutes, The Modernization Of Corporation Law And Reverse Mortgage Transactions* makes numerous unrelated changes regarding financial services companies. Among other things, it: (1) renames mortgage servicing companies "mortgage servicers", modifies who is subject to licensure, expands the scope of services subject to licensure, adds new licensing, application, fee, bonding, and recordkeeping requirements, specifies standards of conduct for servicers, and provides the commissioner with authority to conduct investigations and examinations and take enforcement actions against violators; (2) expands the definition of an

“automatic teller machine” to include those equipped with a telephone or televideo device that allows contact with bank employees; (3) increases the prelicensing and continuing education and testing requirements for mortgage lenders, mortgage correspondent lenders, and mortgage brokers; (4) extends the state's foreclosure mediation program by two years, until July 1, 2016, requires that the program operate within available appropriations, and requires the chief court administrator to develop a premediation review protocol; (5) creates a 17-member Commission on Connecticut's Leadership in Corporation and Business Law, within the Legislative Branch; and (6) establishes a six-member task force to study the reverse mortgage industry.

The Department 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 primary focus of the Department's educational outreach program is to help Connecticut's consumers and investors make informed financial decisions and also to learn how to avoid fraud and scams. Agency staff provides vital information to consumers through talks, presentations, seminars and expos. During the 2013-2014 fiscal year department employees spoke on topics that include banking scams and fraud, reverse mortgages, identity theft prevention, credit and debt management, foreclosure assistance and investor education.

Helping Connecticut homeowners prevent and navigate the foreclosure process remains a major component of the department's outreach initiatives. 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 Government Relations and Consumer Affairs Division took on a unique outreach initiative during this fiscal year. Following an April 2014 settlement with a small loan lender, certain borrowers were entitled to file a claim to receive some of the excessive interest charges back as a refund. Staff from the Division reached out to all 3,800 Connecticut borrowers by telephone to offer assistance in submitting claim forms. Many of these residents had ignored the mailed notice and were grateful to be contacted. In addition to outreach by telephone, the Department hosted four informational “Town Hall” meetings in Waterbury, Trumbull, New Haven and Hartford. Attendees found out if they were eligible for refunds, received assistance filing their claim forms, and discussed other consumer credit related issues. As of June 30, 2014, borrowers applied for just under \$2 million in refunds, and another \$300,000 in refunds were pending. Once these claims are validated and processed over 50% of residents eligible under the settlement are expected to receive refunds.

During this fiscal year the Department of Banking became a founding partner of the “Connecticut Saves” campaign to promote smart saving and investing. Agency employees conducted America Saves Week activities in February through presentations, workshops and fairs. The Department hosted an America Saves/Military Saves Week Expo at the Legislative Office Building that week which featured 13 exhibitor tables promoting money management,

smart saving and investing, budgeting and financial education programs, including specific information for military personnel.

The Department of Banking's biennial Affirmative Action Plan was submitted to the Commission on Human Rights and Opportunities (CHRO) on October 25, 2012 and approved on January 9, 2013. The next biennial Affirmative Action Plan will be submitted to CHRO on October 30, 2014. 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 2013-2014**

The Department of Banking continued to assist troubled borrowers by sponsoring mortgage assistance events throughout Connecticut. In coordination with Governor Dannel P. Malloy and Attorney General George Jepsen, the agency sponsored two *Homeowners Mortgage Assistance Events* during the fiscal year 2013-2014. The free events took place on October 22, 2013 in Hartford, CT and on May 30, 2014 in Trumbull, CT. These forums provided opportunities for approximately 1,500 troubled borrowers to meet face to face with their mortgage company or a housing counselor to discuss their options and find appropriate workout solutions. These events have become a national model, emulated by other Attorney General offices.

The Department took part in a grant-funded financial education initiative called *Investor Education in Your Workplace*® (IEiYW), an online training program which focused on personal finances, investing and retirement planning. In addition to Department of Banking staff, employees at the Insurance Department as well as local banks, credit unions and businesses participated in the IEiYW program. In total, 617 people participated and were educated about retirement plans, long-term savings and investment options.

The Human Resources Office continues to offer programs to increase employee awareness of the rich culturally diverse community that we work and live in. Human Resources assists staff in various ways to support them in their role as civil servants and makes it a priority to administer policies, procedures and programs consistently and in a manner which is responsive to the needs of the agency.

The Business Office worked closely with the Commissioner and division directors to implement several efficiency and cost-saving measures. The agency reduced mileage reimbursement costs by assigning state vehicles to some field examiners. For fiscal year 2013-2014, the agency had 27 state vehicles allowing savings to be used for open training opportunities for staff and to meet our federal obligations for accreditation. During this budgetary time, staff provided fiscal control, moving funding to accommodate an early computer refresh cycle to migrate staff from Windows XP to Windows 7. This early refresh was done with existing funds in the agency. The total operating expenses were \$18,799,949, of the appropriated budget of \$19,113,808. Total saving was \$313,859 for fiscal year 2013-2014. The Business

Office continued to fulfill its mission to protect the public through its day to day operations by expeditiously handling total receipts of over \$41,041,998 (\$29,905,843 to the Banking Fund and \$11,136,155 to the General Fund).

The Consumer Credit Division in accordance with the Secure and Fair Enforcement for Mortgage Licensing Act (“SAFE Act”) continued to enforce licensing standards for mortgage loan originators applying for licensure in our state. In addition, the Division devoted significant resources to enforcing the filing deadlines for Mortgage Call Reports by licensed mortgage brokers and lenders, which resulted in the issuance of numerous administrative actions. These as well as other disciplinary and enforcement actions were made available to the public on the Nationwide Mortgage Licensing System (“NMLS”) Consumer Access.

The Division entered into a significant settlement with an unlicensed small loan lender for violating Connecticut law by offering unsecured short-term loans with annual interest rates ranging from 89% to 355%, well in excess of the 12% maximum rate allowed by law. In addition to revoking their mortgage lender license, the company paid a civil penalty as well as additional monies to the department to help affected borrowers make their claims. During the next upcoming fiscal year, it is anticipated that the refunds to Connecticut borrowers will number in the millions. The Division continued to take enforcement action against unlicensed debt negotiators, including non-exempt law firms 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 continued to represent Connecticut 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. Examination of out of state consumer collection agencies continued to be a priority with Division staff conducting several joint examinations with the Consumer Financial Protection Bureau and other states.

The Financial Institutions Division remains committed to continuing its communication with industry representatives. At the conclusion of every examination, Financial Institutions Division staff meet with the bank’s or credit union’s board of directors. The institution also has the opportunity to provide feedback directly to the Banking Commissioner by completing a 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. Additionally, any public enforcement actions undertaken by the Banking Commissioner are posted on the website. Beginning with March 2013, the website identifies those banks, including out of state banks headquartered in Connecticut that hold public deposits.

The Financial Institutions Division staff remains active members of both the Conference of State Bank Supervisors (“CSBS”) and the National Association of State Credit Union Supervisors (“NASCUS”). Banking Commissioner Pitkin continues to serve on the Board of Directors of CSBS and as Chairman of CSBS District 1, and Division Director Mary Ellen O’Neill serves on the Board of NASCUS and served as Treasurer of the organization during the past fiscal year. Financial Institutions Division staff also 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 re-accreditation from NASCUS in May 2010 and CSBS in November 2012.

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. The Division obtained critical input from Advisory Council members in formulating the Division’s response to federal regulatory changes.

During the fiscal year, the United States Attorney’s Office for the District of Connecticut honored four Division staff members at the annual Law Enforcement Awards Ceremony which recognizes individuals for their investigative efforts in significant federal criminal prosecutions and civil cases.