

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 2012-13 - \$17,881,862

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. As a result of legislation proposed by this Division, effective October 1, 2013, debt buyers will be licensed and regulated as consumer collection agencies.

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. During the 2012-2013 fiscal year, over 196,000 visitors viewed approximately 915,000 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.

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 2012-2013, examiners in the Government Relations and Consumer Affairs Division handled approximately 10,936 telephone inquiries and 2,721 written complaints from the public. As a result of their efforts, the Department obtained approximately \$1,429,645 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 2012-2013 fiscal year, the hotline received 4,340 calls, with an average of 17 calls per day.

The agency received approximately 1,864 telephone calls for landlord/tenant issues in the fiscal year. The agency's security deposit investigator resolved 153 landlord/tenant disputes and recovered \$58,390.16 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 \$108,951.99 as a result of penalties imposed upon licensees by the Consumer Credit Division as part of the examination process. In addition, \$4,395,410 was returned to Connecticut residents as a result of findings associated with the examination of one consumer collection agency. The Division continued its focus on enforcement activities as evidenced by the taking of approximately 149 actions resulting in penalties in excess of \$2,564,900 and restitution to the public of \$312,480.58.

Intervention by the Securities and Business Investments Division during the fiscal year resulted in restitution and rescission offers to the investing public totaling \$1,221,577. The Division also imposed \$1,223,858 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, sometimes by a trusted investment adviser; 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.

The Division also successfully guided industry members through regulatory changes required by changes in federal law. By the end of the fiscal year, the Division had transitioned a significant number of investment advisers from federal registration to state registration, resulting in an increase of approximately 25% in the state investment advisory registration base. The change was required by Title IV of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), Pub. L. No. 111-203. Prior to Dodd-Frank, Congressional legislation dictated that the states could only register smaller investment advisers, i.e., those whose assets under management were \$25 million or less. Larger investment advisers were generally required to register with the federal Securities and Exchange Commission (the "SEC"). Dodd-Frank increased the ceiling for state investment adviser registration from \$25 million to \$100 million in assets under management, thus expanding state registration authority to a larger number of investment advisers.

The Division was also actively involved in educational outreach programs. These included an instructional session on choosing a financial planner, held at the Fairfield Public Library as part of its Reinvest Your Financial Future literacy series; and a Connecticut TRIAD Conference segment addressing the financial exploitation of seniors.

The Division faced special challenges stemming from staff attrition; the need to reallocate staff based on an increased investment adviser regulation workload post-Dodd-Frank; and an increase in the number of cases involving complex fact patterns or securities fraud.

As of the end of the fiscal year, there were no state-chartered domestic banks in organization. Effective November 16, 2012, Eastern Federal Bank converted from a federal-chartered bank to a state-chartered bank, now known as Eastern Savings Bank.

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 2012. The Commissioner spoke at the Credit Union League of Connecticut's State & Federal Issues Government Affairs Conference in May 2013 and at the Bankers Forum sponsored by the Center for Financial Training in February 2013. 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 conducts an active legislative program coordinated by the Government Relations and Consumer Affairs Division. During the 2013 legislative session, three agency proposals were enacted into law, and the agency actively worked on an important piece of legislation proposed by the Governor.

Public Act 13-106, An Act Concerning the Connecticut Uniform Securities Act, is mainly technical in nature and codifies existing practices. The purpose of this act is to update Connecticut statutes related to the Uniform Securities Act.

Public Act 13-135, An Act Concerning Banks, Loan Production Offices, Exchange Facilitators, Public Deposits and Real Property Tax Liens, became a vehicle for a number of other legislative proposals. The original bill, HB 6339, was an agency proposal that addressed the enforcement authority of the Commissioner related to licensees and clarified oversight of loan production offices outside the state. The following bills were added to HB 6339 and all subsequently became enacted as part of Public Act 13-135:

- SB 827, An Act Concerning Public Deposits, an agency proposal which significantly improves Connecticut's existing laws concerning the protection of public deposits;

- SB 913, An Act Requiring Notification of the Sale of a Real Property Tax Lien;
- SB 980, An Act Concerning the Debt Security Limits for Connecticut Banks;
- HB 5392, An Act Providing Consumer Protection to Clients of Exchange Facilitators for Tax Deferred Exchanges; and
- HB 5638, An Act Decreasing the Time Frame for Payment by an Appraisal Management Company to an Appraiser.

Public Act 13-253, An Act Concerning Money Transmission and Consumer Collection Agencies, makes numerous changes to the consumer credit statutes in an effort to better protect the consumer. Most notably, it enhances regulatory requirements of money transmission licensees and makes other conforming changes consistent with industry standards.

The Department also worked closely with the Governor's office to secure the passage of Public Act 13-136, An Act Concerning Homeowner Protection Rights. The act implements certain changes and new protections related to the foreclosure actions occurring in Connecticut's court system. The language would require plaintiffs to mediate in good faith or face certain judicial sanctions or fines. Mediators will be empowered to recommend appropriate sanctions to the judge. The act creates a fast track foreclosure process to let the banks take ownership and sell properties when a homeowner has abandoned the property.

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 Department emphasizes educational efforts to help the public understand financial services offered in the marketplace and recognize fraudulent investment offers and banking scams. Through talks, presentations, seminars and expos agency staff has provided vital information to consumers during the 2012-2013 fiscal year on topics that include banking scams and fraud, credit and debt management, reverse mortgages, foreclosure assistance and investor education.

Our agency focused on becoming a more visible resource to service members and veterans. In the fall of 2012, the Department of Banking joined the Military Department's OIF/OEF (Operation Iraqi Freedom/Operation Enduring Freedom) Committee. This committee brings together organizations to network and share information regarding services for veterans, specifically those involved in the Afghanistan and Iraqi wars. This has been an important way to spread the word about our mortgage events and outreach to members of the military and veterans.

In November 2012, Division staff represented the agency and addressed a group of soldiers preparing to deploy to Kuwait at the Connecticut National Guard's *Yellow Ribbon* event in Windsor Locks. In February 2013, the agency hosted an *America Saves/Military Saves Week Expo* at the Legislative Office Building. The general public,

legislative staff and military personnel from the adjacent State Armory had the opportunity to learn about smart saving and investing and protecting their finances from the 11 organizations and agencies that participated.

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 Department of Banking's biennial Affirmative Action Plan was submitted to the Commission on Human Rights and Opportunities on October 25, 2012 and approved on January 9, 2013. 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 2012-2013

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 three *Homeowners Mortgage Assistance Events* during the fiscal year 2012-2013. Over 2,000 people attended these events, which took place on July 10, 2012 in Storrs, CT; on November 28, 2012 in Waterbury, CT; and on April 17, 2013 in New Haven, CT. These free events provided opportunities for 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 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 Department divisions to implement several efficient and effective cost savings measures. The agency instituted State vehicle assignments to some field examiners to reduce the mileage costs to the agency. For fiscal year 2013, the agency has saved approximately \$90,000 from the previous fiscal year allowing for the agency to open training opportunities for staff and meet our federal obligations for accreditation. During this difficult budgetary time, staff provided fiscal control, constricting total operating expenses to \$17,881,862, or 93.88% of the appropriated budget of \$19,049,231. Total saving was \$1,167,369, or 6.22%. The Business Office continued to fulfill its mission to protect the public through its day to day operations by expeditiously handling over 6,245 checks and total receipts of over \$32,751,551 (\$26,157,110 to the Banking fund and \$6,693,741 to the General Fund).

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 FBI for production of background checks.

The Division continued to take enforcement actions against entities identified as debt negotiators that collected advanced fees and did not perform services as promised for loan modifications, debt settlement and foreclosure rescue activity. On October 1, 2013, legislation proposed by the Division to amend money transmission statutes to create more efficient regulation thereof will go into effect.

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. Division staff also participates in examinations of consumer collection agencies 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 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. 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 Department of Banking convened an industry group to assist in the modernization of the Connecticut Public Deposit Statutes, which resulted in significant changes made to the statute.

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 Division Director Mary Ellen O’Neill serves on the Board of NASCUS. 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 the Dodd-Frank legislation, and is currently pursuing this process to bring the agency's securities regulations up to date.

During the fiscal year, Division staff received commendations at the Connecticut United States Attorney's annual Law Enforcement Awards Ceremony which recognizes individuals for their investigative efforts in significant federal criminal prosecutions and civil cases.