

# Department of Banking



## *At A Glance*

**HOWARD F. PITKIN, Commissioner (Retired January 15, 2015)**

**JORGE L. PEREZ, Commissioner (Started March 13, 2015)**

*Established - 1837*

*Statutory authority - Titles 36a, 36b and subsections (b), (d), (h) and (i) of Section 47a-21  
Connecticut General Statutes and Related Laws*

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

*Average number of full-time employees - 114*

*Recurring operating expenses 2014/2015 - \$19,482,730*

### *Organizational structure:*

**Administration**

**Consumer Credit Division**

**Financial Institutions Division**

**Securities and Business Investments Division**

**Government Relations and Consumer Affairs Division**

**Business Office**

**Human Resources**

## **Mission**

*The Department of Banking (DOB) is the primary state regulator for securities, consumer credit, state chartered banks and credit unions. Its mission is to protect users of financial services from unlawful or improper practices by requiring that regulated entities and individuals adhere to state and federal financial laws. Its mission is accomplished through communication with the public and other stakeholders, and by assuring the safety and soundness of state-chartered banks and credit unions by 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 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.

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.

The department is divided into four operational divisions and two support divisions to better accomplish its mission. Specific regulatory functions are assigned to divisions within the Department.

### ***Consumer Credit Division (CCD)***

The Consumer Credit Division is responsible for examination, enforcement, and licensing of mortgage lenders, brokers, servicers 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. It also administers Truth-in-Lending laws and retail installment sales financing laws.

The number of licensees that CCD is responsible for issuing has continued to grow over the last several years. As of June 30, 2015, the division licensed 2,841 companies and branch offices, and 5,921 individuals. It is also responsible for conducting investigations of companies engaged in unlicensed activity. Such activity in the consumer credit area is rampant. Finally, in August 2015 the CCD is scheduled for its first accreditation review by the American Association of Residential Mortgage Regulators (AARMR)/ Conference of State Bank Supervisors (CSBS) Mortgage Accreditation Program.

### ***Financial Institution Division (FID)***

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, conversions, 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.

FID has regulatory oversight over 35 state-chartered domestic banks, four international banks (operating branches with over \$130 billion in assets), 30 credit unions, one business & industrial development corporation and various licensees that are issued to administer trust and/or special need services. Its regulatory obligations include multiple specialty examinations such as Information Technology, Cybersecurity, Community Reinvestment Act, Truth-In-Lending, and Bank Secrecy Act. These are in addition to the traditional safety and soundness examinations conducted by this division.

### ***Securities and Business Investments Division (SBID)***

The Securities and Business Investments Division is responsible for registering securities and business opportunity offerings sold in or from Connecticut; registering (licensing) broker-dealers, agents, investment advisers and investment adviser agents who transact business in Connecticut; registering branch offices of broker-dealer and investment advisory firms; conducting on-site examinations of broker-dealers, investment advisers and branch office registrants; and enforcing the Connecticut Uniform Securities Act, the Connecticut Business Opportunity Investment Act and the Connecticut Tender Offer Act.

As of June 30, 2015, the SBID registered 160,822 broker-dealer agents, and 12,373 investment adviser agents. Under the Dodd-Frank Wall Street Reform Act and the Consumer Protection Act of 2012, the division's practice is to examine its investment adviser registrants at least every three years. They are also responsible for examining Connecticut registered broker-dealers' main offices, and more than 2,700 branch offices throughout the State of Connecticut. These entities must also be examined on a regular cycle. The division often performs collaborative investigations and coordinates with other law enforcement agencies such as the U.S. Attorney's Office, the Federal Bureau of Investigations and the Connecticut Attorney General's office to help bring violators to justice.

## **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 2014-2015 fiscal year, approximately 180,000 visitors viewed over 824,000 pages on the agency website.

A weekly News Bulletin, sent electronically and that can also be accessed on the agency website, provides information on applications before the agency, orders and intended changes in regulations.

The Securities Division also produces a quarterly Securities Bulletin, that is distributed electronically and posted to the website, to advise the industry of new regulatory developments.

In an attempt to protect Connecticut citizens in their transactions with financial institutions and assisting them with consumer complaints and dispute resolution, consumers are encouraged to contact the DOB 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 2014-2015, examiners in the Government Relations and Consumer Affairs Division handled approximately 9,189 telephone inquiries and 1,813 written complaints from the public. As a result of their efforts, the Department obtained approximately \$508,200 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 2014-2015 fiscal year, the Hotline assisted 1,518 individual consumers.

The agency received 2,910 telephone calls and 354 e-mails for landlord/tenant issues in the fiscal year. The agency's security deposit investigator resolved 192 landlord/tenant disputes and recovered \$40,557.68 for Connecticut residents who had complained to the Department that landlords had unjustly withheld their refundable rental security deposits.

The Consumer Credit Division continued its focus on enforcement activities as evidenced by the taking of approximately 122 actions resulting in penalties in excess of \$670,000 and restitution to the public of \$745,031, not including a significant settlement that resulted in \$3.6 million dollars recovered for Connecticut borrowers from an unlicensed small loan lender.

Intervention by the Securities and Business Investments Division during the fiscal year resulted in restitution and rescission offers to the investing public totaling \$15,965,226. The division also imposed \$282,650 in fines for violations of the state's securities and business opportunity laws.

The SBID 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; fraud involving bogus securities firms; sales of securities by unlicensed firms and individuals; elder fraud; and brokerage firm supervisory lapses.

During the fiscal year, the SBID continued its 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. Feedback on the preliminary draft amendments was received from the Commissioner's

Securities Advisory Council (which consists of members of the bar, academia and the securities industry) before the formal Uniform Administrative Procedure Act amendment process began. The division is assessing that feedback and monitoring how more recent federal law changes may impact the revisions. Examples of federal law changes included Regulation A modifications and crowdfunding.

The SBID 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.

During this fiscal year, there was one state-chartered domestic trust bank (Voya Institutional Trust Company) chartered on September 3, 2014. There were two bank charter conversions from federally-chartered banks to state-chartered banks: Putnam Bank, effective December 8, 2014, and The Savings Institute, effective December 29, 2014. There were three credit union conversions from federally-chartered credit unions to state-chartered credit unions during this fiscal year: Nutmeg State Federal Credit Union, converted on December 31, 2014 under the name Nutmeg State Financial Credit Union; American Eagle Federal Credit Union, converted on December 31, 2014 under the name American Eagle Financial Credit Union; and First New England Federal Credit Union, converted on June 30, 2014 under the name Finex Credit Union.

Connecticut hosts four foreign banking organizations in this state, each operating a branch office.

During this fiscal year, the Banking Commissioner participated in a number of industry related meetings with Chief Executive Officers (CEOs) of banks and credit unions. The Annual CEO Roundtable hosted jointly with the Connecticut Bankers Association (CBA) was held in October 2014. The Commissioner spoke at the CBA's Officers and Directors Symposium in May 2015. The Commissioner also spoke at the Credit Union League of Connecticut's Annual Meeting in April 2015 and the State and Federal Issues Government Affairs Conference in May 2015, and held Credit Union CEO Roundtables in December 2014. The Department of Banking, in coordination with the National Association of State Credit Union Supervisors (NASCUS), hosted its second Credit Union Directors College in April 2015. FID staff participated in a number of industry events sponsored by the Connecticut Bankers Association and the Credit Union League of Connecticut.

The Department of Banking, in coordination with the CBA and the Conference of State Bank Supervisors (CSBS), hosted the third annual Connecticut Community Bankers Town Hall Meeting in May 2015 during which community bankers discussed key issues facing community banks on a local and national scale. The town hall meeting is held in conjunction with the Federal Reserve/CSBS Annual Community Banking Research and Policy Conference which will be held September 30, 2015 to October 1, 2015 in St. Louis. The conference gathers community bankers, academics, policymakers, and bank supervisors from across the country to discuss academic research and important issues impacting community banking.

The FID 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 conducts an active legislative program coordinated by the Government Relations and Consumer Affairs Division. During the 2015 legislative session, the DOB sponsored two agency initiatives.

*Public Act 15-53, An Act Concerning Mortgage Correspondent Lenders, The Small Loan Act, Virtual Currencies And Security Freezes On Consumer Credit Reports*, is an omnibus bill that does a number of things. It clarifies the law regarding licensure of Mortgage Correspondent Lenders; changes certain fidelity bond and E&O coverage requirements for mortgage servicers; voids certain small loan contracts that exceed the statutory rate cap; opens the door on regulating businesses dealing in virtual currencies as money transmitters; and prohibits credit reporting agencies from charging certain people (including identity theft victims) fees related to credit freezes. The bill prohibits credit reporting agencies from charging fees related to security freezes to people covered by certain insurance policies held by the identity theft victim and allows an identity theft victim's spouse to qualify for the exemption from security freeze fees provided they submit a copy of a police report to a credit rating agency.

The Department also sponsored *Public Act 15-235, An Act Concerning Revisions to Various Connecticut Banking Statutes*, which made technical and conforming changes involving truth-in-lending, banks, credit unions, mortgage licensees and consumer collection agencies.

The DOB 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 2014-2015 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 Department of Banking acknowledged Connecticut Saves Week in February 2015, proclaimed by Governor Malloy as a time for Connecticut citizens to assess and improve their personal finances. Division staff conducted four workshops at Department of Labor Job Centers throughout the state -- Hamden, Waterbury, New Britain and New London. The agency held its third annual *Connecticut Saves at the Capitol*, an expo of agencies and organizations that

promote financial education and money management. Division staff also provided lunch-and-learn presentations at the State Armory, as part of the Connecticut National Guard's Military Saves Week program, with topics on debt management and financial fraud.

In recognition of Financial Literacy Month and Money Smart Week, agency staff gave eight financial education presentations during the month of April 2015 and participated at a financial education expo for students and a personal finance conference for teachers.

The Department of Banking's biennial Affirmative Action Plan was submitted to the Commission on Human Rights and Opportunities (CHRO) on October 30, 2014 and approved on January 14, 2015. The next biennial Affirmative Action Plan will be submitted to CHRO on October 30, 2015. 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 2014-2015**

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 a free *Homeowners Mortgage Assistance Event* on October 9, 2014 in Waterbury, CT. The forum was an opportunity for borrowers who needed assistance 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 offered libraries a fun way to provide investor education during Financial Literacy Month in April 2015. The DASH for the STASH program encouraged library patrons to learn about investment topics by answering quiz questions via their smart phone or tablet. Topics included financial advisers, investment fees, investor fraud, and building a nest egg. A winner was chosen in a random drawing and received \$1,000 to open or add to an Individual Retirement Account. The program was offered through a grant from the Investor Protection Institute.

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 2014-2015, the agency had 29 state vehicles allowing savings to be used for open training opportunities for staff and to meet our federal obligations for accreditation. 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 \$34,335,203 (\$28,141,624 to the Banking Fund and \$6,193,579 to the General Fund).

The Consumer Credit Division in accordance with the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) continued to devote significant resources to enforcing the filing deadlines for Mortgage Call Reports and Advance Change Notices 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 Consumer Access.

The CCD wrapped up 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 of \$350,000 as well as \$50,000 to the Department to help affected borrowers make their claims. A massive outreach effort was conducted to locate affected Connecticut borrowers which resulted in over \$3.6 million dollars in refunds issued. In addition, to this sizable settlement, 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 CCD staff continued to represent Connecticut in working groups associated with the CSBS 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 (CFPB) and other states.

CCD staff also serve in leadership capacities on various committees for industry associations, including CSBS and AARMR. Principal Examiner Richard Cortes chairs the Nationwide Mortgage Licensing System (NMLS) Mortgage Call Report Workgroup and chairs the AARMR Training Committee. Attorney Stacey Valerio serves as Secretary of AARMR, chairs the CSBS State Regulatory Registry Lawyers Committee and chaired the 2015 Annual Conference Committee. Director Carmine Costa is a voting member of the Federal Financial Institutions Examination Council Task Force on Consumer Compliance representing the state liaison committee. He is also a member of the CSBS State Coordinating Committee, representing the interests of the states in the coordination of joint examinations with the CFPB.

The Financial Institutions Division remains committed to continuing its communication with industry representatives. At the conclusion of every examination, FID staff meet with the bank's or credit union's board of directors. They also have 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 FID 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 FID staff remains active members of both the CSBS and NASCUS. Former Banking Commissioner Howard F. Pitkin served 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 Chair-elect 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 Department will be undergoing its NASCUS re-accreditation in August 2015.

The Securities and Business Investments 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.

Connecticut continued its active participation in the North American Securities Administrators Association, Inc. (NASAA). Organized in 1919 and dedicated to investor protection, NASAA is a voluntary association whose membership consists of 67 state, provincial and territorial securities administrators in the 50 states, the District of Columbia, Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. During the fiscal year, SBID staff served on NASAA committees and project groups dedicated to harmonizing broker-dealer registration requirements nationwide and sharing information on brokerage practices requiring further state enforcement scrutiny.