

**TESTIMONY SUBMITTED TO THE GOVERNMENT
ADMINISTRATION AND ELECTIONS COMMITTEE**
March 16, 2007

*Testimony submitted by Commissioner Howard F. Pitkin
Department of Banking*

**HB 7374, AN ACT CONCERNING THE FUNDING OF CERTAIN AGENCIES
BY THE REGULATED COMMUNITY**

The Department of Banking would like to voice its opposition to **HB 7374, AN ACT CONCERNING THE FUNDING OF CERTAIN AGENCIES BY THE REGULATED COMMUNITY**. This bill requires the Banking, Insurance and Department of Public Utility Control to develop a plan to eliminate funding from the industries they regulate.

HB 7374 would be a disservice to the state chartered banking industry located in Connecticut as well as to the Connecticut Department of Banking. The agency strongly opposes this bill. As written, the bill would throw the expense of operating a critically needed agency upon the taxpayers, when it should rightfully be paid by the regulated entities. Being funded by assessments from the industries we regulate is, in fact, designed to protect the independence of this agency. Not independence from the state's Chief Executive, various department heads and budgetary dictates. Rather, independence that allows this agency, as well as other state regulatory agencies the responsiveness and flexibility it takes to respond to economic issues, provide staff training and manage extraordinary events.

Regulatory agencies such as the Department of Banking are unique from other state agencies and to put control of expenditures under those who have no understanding of our role could undermine our responsiveness to the many economic issues we face. One of the key issues making us different is the level of training and education our examiner teams need in the various disciplines they regulate. The voluminous amount of regulation and law in the banking, consumer credit and securities industry is ever changing, making examinations of these entities anything but routine. All of our examiners attend training classes by federal agencies, outside of Connecticut and this amounts to significant expense. If made part of the general fund this training could be misunderstood and not approved, resulting in a team of examiners unable to perform their critical role in ensuring the safety and soundness of Connecticut's financial institutions.

Frequently, this agency is faced with issues requiring the hiring of consultants to help manage a bankruptcy, provide training, or perform services related to our mission. Recent examples include hiring a constitutional law expert to write legal briefs for *Wachovia v. Burke*, a case on appeal at the Second Circuit, pending Supreme Court

decision. Also, we hired an accountant as well as a lawyer to help develop laws concerning the asset pledge required of the international banks located in Connecticut. Finally, there are serious problems in the sub-prime mortgage lending industry and the Department of Banking issues licenses to brokers and mortgage companies that participate in this market. It may be necessary to hire a consultant to help with this problem. Being funded by the general fund would preclude our being able to hire these consultants, or at the least, prevent us from hiring them on an as-needed basis.

The Banking fund has operated well throughout its history in Connecticut and has preserved the vital role that independent supervision plays in any regulatory agency such as the Department of Banking. On a national scale, the Congress of the United States took great care to protect the independence of the Office of the Comptroller of the Currency.

“.....and the founders of the national banking system expressed their commitment to supervisory independence when they chose to fund the examination of national banks from fees and assessments on the banks themselves, rather than entangling the OCC’s performance of bank supervision in the political give-and-take of the federal budget and appropriation process.”

John D. Hawke
Comptroller of the Currency
May 9, 2002

A lack of independence and funding from the general fund, at the expense of Connecticut’s taxpayers may lead to a deterioration of quality in this agency. We work alongside federal agencies such as the Federal Deposit Insurance Corporation, the Federal Reserve and, at times, the Office of Thrift Supervision. If we could not train our examiners thoroughly, or travel to take part in regulatory meetings in other states, our charter would weaken and it would result in a migration of charters away from the state and to our federal counterparts. ***Connecticut’s Banking Department is looked upon presently as a leader in innovation because we are independent and prioritize our own vibrancy. This would certainly be lost if we were subjected to the statewide priorities the general fund must sustain.***