

State Farm®

Corporate Headquarters
One State Farm Plaza A3
Bloomington, Illinois 61710-0001



Megan Weiler
Attorney
Phone: (309) 766-3531
megan.weiler.mmn4@statefarm.com

March 8, 2011

RE: CT SB 1110: An Act Concerning Consumer Credit Licenses

Dear Members of the Banks Committee:

On behalf of State Farm Bank, F.S.B., thank you for the opportunity to offer testimony in support of Senate Bill No. 1110, An Act Concerning Consumer Credit Licenses.

By way of introduction, the following is a short summary and description of the banking activities of State Farm Bank. State Farm Bank was established on March 12, 1999, as an FDIC-insured federal savings bank subsidiary of State Farm Mutual Automobile Insurance Company ("State Farm"). As a federal savings bank, State Farm Bank is chartered, regulated, and examined by the Office of Thrift Supervision ("OTS"), soon to be the Office of the Comptroller of the Currency ("OCC") pursuant to federal law. State Farm Bank provides deposit and limited loan products and services to customers in Connecticut primarily through State Farm's exclusive network of independent agents ("Exclusive Agents"), as authorized by the Home Owners' Loan Act (12 U.S.C. §§ 1461 *et seq.*). State Farm Bank's deposit and loan products and services are currently available throughout the United States via the Internet, mail, and a telephone call center.

State Farm's network of Exclusive Agents is primarily composed of individuals who sell State Farm insurance products. Exclusive Agents are not employees of State Farm. Pursuant to the terms of State Farm's agent agreements, Exclusive Agents generally are prohibited from selling insurance and financial products issued by non-State Farm organizations.

As currently structured, Exclusive Agents who market State Farm Bank products and services will enter into a separate agreement with State Farm Bank ("Bank Agreement"). Under the terms of that agreement, Exclusive Agents offer State Farm Bank's products to customers. It is expected that Exclusive Agents will provide information and brochures regarding the products and services offered by State Farm Bank primarily through mailings and through telephone and personal contacts with customers. Exclusive Agents also display State Farm Bank product brochures in their offices. In addition, Exclusive Agents may perform ministerial functions to assist customers in completing applications for products of State Farm Bank or, alternatively, may refer customers to a State Farm Bank representative who will assist the customer in obtaining a desired product or service.

As a general matter, the role of Exclusive Agents in the mortgage origination and lending activities of State Farm Bank is limited to marketing, product counseling and helping customers complete and submit forms and applications. Exclusive Agents do not evaluate loan applications (except to determine whether complete), apply any underwriting criteria to the loan application, or make any lending or other decisions on behalf of State Farm Bank. In addition, Exclusive Agents will not accept any loan payments. In return for their services, Exclusive Agents are paid a fee by the Bank after closing for each mortgage loan they assisted in originating. All compensation paid to Exclusive Agents in connection with the services provided for such loans is made in compliance with the Real Estate Settlement Procedures Act.

Customers applying for either a first or second (home equity loan or line of credit) mortgage enter into an agreement with Exclusive Agents entitled "Notice of Marketing Relationship and Services Agreement ("NMRSA"). The NMRSA explains the exclusive relationship between the Exclusive Agents and State Farm Bank, the services that will be provided, and the fees that the Exclusive Agents will be paid by State Farm Bank. Customers do not pay the Exclusive Agents for their services or for any upfront or application fees. All application fees are payable directly by customers to State Farm Bank, and may be collected and forwarded to State Farm Bank (along with other application-related documentation) by the Exclusive Agents.

The compliance oversight of State Farm Bank and its Exclusive Agents is carried out in a comprehensive manner by a full-time dedicated staff within the Bank. In addition, State Farm Bank benefits through the cooperative efforts of the Bloomington-based State Farm Marketplace Compliance department. This department oversees the State Farm agency function and has both "sales" and "service" compliance groups that continually assess and monitor agent performance, including the initiation of disciplinary actions when warranted. Marketplace Compliance also has a field presence, with assigned staff in each of the 13 State Farm Zone office territories throughout the U.S. Finally, State Farm's Internal Audit staff periodically conducts its own reviews to assess Exclusive Agents' performance. The Bank's dedicated compliance professionals ensure that Exclusive Agents receive necessary training and support to market Bank products consistent with policies and applicable regulatory requirements.

While State Farm Bank makes every effort to effectively train and monitor the Agents' banking activities, you should also be aware that the OTS has confirmed in writing that Agents who participate in any of the activities of State Farm Bank are subject to OTS regulation. In a letter dated June 16, 2000, OTS Regional Deputy Director Philip A. Gerbick states that the activities of Agents in serving State Farm Bank are "subject to regulation and examination by the OTS to the same extent as if those banking activities were directly performed by State Farm Bank." OTS, at its discretion, "may conduct on-site examinations at the offices of any Agent involved in the banking activities of State Farm Bank for the sole purpose of reviewing those banking activities." In fact, OTS examiners visited agents' offices in conjunction with examinations of the Bank. The OTS correspondence is in accordance with 12 U.S.C. § 1464(d)(7)(D)(i), which states that services provided by contract for a savings bank are subject to regulation to the same extent as if such services were performed by the savings bank on its own premises. Accordingly, State Farm Bank is legally responsible for the actions of Agents engaged in mortgage origination and lending activities.

State Farm Bank has registered as an exempt company in several states, including Idaho, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Nevada, New York, North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, West Virginia, and Wyoming. Legislative and regulatory changes allowing for exempt company registration are also pending in a few other states.

As a federally-chartered bank, State Farm Bank and its employees are exempt from Connecticut licensing requirements (CT Stat. 36a-485(20) and 36a-487(a)). However, State Farm Bank's Exclusive Agents are independent contractors and are therefore required to be licensed. To be licensed as mortgage loan originators under the SAFE Act and Connecticut law (CT Stat. 36a-485 *et seq*), Exclusive Agents must complete prelicensing education, pass a national and state exam, and submit a background check and a credit report. Individuals must also be covered by a surety bond.

Registration as an exempt company allows the Bank to sponsor its individual, licensed mortgage loan originator Agents and provide a blanket surety bond on their behalf. State Farm Bank is also willing to sign an undertaking of accountability in support of its agents. The exempt company registration option can be activated through the Nationwide Mortgage Licensing System (NMLS), allowing State Farm Bank to submit its application for exempt company status and sponsor its agents through NMLS. We have found that the exempt company registration option provides several administrative and convenience benefits for both the state and our agents while maintaining the high standards of consumer protection mandated by the SAFE Act.

State Farm Bank fully supports SB 1110. I trust that you will find the foregoing information helpful as you consider the potential implementation of this bill.

Sincerely,

Megan Weiler

Counsel to State Farm Bank