

# Connecticut Financial Services

Presentation to Banks Committee

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# State-Chartered Banks

- Bank & Trust Companies 12
- Limited Purpose Trust Companies 2
- Mutual Savings Banks 22
- Capital Stock Savings Banks 7
- Banker's Bank 1
- Uninsured Bank 1

# Connecticut Banks Performance Measures as of 9/30/12

- Capital Ratio

- Connecticut Banks 10.46%
- US Average 9.28%

- Asset Quality

- Connecticut Banks 2.14%
- US Average 3.85%

- Earnings (Return on Assets)

- Connecticut Banks 0.77%
- US Average 1.02%

- Net Interest Margin

- Connecticut Banks 3.59%
- US Average 3.45%

# Credit Union Industry

- 35 State Chartered Credit Unions
- 95 Federally Chartered Credit Unions
- Most are of small to moderate asset size
- Serve their communities well.

# Federally Chartered Banks in CT

- National Banks 20
- Federal Savings Banks 14
- Federal Savings & Loan 1
- Mutual Savings & Loan 1

# Dual Banking System

- In general, state chartered banks enjoy the same powers as federally chartered banks
- Choice is important if operations are:
  - statewide
  - Multi-state
  - National
  - International
- Federally chartered banks are supervised by the Office of the Comptroller of the Currency

# Underwriting and Lending in CT

- Underwriting standards are essentially the same
- With a bad economy comes lesser sales and earnings on the part of borrowers companies
- While they qualified to borrow “last year” they no longer qualify because of poor financial results
- Between September 2011 and September 2012 bank loans grew \$124,338,000 (excluding People’s & Webster); total of \$1,801,857,000 including them
- Between the same dates, credit union loans grew \$167,864,523

# Large Out-of-State Banks Located in Connecticut

- Bank of America
- Bank of New York Mellon
- Citibank
- United States Trust Co.
- JP Morgan Chase
- Wells Fargo
- First Niagara

# Foreign Banking Organizations Operating in Connecticut

- Abbey National Treasury Services
- Bank of Ireland
- Royal Bank of Scotland plc
- Royal Bank of Scotland N.V.
- UBS AG

# Department of Banking Organization

- 115 Employees
- Operate on a \$21 million budget
- Four Operating Divisions
  - Financial Institutions Division
  - Securities & Business Investment
  - Consumer Credit Division
  - Consumer Affairs Division

# Financial Institutions Division

- Carry out all supervisory duties for both domestic banks, foreign institutions and credit unions
- Performs on-site safety and soundness, compliance, IT, Risk Management and stress testing all state-chartered institutions
- Continuous monitoring of the conditions of all institutions, both state and foreign banking organizations
- Process all merger/acquisition applications and other applications requiring approval under Title 36a

# State -vs- Federal Cooperation

- We have cooperative agreements with FDIC and Federal Reserve which spell out our responsibilities and provides for a coordinated examination approach
- Disagreements sometimes happen, however, none go unresolved and never are displayed to the bank
- Accounting rules are so strict there's little room for disagreement
- Having two agencies review results is a check and balance

# Consumer Credit Division

Type	#	Type	#
Check Cashers	153	Mortgage Lenders	230
Debt Adjusters	50	Branch Offices	252
Consumer Collection Agencies	961	Mortgage Correspondent Lender	114
Debt Negotiators	7	Branch Offices	107
Money Transmitters	76	Mortgage Brokers	230
Sales Finance Companies	141	Branch Offices	12
Small Loan Companies	8	Mortgage Loan Originators	4,950

## Consumer Credit Division

- Adopted the SAFE Act
- Mortgage companies have reduced from 3,190 in 2006 to 1,025 now
- Mortgage loan originators have reduced from 16,200 in 2006 to 5,231 now
- After issuing 763 administrative orders and getting over \$450,000 in restitution since 2008, mortgage markets are more orderly

# Securities and Business Investments Division

- Responsible for registering securities and business opportunity offerings sold in/from Connecticut
- Registering (licensing) broker-dealers, agents, investment advisers and investment adviser agents
- Registering branch offices of broker-dealer and investment advisory firms
- Conducting on-site examinations of broker-dealers, investment advisers and branch office registrants
- Enforcing the Connecticut Uniform Securities Act

# Securities & Business Investment Division

In 2012:

- Fines imposed for violation of the Securities Act: \$2,257,881
- Restitution to investors totaled \$6,604,534
- 41 Orders issued for violations of law
- Nearly 100 active investigations at all times
- 161 on-site examination/audits of Broker-dealer and Investment Advisers

# Hedge Funds in Connecticut

- Connecticut is fortunate to be the home to a large, but not quantified number of investment funds concentrated in Fairfield County, in close proximity to New York
- There is no specific “hedge fund” definition, however, they are generally set up as private illiquid investment partnerships limited to sophisticated investors

# Hedge Fund Supervision

- Due to the number of investors or their sophistication level, they are not regulated by the SEC under the investment company Act of 1940
- State securities laws do not regulate how investment funds conduct operations - including what they invest in
- State and federal laws do cover the manner of how offerings are sold to fund investors. However, since these investors are sophisticated, the offering is done under SEC Rule 506, not state law
- Advisers to funds under \$100 million are regulated by the state; over \$100 million are regulated by the SEC

# Hedge Funds Regulation

- By repealing the federal exemption in the Investment Advisers Act of 1940, Dodd-Frank required many advisers to investment funds to register with the SEC
- The State retains fraud authority over fraudulent offerings of interests in an investment fund

# The Future of Investing: Crowdfunding

- The JOBS Act of 2011 (Jumpstart Our Business Startups) was essentially a marketing bill for securities offerings
- Expands certain rules to allow users to see accredited (sophisticated) investors through general solicitation and advertising
- Allows issuers to offer securities through an online portal (i.e. Facebook) that is not registered as a broker-dealer
- State is expressly preempted from regulating crowdfunding offerings unless fraud occurs

# Impact of Crowdfunding Provision

- Issuers using crowdfunding can raise up to \$1 million in any 12 month period
- Caps amount you can invest depending on annual income or net worth (\$100,000 base)
- Only a minimum of disclosure of risk is required
- Clearly, Congress was balancing the need for jobs with consumer protection in enacting this bill

# Securities Regulation Challenges

- **Protect investors within limitations imposed by federal preemption**
- **Focus more aggressively on combating fraud**
- **Promote enforcement agency cooperation to protect the Connecticut investing public**
- **Step-up investor education outreach program**

# Consumer Protection Consumer Affairs Division

- **Outreach**
  - **Investor Education - have focused on seniors (AARP, Elder Fraud)**
  - **Veterans - take part in Yellow-Ribbon events for soldiers deploying or returning**
  - **Homeowners Mortgage Assistance Events**
    - **Hartford, November 2011 - 1,500 attendees**
    - **Bridgeport, March 2012 - 1,200 attendees**
    - **Storrs, July 2012 - 600 attendees**
    - **Waterbury, November 2012 - 900 attendees**
  - **Currently planning 5<sup>th</sup> mortgage event, Spring 2013**

# Foreclosure Hotline

## 1-877-472-8313

- Used by consumers facing foreclosure on their home
- Consumers are advised of their rights
- Information on each situation is gathered and analyzed
- Based on the analysis the consumer is referred to a community resource that can help with foreclosure
- On average, over 4,000 calls per year are received

# Consumer Protection Consumer Affairs Division

- Staff of five deal with consumers that have issues and complaints with the financial institution they deal with
  - Late payments
  - Overdraw charges
  - Credit cards
  - Mortgage issues
  - Consumer collection agencies
- Division receives approximately 3,000 calls per year
- In 2012, obtained \$2,198,000 in reimbursements for consumers

# Mission Statement

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.