

TESTIMONY SUBMITTED TO THE BANKING COMMITTEE

February 24, 2015

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Department of Banking*

Chairman Leone, Chairman Lesser and members of the committee, thank you for the opportunity to testify in support of the following bills on the agenda for the Banking Committee's February 24, 2015 public hearing. These bills represent priority initiatives for the Department of Banking.

S.B. 920 AN ACT CONCERNING MORTGAGE CORRESPONDENT LENDERS

Licensed mortgage correspondent lenders (MCLs) are permitted to make loans and to hold them in their name for up to 90 days. As a result, MCLs may find themselves engaging in limited (e.g., first payment) servicing activities. This technical proposal clarifies that a duly licensed MCL is exempt from the separate requirement to obtain a mortgage servicer license (and from corresponding insurance/bonding requirements) when it services mortgages it has made and is holding in accordance with its MCL license. Please see attached memorandum the Department issued last year to the regulated community explaining the situation.

S.B. 921 AAC REVISIONS TO THE CONNECTICUT TRUTH-IN-LENDING ACT

The Department strongly supports this proposal that conforms Connecticut's truth-in-lending laws to substantive provisions of the federal Truth-in-Lending Act ("TILA"). Connecticut is one of a small handful of states that have been granted an exemption from certain provisions of federal TILA. It is critical to maintain this exemption because it allows the Department to continue its direct protection of Connecticut consumers in many of their loan transactions.

In short, maintaining this exemption allows the DOB—and not federal agencies such as the FTC or the FDIC—to continue examining applicable entities in Connecticut for compliance with TILA.

S.B. 922 AN ACT CONCERNING MINOR REVISIONS TO CONNECTICUT'S FINANCIAL INSTITUTIONS STATUTES

This proposal makes changes to a number of separate statutes concerning financial institutions; they are important to the Department as these changes will provide greater clarity and/or efficiency to the regulated community. I note three of them here. They are technical in nature and should not result in any controversy. First, this proposal creates an efficiency for Connecticut credit unions by requiring them to file their quarterly reports with the DOB at the same time as they are required to file with their federal regulator (NCUA).

Second, and on a similar note of improving operational efficiency, this proposal establishes a deadline by which Connecticut banks must provide a copy of their annual audit to the DOB. Certain Connecticut banks are required to file audits with the FDIC and this section would require Connecticut banks to file audits with the DOB by the date they are required to file with the FDIC or 120 days, but allows the Commissioner to extend the deadline for good cause.

Finally, to make the Department's existing jurisdiction more clear for the regulated community, this proposal amends Section 36a-185 that requires the Commissioner to disapprove an acquisition if the acquiring person's anti-money laundering policies are not adequate or if the acquiring person does not have a record of compliance with anti-money laundering laws and regulations. Some acquiring persons, such as holding companies, may not be directly subject to anti-money laundering laws and regulations and this proposal would clarify that the requirement in Section 36a-185 applies the extent the acquiring person is subject to anti-money laundering laws and regulations.

S.B. 923 AN ACT CONCERNING REVISIONS TO THE SMALL LOAN ACT

The Department strongly supports this bill. This proposal makes small, unsecured loans (typically, "Payday Loans or, as they are known euphemistically, "Short Term, Small Dollar Loans") that are made in violation of Section 36a-573(a) are null and void. This proposal also makes it a violation for persons to assist or aid and abet any person in conduct prohibited by the

Small Loan Act; when passed, this new law will deter banks, payment processors, Internet providers, or intermediaries from facilitating such prohibited activity. This proposal would permit the Department, through a successful enforcement action, to recover the *entire* amount of the loan and all interest paid by the borrower rather than just the interest and fees paid over and above the statutory rate cap. This is an important step for Connecticut to continue advancing its century-old policy “to prevent overbearing lenders and commercial entrepreneurs from exploiting impecunious borrowers and consumers who lack bargaining power.” See, Rhodes v. City of Hartford, 201 Conn. 89, 98-99 (1986).

The Department also believes that this change will begin to clear some space in the market for existing banks and credit unions in this state to innovate by creating new ways to safely lend to, and build new banking relationships with, borrowers who have traditionally sought out the much riskier form of credit known commonly as “Payday “Loans” or, as they are known euphemistically, “Short Term, Small Dollar Loans.”

S.B. 924 AN ACT CONCERNING MORTGAGE BONDS AND PERSONS CLAIMING AN EXEMPTION FROM LICENSING AS A MORTGAGE LENDER, MORTGAGE CORRESPONDENT LENDER OR MORTGAGE BROKER

This technical proposal contains two parts. First, it amends Section 36a-492 to align bond volume look-back periods with periods of time consistent with quarterly mortgage call reports. Bond volume look-back periods are used by mortgage lenders, mortgage correspondent lenders, mortgage brokers and exempt registrants to calculate and confirm their bonding requirements.

Second, it amends Section 36a-487(d) to clarify that approvals of exempt registrations only reflect approval to use the Nationwide Mortgage Licensing System and Registry (“NMLS”) for sponsoring and bonding under a claimed exemption and do not reflect affirmative approval of exempt status. This section allows people to utilize the NMLS as exempt registrants for purposes of sponsoring a mortgage loan originator, loan processor or underwriter. This proposal clarifies that the Commissioner’s approval only reflects the Commissioner’s approval of the registration and does not constitute an affirmative approval that the person is, in fact, exempt.

H.B. 6800 AN ACT CONCERNING SECURITY FREEZES ON CONSUMER CREDIT REPORTS

The Department strongly supports this bill. *Connecticut is one of only three states that allow consumer credit reporting agencies to charge victims of identity theft for security freezes.* This proposal will bring Connecticut in line with almost every other state by prohibiting consumer credit reporting agencies from charging fees for security freezes to victims of identity theft, senior citizens, minors, persons under guardianship or conservatorship and victims of domestic violence. Various other states extend the prohibition of fees to certain vulnerable groups, including senior citizens and victims of domestic violence.

H.B. 6802 AN ACT CONCERNING VIRTUAL CURRENCIES

This proposal is in response to the sharp uptick in both the number of virtual currencies (*e.g.* Litecoin, Ripple, Dogecoin and Nxt) and the scope of their related businesses. The Department must amend its money transmission statutes to allow us to respond nimbly to the many peculiar issues and business models that have already arisen or may arise in the context of this extremely rapidly evolving and newly-developing currency by defining "virtual currency," requiring money transmitters to state whether they deal in virtual currency and allowing the Commissioner to take certain measures against money transmitters engaged in virtual currency. With this legislative change, the Department believes it can begin safely allowing businesses of this nature to enter Connecticut. Without it, the Department would be hard-pressed to approve any license for a dealer in virtual currency.