



STATE OF CONNECTICUT
DEPARTMENT OF BANKING
260 CONSTITUTION PLAZA – HARTFORD, CT 06103-1800



TESTIMONY SUBMITTED TO THE BANKING COMMITTEE
Jorge L. Perez, Commissioner
March 8, 2016

S.B. 404, An Act Concerning Money Transmission in the State and the Fiduciary Duties of Mortgage Servicers

H.B. 5571, An Act Concerning Consumer Collection Agencies and Debt Collection Actions

H.B. 5572, An Act Concerning Small Loan Licensees

S.B. 412, An Act Concerning Lead Generation

Good morning Chairman Winfield, Chairman Lesser, Ranking Members Martin and Simanski, and members of the committee. My name is Jorge Perez and I am the Banking Commissioner. I regret that I am unable to be with you today, and thank you for accepting this written testimony in strong support of four pieces of legislation developed and proposed by the Department. Should any committee members have questions, please contact me and I will be happy to respond at my earliest convenience.

S.B. 404, An Act Concerning Money Transmission in the State and the Fiduciary Duties of Mortgage Servicers –

This proposal modernizes the existing statutes to make clear that “activity occurring within this state” in the context of money transmission and debt negotiation services, does not require a physical presence or storefront inside Connecticut’s borders. More importantly, however, this proposal also puts common sense protections in place to ensure that the escrow payments borrowers give to their mortgage servicers are used for their intended purpose. Typically, these payments are made to the servicer who then pays the homeowners insurance premiums and/or the property taxes on behalf of the borrower. In essence, because the mortgage servicer is simply holding the borrower’s money and promises to make payments for the borrower, the Department believes that the servicer should not use that money for any other purpose. After all, if the servicer does not pay the property tax bill, the homeowner would still on the hook – even though he or she had already, in effect, paid that bill.

H.B. 5571, An Act Concerning Consumer Collection Agencies and Debt Collection Actions

This bill amends the banking statutes to clarify that consumer collection agencies are subject to state licensure if they collect (on behalf of the U.S. Department of Treasury) federal income tax debt from debtors who reside in this state. The bill also makes clear that, absent an explicit agreement signed by a consumer debtor to the contrary or by other operation of law, a collection agency may not assess any interest, fee, charge or expense to the debts they attempt to collect. This is a common sense measure that levels the playing field and by ensuring consumers receive the benefit of their bargain with the original creditor, and do not fall prey to unscrupulous collection practices.

The Department notes that sections six through nine of this bill do not originate from the Department of Banking. Those sections place requirements on collection agencies who sue debtors in court. The Department suggests that the courts are the better place to enforce filing and evidentiary requirements.

H.B. 5572, An Act Concerning Small Loan Licensees

This bill is a continuation of the Department's efforts to bring more efficiency to its licensing function by placing the licensing application on the Nationwide Mortgage Licensing System along with most of its other license types. In addition, this bill represents the Department's continuing effort to bring plain language to and modernize the antiquated small loan law.

- Specifically, the proposal would clarify that, beyond the simple making of a loan, activities requiring licensure include offering, soliciting, advertising, brokering, making, or servicing a small loan;
- Simplifies the existing formulas for interest rate caps on small loans to cap them at the maximum APR permitted under the Military Lending Act (except in certain circumstances where existing law mandates a lower cap);
- Clarifies who may refer, accept referrals of, buy or sell a small loan; and
- Render void those small loan contracts if made in connection with unlicensed activity, noncompliance with statutory restrictions or prohibited licensee conduct.

S.B. 412, An Act Concerning Lead Generation

The proposal would provide the Commissioner with regulatory authority over lead generators for certain products and services subject to regulation under Title 36a, such as residential mortgage loans, small loans and debt negotiation services.

A lead generator is a person who engages in the business of generating or selling consumer leads (information identifying a potential consumer) as opposed to actually offering, brokering or providing the requested product or service. This activity covers people and companies at the leading edge of financial technology ("fintech") providers. In other words, they are people who use "big-data" to gather leads for mortgage loan originators and the largely unregulated alternative financial service providers. This bill, acting in concert with the small

loan law, will cast a sensible regulatory halo around the core activity. The Department believes that ensuring good business practices through licensure is a protection that consumers deserve.

Thank you for your attention to these matters. The Department believes these bills represent a common sense approach to financial regulation by enhancing protection to consumers while still respecting the impact of regulatory burden on our industries.