

## State of Connecticut Department of Banking

---

1837 to 2007  
Supervising Connecticut  
Financial Institutions  
For 170 Years

---

# Annual Report Of the Banking Commissioner

To Her Excellency  
M. Jodi Rell, Governor

For the Year Ending December 31, 2007  
Hartford, Connecticut



*To Her Excellency, M. Jodi Rell, Governor*

I have the honor to submit the annual report of this department for the year 2007 pursuant to the requirements of Section 36a-14 of the Connecticut General Statutes.

Respectfully yours,

Howard F. Pitkin  
Banking Commissioner

## CONTENTS

	<b>Page</b>
BANKING COMMISSIONERS (1900-2007) .....	4
DEPUTY BANKING COMMISSIONERS (1900-2007) .....	5
ADMINISTRATION	
Agency Mission .....	6
Organization .....	6
Equal Opportunity and Affirmative Action .....	7
Financial Statement .....	8
CONSUMER CREDIT DIVISION .....	9
FINANCIAL INSTITUTIONS DIVISION .....	13
SECURITIES AND BUSINESS INVESTMENTS DIVISION .....	20
GOVERNMENT RELATIONS AND CONSUMER AFFAIRS DIVISION.....	25

**BANKING COMMISSIONERS  
(1900-2007)**

<b>BANKING COMMISSIONERS</b>	<b>FROM</b>	<b>TO</b>
Charles H. Noble	1900	1906
George F. Kendall		
Charles H. Noble	1907	1911
Norris S. Lippitt		
Norris S. Lippitt	1911	1914
Fred P. Holt	1911	1915+
Everett J. Sturges	1915	1922
John K. Bissland	1922	1922
John B. Byrne	1922	1927
Lester E. Shippee	1927	1931
George J. Bassett	1931	1933
Walter Perry	1933	1943
Richard Rapport	1943	1951
Lynwood K. Elmore	1951	1955
Henry H. Pierce Jr.	1955	1960
Philip Hewes	1960	1970
Gerald A. Lamb	1970	1971
James E. Hagen	1971	1975
Lawrence Connell Jr.	1975	1977
David H. Neiditz	1977	1981
Brian J. Woolf *	1982	1985
Howard B. Brown Jr.**	1986	1991
Ralph M. Shulansky	1991	1995
John P. Burke	1995	2006
Howard F. Pitkin ***	2007	--
<p><i>+Prior to 1915 two Banking Commissioners served concurrently as agency administrators.  * Served as Acting Banking Commissioner from December 31, 1981 to March 30, 1982.  ** Served as Acting Banking Commissioner from September 13, 1985 to February 2, 1986.  *** Served as Acting Banking Commissioner from October 1, 2006 to March 7, 2007.</i></p>		

**DEPUTY BANKING COMMISSIONERS  
(1900-2007)**

<b>DEPUTY BANKING COMMISSIONERS</b>	<b>FROM</b>	<b>TO</b>
John K. Bissland	1917	1921
Lester E. Shippee	1922	1927
R. Gordon Baldwin	1928	1937
Richard Rapport	1938	1942
Lynwood K. Elmore	1943	1950
Reinhard J. Bardeck	1951	1969
Maurice J. Ferland	1970	1971
Patsy J. Piscopo	1971	1974
Thomas E. Canfield	1974	1975
Kay V. Bergin	1975	1978
Linda J. Kelly	1979	1981
Howard B. Brown Jr.	1982	1985
Paul J. McDonough	1988	1991
Barbara S. McGrath	1991	1993
Robert B. Titus	1993	1995
Alan J. Cicchetti	1999	--

## **ADMINISTRATION**

### ***Agency Mission***

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.

### ***Organization***

The Department of Banking is a state agency headed by the Banking Commissioner, who reports to the Governor. It is responsible for the regulation and examination of financial institutions and various related entities that are chartered, licensed or registered by the state. The Banking Commissioner is charged with administering the banking and credit union laws of the state as well as the laws regarding securities, tender offers and business opportunities. The Commissioner also administers the Truth-in-Lending Act and other consumer credit laws and a major portion of the law concerning rental security deposits.

The agency is divided into three line divisions responsible for specific types of financial institutions or types of transactions, as well as other divisions that support the department functions.

The Consumer Credit Division licenses and regulates first and second mortgage brokers, lenders and originators, consumer collection agencies, debt adjusters, sales finance companies, small loan companies, check cashing services and money forwarders.

The Financial Institutions Division regulates state-chartered bank and trust companies, credit unions, savings banks and savings and loan associations. It also supervises foreign bank agencies, branches and representative offices; licenses certain entities; and reviews applications for new banks and credit unions, mergers, branches, field of membership expansions and other matters.

The Securities and Business Investments Division is responsible for the registration of securities and business opportunity offerings for sale in Connecticut; the registration of broker-dealers and investment advisers, along with their agents and branch offices; the examination of broker-dealer, investment adviser and branch office registrants; and the enforcement of the state's securities and business opportunity laws.

The Government Relations and Consumer Affairs Division assists consumers with issues involving banks, credit unions, mortgage lending and other consumer credit matters and matters relating to securities and business opportunity investments. The agency also has a full-time employee available to answer questions on rental security deposits. Other divisions that support the agency are the Legal Division, comprised of an advisory staff of attorneys who assist the

commissioner and agency divisions in legal matters, the Business Office, which is responsible for the accounting, budgeting, fiscal, payroll, purchasing and financial reporting functions of the agency, the Human Resources Office, which addresses day-to-day employee issues and is responsible for preparing the agency's affirmative action plan detailing the department's commitment to equal opportunity, and the MIS unit that provides data processing and office automation support.

As of December 31, 2007 there were 122 full-time permanent employees.

***Equal Opportunity and Affirmative Action***

The Department of Banking is committed to providing equal employment opportunity on the basis of merit; to assuring nondiscrimination; and to implementing affirmative action and contract compliance programs, as required by law. The department's affirmative action plan, filed with the Commission on Human Rights and Opportunities, reflects the agency's commitment to achieving workforce balance and fairness in all terms and conditions of employment.

**Financial Statement**

Receipts and expenditures relating to the fiscal year ending June 30, 2007 were as follows:

**Receipts**

Examination of banks etc. assessed in accordance with Section 36a-65, as amended .....	\$ 2,309,158
Examination of credit unions, assessed in accordance with Section 36a-65, as amended .....	104,060
Other license and examination fees .....	195,648
Registration, filing and transfer fees from securities brokers, etc. ....	9,772,650
Registration of securities and business opportunities .....	4,662,672
License and registration fees: mortgage brokers, loan originators, check cashers, money transmitters, sales finance companies, debt adjusters, collection agencies .....	7,884,153
Penalties .....	4,136,915
Sales and miscellaneous receipts .....	<u>37,927</u>
Total Receipts .....	\$ <u>29,103,183</u>

**Expenditures**

Personnel services .....	\$ 9,314,893
Fringe benefits .....	5,087,896
Travel expenses, including motor vehicle rentals .....	484,369
Other expenses .....	1,363,454
Indirect overhead and equipment .....	<u>204,204</u>
Total Expenditures .....	\$ <u>16,454,816</u>

## CONSUMER CREDIT DIVISION

The Consumer Credit Division is responsible for regulating the activities of first and secondary mortgage lenders, brokers, and originators; small loan companies; sales finance companies; debt adjusters; consumer collection agencies; money transmitters; issuers of money orders or traveler's checks; and check cashing services. The Division is responsible for the licensing and examination of these entities and the enforcement of related Connecticut laws. The Division also administers Truth-in-Lending laws; retail installment sales financing laws; and a major portion of the law relating to rental security deposits.

### *Examination and Enforcement*

During 2007 the Consumer Credit Division continued to increase focus on enforcement. Department actions against licensees and related entities increased, with 65 actions taken against licensees or registrants totaling \$629,750 in civil penalties.

The Division conducted 499 examinations of licensees under their jurisdiction. The examinations included review of state statutes, with \$146,325 being refunded to consumers.

### *Disclosure of the Cost of Credit (Truth in Lending)*

During 2007, the Consumer Credit Division conducted 469 inspections of creditors subject to the requirements of the Truth in Lending Act and Regulations. These examinations were conducted at entities licensed by the Consumer Credit Division, including first and secondary mortgage companies, sales finance companies and small loan companies. With few exceptions the level of compliance is high, with technical violations constituting the bulk of non-compliance observed.

Connecticut is one of five states that the Federal Reserve Board exempts from the federal Truth in Lending Act. This permits local enforcement of the Truth in Lending Law.

Creditors found to be violating the Truth in Lending regulations may be required to rebate overcharges, to issue corrected disclosure statements, or to issue additional rights of rescission where such rights were improperly administered initially. In addition, such creditors are required to advise the department of their plan to prevent similar violations from occurring in the future.

The staff of the Consumer Credit Division provides licensees subject to the Truth in Lending Act with substantial assistance in complying with its requirements. Guidance concerning compliance is offered to creditors during and after examinations. From time to time trade associations and other groups present formal educational programs in which staff members participate. The large volume of consumer inquiries received by the division is used wherever possible as an opportunity to educate the public on how to best use the information creditors are required to disclose.

### ***Small Loan Licensees***

There were 44 small loan licenses in effect on December 31, 2006. As of December 31, 2007, there were 47 small loan licensees. During the year, 5 small loan licensees were examined for compliance with the Small Loan Act (Chapter 668, Part III of the Connecticut General Statutes) and the Truth in Lending Laws.

### **Small Loan Activities**

<b>Small Loan activities</b>	<b>2006</b>	<b>2007</b>	<b>% Change</b>
Loans Outstanding #	39,010	46,194	18.41
Loans Outstanding \$	\$180,685,870	\$278,485,252	54.13

<b>Closed – End Loans</b>	<b>2007 Number of Transactions</b>	<b>2007 Dollar Amount</b>
Total	73,924	\$126,737,476
Secured	56,315	\$10,297,387
Unsecured	17,609	\$116,440,089

<b>Other Business Conducted on the Same Premises as the Licensee</b>	<b>2007 Number of Transactions</b>	<b>2007 Dollar Amount</b>
First Mortgages	4,445	\$766,025,586
Second Mortgages	6,694	\$243,728,020

### ***Sales Finance Companies and Retail Installment Sales Financing***

There were 208 sales finance company licenses in effect on December 31, 2006. As of December 31, 2007, there were 216 sales finance company licensees.

During 2007, 25 licensees were examined for compliance with the Retail Installment Sales Financing Act (Chapter 668, Part II of the Connecticut General Statutes) and the Truth in Lending Laws.

### ***Debt Adjusters***

All debt adjuster activities in the state of Connecticut are performed only by bona fide non-profit organizations, licensed by the Department of Banking. There were 36 entities licensed to offer bona fide non-profit debt adjustment services on December 31, 2006. As of December 31, 2007, there were 33 licensed debt adjusters.

### ***Consumer Collection Agencies***

There were 872 consumer collection agency licenses in effect on December 31, 2006. As of December 31, 2007, 893 consumer collection agencies were licensed.

During 2007, 174 examinations of consumer collection agencies were conducted reviewing compliance with state statutes and regulations.

### ***Money Transmitters and Issuers of Connecticut Payment Instruments***

Connecticut issues licenses to persons or firms 1) engaged in the business of money transmission, or 2) engaged in the business of issuing money orders, traveler's checks or other instruments for the payment of money. In some cases licensees may have a combination of both a license for Money Transmission and for Issuers of Connecticut Payment Instruments, allowing the licensee to conduct different types of activities.

As of December 31, 2007, there were 54 money transmitters and issuers of money orders and travelers checks licensed in Connecticut. Many retail businesses in Connecticut act as agents for these companies.

During 2007, three money transmitter examinations were conducted reviewing both compliance with state statutes and federal statutes.

### ***Check Cashers***

Persons or firms engaging in the business of cashing checks, drafts or money orders for consideration at a general facility or a limited facility must be licensed by the Department of Banking for each location where such business is conducted. In early 2004 the administration and regulation of the check cashing service industry was transferred from the Financial Institutions Division to the Consumer Credit Division.

As of December 31, 2007, 101 check cashers were licensed to do business in Connecticut.

During 2007, 30 examinations were conducted reviewing compliance with both state and federal statutes and regulations.

### ***First Mortgage Lenders, Correspondent Lenders and Brokers***

Three types of first mortgage loan licenses are issued to distinguish between first mortgage loan licensees. Mortgage lenders grant loans, correspondent lenders close loans in their name; however, they are funded by another person and are not held for more than ninety days and brokers arrange loans which are made by lenders or correspondent lenders.

There were 3,190 first mortgage loan licensees on December 31, 2006. As of December 31, 2007, there were 2,709 licensees.

During 2007, 136 first mortgage exams were conducted for compliance with state statutes along with Federal Regulation Z (the Truth in Lending Act).

***Secondary Mortgage Lenders, Correspondent Lenders and Brokers***

Three types of secondary mortgage loan licenses are issued to distinguish between secondary mortgage loan licensees. Mortgage lenders grant loans, correspondent lenders close loans in their name; however, they are funded by another person and are not held for more than ninety days and brokers arrange loans which are made by lenders or correspondent lenders.

There were 2,816 secondary mortgage loan licensees as of December 31, 2006. As of December 31, 2007, there were 2,466 licensees.

During 2007, 128 secondary mortgage exams were conducted for compliance with state statutes along with Federal Regulation Z (the Truth in Lending Act).

## FINANCIAL INSTITUTIONS DIVISION

The Financial Institutions Division (“Division”) is responsible for the supervision and regulation of state-chartered commercial banks, savings banks, savings and loan associations, limited-purpose trust companies, and credit unions. The Division also regulates the activities of foreign banking organizations with branches, agencies, and representative offices located in Connecticut.

Through a combination of continuous off-site reviews and periodic on-site examinations, the Division monitors these institutions for compliance with Connecticut banking law, as well as applicable rules and regulations of the institutions’ respective federal regulators. Additionally, the Division, in conjunction with federal regulatory agencies, conducts examinations of one bankers’ bank and several information technology service providers whose services substantially impact the operations of Connecticut banks and credit unions. The Division is also responsible for processing applications for new banks and credit unions, branches, acquisitions, mergers and consolidations, bank holding company formations, and requests for credit union field of membership expansions. The Division also licenses business and industrial development corporations and certain non-banking corporations exercising fiduciary powers in the State.

### *Consolidated Condition and Operating Results*

As of December 31, 2007, there were 15 state-chartered commercial banks and 22 state-chartered savings banks operating in the State. There were no state-chartered savings and loan associations as of December 31, 2007.

State-chartered commercial banks and state-chartered savings banks, collectively, reported total assets of \$26.3 billion as of December 31, 2007, a \$2.6 billion or 9.0% decline from the \$28.9 billion reported as of December 31, 2006. Aggregate deposits totaled \$18.1 billion as of December 31, 2007, a \$2.1 billion or 10.4% decline from the \$20.2 billion reported for the prior year-end; while aggregate equity capital declined by 3.6% year-over-year from \$3.58 billion to \$3.45 billion. The decline is largely attributable to Citizens Bank of Connecticut’s August 2007 merger with and into Citizens Bank, N.A., a national banking association.

In the aggregate, state-chartered banks’ earnings performance for the year-ended December 31, 2007 declined from the prior year level, generating an average return on assets (ROA) and return on equity (ROE) of 0.56% and 4.75%, respectively, compared to the ROA of 0.84% and ROE of 6.86% for the year-ended December 31, 2006.

**Number of Connecticut-Chartered Banks & Credit Unions  
(As of December 31, 2006 & December 31, 2007)**

<b>Institution Type</b>	<b>Institutions 12/31/2006</b>	<b>De Novo Activity</b>	<b>Merger Activity</b>	<b>Charter Changes</b>	<b>Net Change</b>	<b>Institutions 12/31/2007</b>
Connecticut-Chartered Commercial	15					15
Connecticut-Chartered Savings	23		-1		-1	22
Uninsured Banks	1					1
Connecticut-Chartered LPTC	2					2
Connecticut-Chartered Credit Unions	41		-2	-1	-3	38
<b>Totals</b>	<b>82</b>		<b>-3</b>	<b>-1</b>	<b>-4</b>	<b>78</b>

***State-Chartered Commercial Banks***

There were 15 state-chartered commercial banks operating in the State as of December 31, 2007, no change from the prior year. The 15 state-chartered commercial banks operating as of June 30, 2007 collectively operated 41 offices with aggregate deposits totaling \$1.5 billion.

***State-Chartered Savings Banks***

There were 22 state-chartered savings banks (14 mutual and 8 capital stock institutions) operating in the State as of December 31, 2007, a decrease of one institution from the 23 operating as of December 31, 2006. The change reflects Citizens Bank of Connecticut's August 2007 merger with and into Citizens Bank, N.A., a national banking association. The 23 state-chartered savings banks operating as of June 30, 2007 collectively operated 364 offices with aggregate deposits totaling \$16.2 billion.

***Uninsured Bank***

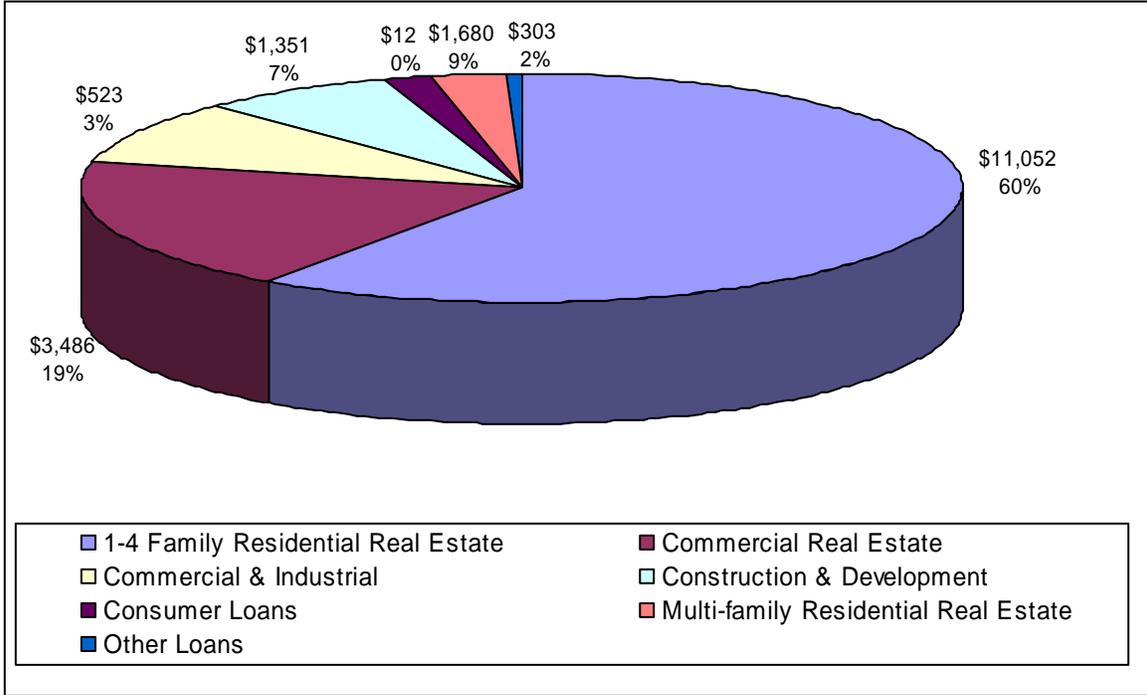
UPS Capital Business Credit ("UPSCBC"), a wholly-owned subsidiary of UPS Capital Corp., operates under an uninsured depository bank charter and does not accept retail deposits. UPSCBC focuses on originating, underwriting, and managing various small business and government guaranteed loan products.

***State-Chartered Limited Purpose Trust Companies***

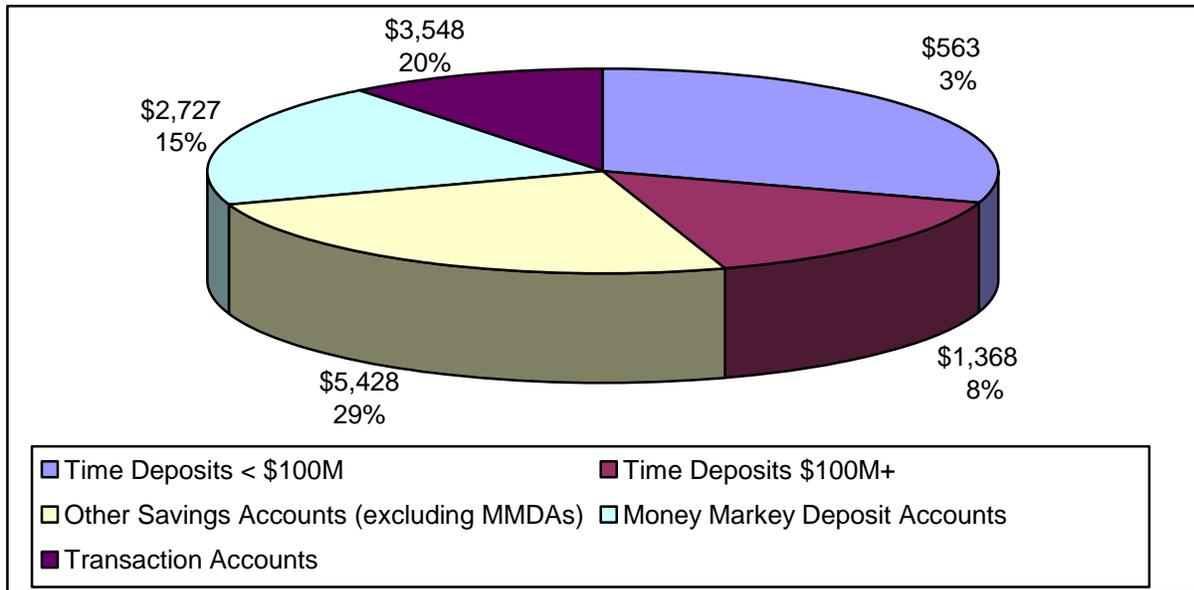
There were two Connecticut-chartered limited-purpose trust companies operating in the State as of December 31, 2007 with managed assets totaling \$23.5 billion.

**Bank Gross Loans and Leases and Deposits Composition**

**Gross Loans & Leases of Connecticut-chartered Banks  
December 31, 2007  
(in millions)**



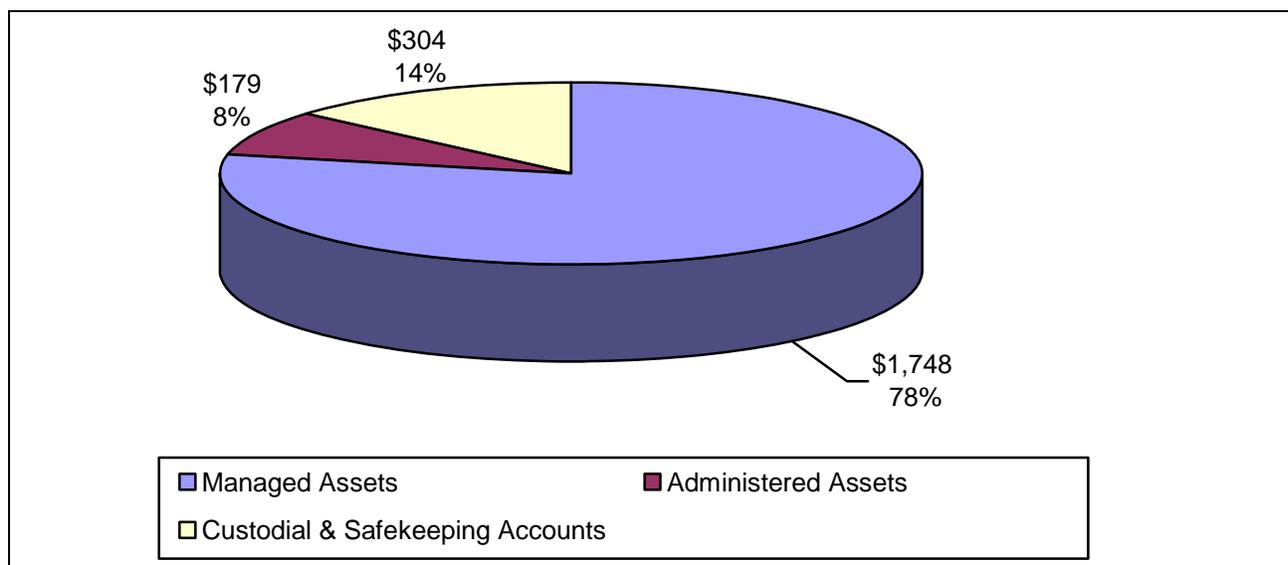
**Deposits of Connecticut-chartered Banks  
December 31, 2007  
(in millions)**



### *Trust Assets*

As of December 31, 2007, 7 state-chartered banks operated trust departments with aggregate managed assets totaling \$1.7 billion.

**Trust Assets of Connecticut-Chartered Banks  
December 31, 2007  
(in millions)**



### *State-Chartered Credit Unions*

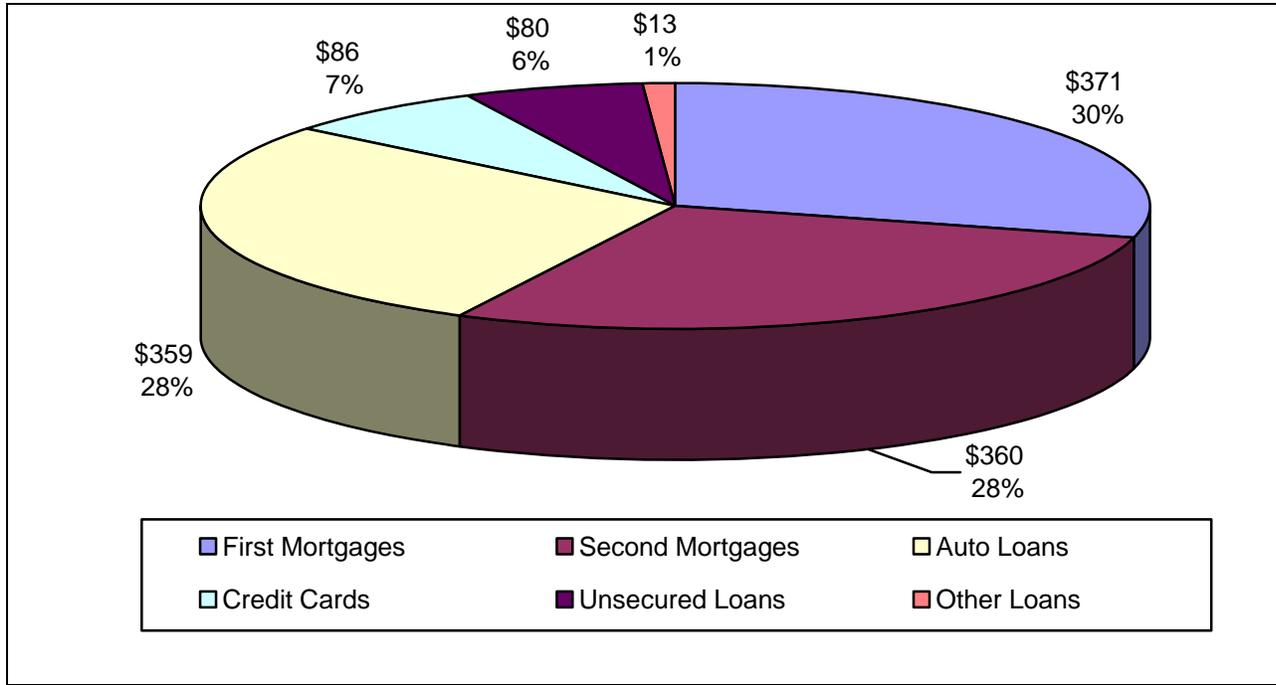
As of December 31, 2007, there were 38 Connecticut-chartered credit unions operating in the State. There were two mergers and one conversion of state-chartered credit unions during 2007, reducing the aggregate number of Connecticut-chartered credit unions from 41 as of the prior year-end. The mergers consisted of the West Hartford Credit Union, which merged with and into the Vendors Mutual Benefit Association, as well as New Britain Municipal Employees Credit Union, which merged with and into Achieve Financial Credit Union. The conversion consisted of Hartford Healthcare Credit Union which converted from a state-chartered to a federally-chartered credit union.

State-chartered credit unions reported total assets of \$2.7 billion as of December 31, 2007, approximately a \$100 million or 4% increase from the \$2.6 billion reported as of the prior year-end. Aggregate shares and deposits totaled \$2.3 billion as of December 31, 2007, a \$90 million or 4% increase from the \$2.2 billion reported for the prior year-end. Net worth for state-chartered credit unions increased by \$12.1 million or 4% from year-end 2006 to year-end 2007.

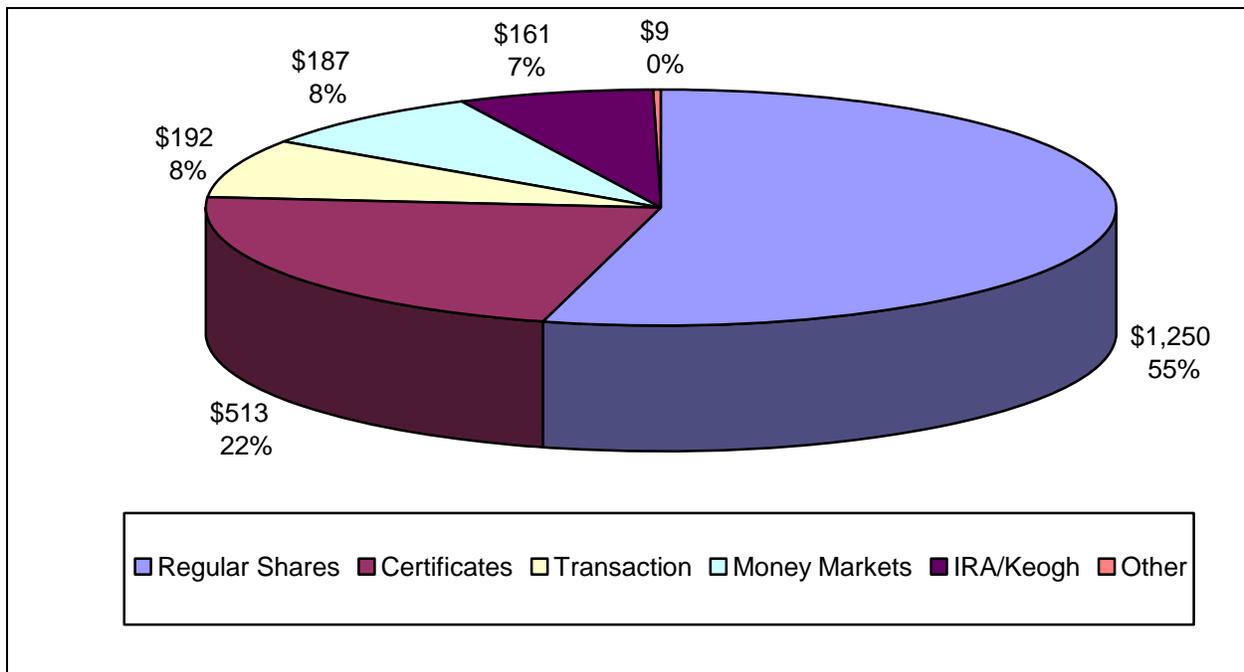
State-chartered credit unions' earnings performance for year-end December 31, 2007 slightly increased from the prior year level, generating an average return on assets (ROA) of 0.46% versus the ROA of 0.44% for year-end 2006. This increase is attributed to a respective slight increase in the net interest margin from 2.50% to 2.55%, coupled with a stable level of operating expenses as a percentage of average assets from 2.60% for both 2006 and 2007.

*Credit Union Loans and Shares/Deposits Composition*

**Loans of Connecticut-Chartered Credit Unions  
December 31, 2007  
(in millions)**



**Share Deposits of Connecticut-Chartered Credit Unions  
December 31, 2007  
(in millions)**



### *Community Reinvestment Act (“CRA”)*

Since 1990, the Banking Commissioner has been required to assess the community reinvestment performances of state-chartered financial institutions and to consider their reinvestment efforts as a basis for approving or denying bank expansion.

#### **CRA Ratings of Connecticut-Chartered Banks & Credit Unions (As of February 5, 2008 FDIC Release Date)**

<b>Institution Type</b>	<b>#</b>	<b>Outstanding</b>	<b>Satisfactory</b>	<b>Needs to Improve</b>	<b>Substantial Noncompliance</b>	<b>New Bank Not Rated</b>
Connecticut-chartered Savings Banks	22	9	13	0	0	0
Connecticut-chartered Commercial Banks <sup>1</sup>	15	0	11	0	0	3
Connecticut-chartered Credit Unions <sup>2</sup>	38	0	10	0	0	0
<b>Totals</b>	<b>75</b>	<b>9</b>	<b>34</b>	<b>0</b>	<b>0</b>	<b>3</b>

<sup>1</sup> Bankers’ Bank, NE is not rated for CRA purposes.

<sup>2</sup> CRA examinations are performed only for community credit unions with total assets over \$10 million. As of February 5, 2008, ten state-chartered credit unions met these criteria.

### *Federal and Out-of-State Banks*

In addition to the 37 Connecticut-chartered, insured depository institutions operating in the State as of December 31, 2007, there were 5 banks chartered by states other than Connecticut, 20 national banks regulated by the Office of the Comptroller of the Currency, and 12 federal savings banks and 2 federal savings associations regulated by the Office of Thrift Supervision. Included in these totals are 2 national banks and 1 federal savings bank operating as limited purpose trust companies in the State.

#### **Deposit Market Share by Charter Type As of June 30, 2007**

<b>Institution Type</b>	<b>No. of Institutions as of 6/30/07</b>	<b>Deposits as of 6/30/07 [millions]</b>	<b>No. of Offices as of 6/30/07</b>	<b>Market Share as of 6/30/07</b>
Connecticut-chartered Savings Banks*	23*	16,247	364	20.1%
Connecticut-chartered Commercial Banks	15	1,533	41	1.9%
Other Connecticut-chartered	5	248	8	0.3%
National Banks**	18**	48,627	607	60.1%
Federal Savings Banks***	12	13,873	252	17.1%
Federal Savings Associations***	2	425	13	0.5%
<b>Totals</b>	<b>75</b>	<b>80,953</b>	<b>1,285</b>	<b>100.0%</b>

\* No. of Institutions includes Citizens Bank of CT which merged with & into a national bank in August 2007.

\*\* 9 National Banks are headquartered in CT. No. of Institutions excludes 2 limited purpose trust cos.

\*\*\* 6 Federal Savings Banks & 2 Federal Savings Associations are headquartered in CT.

### ***Federal and Out-of-State Credit Unions***

In addition to the 38 Connecticut-chartered credit unions operating in the State as of December 31, 2007, there was one credit union chartered by a state other than Connecticut, 111 federally chartered credit unions headquartered in Connecticut (including one corporate credit union whose field of membership consists of other credit unions), and 12 federally chartered credit unions headquartered outside of Connecticut. All credit unions operating in the state are insured by the National Credit Union Administration (NCUA).

### ***Foreign Banking Organizations***

As of December 31, 2007, there were 5 branch offices of foreign banking organizations operating in the State, inclusive of the Bank of Ireland which was initially licensed as a representative office in September 2000 and converted to a branch in June 2006. Additionally, foreign banking organizations operated 2 representative offices as of December 31, 2007.

A branch of a foreign banking organization is a legal and operational extension of its parent organization and, as such, may conduct a full range of banking activities including: trading and investment activities; accepting wholesale and foreign deposits, but not retail deposits; granting credit; and acting as a fiduciary.

A representative office, the simplest form of organization for foreign banking organizations to establish, may only engage in representational and administrative functions and may not make any business decisions on behalf of the foreign bank. A representative office serves as a liaison between the head office of the foreign banking organization and its customers and correspondent banks in the U.S., often soliciting business for the account of the head office.

An agency, like a branch, is a legal and operational extension of its parent foreign banking organization. An agency primarily makes commercial and corporate loans and finances international transactions. An agency does not have general deposit-taking authority. On January 19, 2007, the license of Societe Generale expired and its agency office was relocated to New York, NY on July 2, 2007.

### **Foreign Banking Organizations Operating In Connecticut**

<b>Institution Name</b>	<b>Office Type</b>	<b>Location</b>	<b>Approval/ License Date</b>	<b>Assets As of 12/31/05</b>	<b>Assets As of 12/31/06</b>	<b>Assets As of 12/31/07</b>
				(in millions)	(in millions)	(in millions)
Abbey Nat'l Treasury Services plc	Branch	Stamford	09/17/01	\$3,380	\$13,482	\$12,516
Bank of Ireland	Branch	Stamford	06/15/06	0	\$5,154	\$10,029
Fortis Bank S.A./N.V.	Branch	Stamford	10/09/02	\$2.6	\$89	\$5,371
Lloyds TSB Offshore Limited	Rep.	Stamford	12/22/06	N/A	0	0
Royal Bank of Canada	Rep.	Greenwich	07/05/01	0	0	0
Royal Bank of Scotland plc	Branch	Greenwich	05/03/07	NA	NA	\$1.8*
UBS AG	Branch	Stamford	06/23/97	\$42,665	\$50,517	\$71,179

\* Pledged Assets only

## SECURITIES AND BUSINESS INVESTMENTS DIVISION

Subject to the general supervision of the Banking Commissioner, the Securities and Business Investments Division is charged with administering Chapter 672a of the Connecticut General Statutes, the Connecticut Uniform Securities Act; Chapter 672c of the Connecticut General Statutes, the Connecticut Business Opportunity Investment Act; and Chapter 672b of the Connecticut General Statutes, the Connecticut Tender Offer Act.

The division is responsible for 1) the registration of securities and business opportunity offerings for sale in Connecticut; 2) the registration of broker-dealers, agents, investment advisers and investment adviser agents as well as the registration of broker-dealer and investment adviser branch offices; 3) the examination of broker-dealer, investment adviser and branch office registrants; and 4) enforcement of the state's securities, business opportunity and tender offer laws.

### *Activities*

During calendar year 2007, Securities and Business Investments Division intervention resulted in restitution and rescission offers to the investing public totaling \$23,192,298. In addition, the division imposed \$5,458,090 in fines for violations of the state's securities and business opportunity laws, up approximately 22% from the preceding year.

A portion of this amount was derived from settlements with securities brokerage firms experiencing major supervisory lapses. Two of those cases involved broker-dealer agents who misappropriated client funds and prepared fraudulent statements improperly inflating the value of client holdings. The resulting settlements involved \$11.2 million in rescission being offered to affected investors and monetary fines of \$1,150,000. Another major case involved a firm's failure to implement adequate supervisory controls over market timing activity relating to mutual funds. That settlement resulted in a \$1,250,000 fine being imposed against the affected firm. In addition, the settlement directed the firm to pay 1) \$1,250,000 to the State of Connecticut Department of Education to promote financial literacy initiatives in Connecticut public schools and state-funded adult education programs; 2) \$1 million over three years to the State of Connecticut Department of Higher Education to promote financial literacy initiatives in Connecticut colleges and universities; 3) \$1.5 million over three years to the State of Connecticut Department of Social Services to promote financial literacy initiatives benefiting low-income and elderly persons in Connecticut; and 4) \$250,000 over two years to the National White Collar Crime Center to train Connecticut regulatory and law enforcement personnel in investigating, preventing and prosecuting financial fraud perpetrated on Connecticut senior citizens. Yet another supervisory case resulted from a multi-state investigation into the formerly widespread brokerage practice of permitting investment banking considerations to undermine the objectivity of securities analysts. That case resolution fined the firm \$227,240, and required that the firm remit an additional \$31,488 to the department to promote the agency's investor education efforts.

As issues surrounding the mortgage lending industry surged to the forefront, the Securities and Business Investments Division and the agency's Consumer Credit Division enhanced their coordinated regulatory efforts through increased information sharing. During

2007, two Connecticut-licensed mortgage lenders resolved allegations involving the sale of securities to finance the making of mortgage loans. The cases resulted in rescission offers of approximately \$16 million being extended to affected investors.

The division also provided assistance to federal prosecutors in a matter involving a Connecticut agent who was sentenced to seven years in prison for embezzling approximately \$5 million from elderly clients.

On the civil litigation front, the division successfully procured a permanent injunction against a recidivist investment adviser who had transacted business while unregistered.

In conjunction with the division's enforcement program, a total of 141 securities and business opportunity investigations were opened in 2007, 119 investigations were closed and 109 investigations were in progress as of December 31, 2007. Twenty-two cease and desist orders were entered and five denial, suspension or revocation orders were issued.

Of all the securities and business opportunity-related complaints and investigations handled, most were resolved at the administrative level prior to being closed. Many administrative resolutions of enforcement matters took the form of remedial stipulation and agreements and consent orders wherein the division sought corrective measures as well as monetary fines. Twenty consent orders and 9 stipulation and agreements were executed in calendar year 2007. Seven matters involved activity restrictions or the barring of affected individuals from securities-related activity or business opportunity sales in Connecticut. The division found the use of stipulation and agreements and consent orders to be an effective supplement to its array of enforcement tools.

During 2007, the division continued to monitor regulatory developments at the federal level. In conjunction with the Commissioner's office, the division filed with the Securities and Exchange Commission comment letters expressing the agency's views on 1) Release No. 33-8766 (Prohibition of Fraud by Advisers to Certain Pooled Investment Vehicles; Accredited Investors in Certain Private Investment Vehicles); and 2) Release No. 33-8814 (Electronic Filing and Simplification of Form D).

In an effort to further streamline industry filing procedures at the state level, the division announced that state-registered investment advisers had the option of filing Part II of Form ADV online through the Investment Adviser Registration Depository ("IARD"). This option became viable with a new Web CRD/IARD software release (Release 9.0) which was implemented on Monday, April 23, 2007.

The Securities and Business Investments Division continued publication of its quarterly Securities Bulletin, now delivered electronically, to advise the industry of new regulatory developments.

The division is assisted by a Securities Advisory Council, comprised of industry representatives, academics and members of the bar, all of whom serve without compensation, that offers the Commissioner and staff insight on proposed regulatory initiatives. On October 25,

2007, the Department held its annual Securities Forum in Cromwell, Connecticut. Presentations by Department speakers, Securities Advisory Council members and others kept securities industry members abreast of critical regulatory and compliance developments. Nearly 300 attendees from the securities industry and the private bar attended the event which featured four panel presentations and an opening general session on current regulatory developments. Karl Krapek, former president and Chief Operating Officer of United Technologies Corporation, delivered the keynote address.

On May 14, 2007, the department, the AARP and the Securities and Exchange Commission co-sponsored a "Safe Investing" Seminar for mature investors at the Aqua Turf Club in Plantsville, Connecticut. The seminar featured tips on protecting investors from fraud and abusive sales practices.

Ralph Lambiase, director of the Securities and Business Investments Division, continued his active participation in the North American Securities Administrators Association, Inc. (NASAA). Organized in 1919 and dedicated to investor protection, NASAA is a voluntary association whose membership consists of 67 state, provincial and territorial securities administrators in the 50 states, the District of Columbia, Canada, Mexico, Puerto Rico and the U.S. Virgin Islands. During 2007, Mr. Lambiase served on NASAA's Continuing Education Project Group.

**Securities Industry Registrants and Notice Filers  
As of Year End**

	2003	2004	2005	2006	2007	5 Year % Change
Broker-dealer firms	2,446	2,553	2,617	2,607	2,586	5.72
Broker-dealer agents	105,856	113,121	116,956	121,269	129,715	22.53
Broker-dealer branch offices	2,090	2,389	2,676	2,953	2,787	33.34
Investment Adviser firms	386	431	447	429	441	14.24
SEC Registered Investment Advisory Firms Filing Notice*	1,290	1,384	1,495	1,650	1,728	33.95
Investment Adviser Agents	5,810	6,380	7,119	7,683	8,687	49.51

\* Investment advisers subject to exclusive Securities and Exchange Commission registration pursuant to the National Securities Markets Improvement Act of 1996, Public Law 104-290.

**Registrations and Notice Filings  
Securities and Business Opportunities**

	2003	2004	2005	2006	2007	5 Year % Change
Offerings Reviewed	181	236	272	248	190	4.97
Investment Company Notice Filings*	6,884	7,703	7,459	8,016	8,380	21.73
Exemptions and Exemptive Notices†	2,118	2,689	3,151	3,371	3,510	65.72

\*Effective October 11, 1996, the National Securities Markets Improvement Act of 1996 (NSMIA), Public Law 104-290, preempted the states from registering securities offerings by investment companies subject to Securities and Exchange Commission oversight. State authority to require notice filings was preserved by the federal legislation.

†NSMIA also preempted the states from substantively reviewing private offerings under Rule 506 of federal Regulation D. State authority to require notice filings was preserved by the federal legislation.

**Examinations  
Broker-dealers and Investment Advisers**

	2007	2006
Broker-dealers	94	73
Investment Advisers	15	19

**Enforcement Activities  
Securities and Business Opportunities**

	2007	2006
Investigations Opened	141	137
Investigations Closed	119	124
Investigations in Progress	109	87
Subpoenas Issued	40	45
Administrative Actions	21	30
Consent Orders	20	22
Stipulation and Agreements	9	13
Notices of Intent to Deny (Licensing)	2	2
Notices of Intent to Revoke (Licensing)	2	3
Denial Orders (Licensing)	2	1
Suspension Orders (Licensing)	1	2
Revocation Orders (Licensing)	2	4
Notices of Intent to Fine	11	20
Orders Imposing Fine	7	9
Cease and Desist Orders	22	22
Activity Restrictions/Bars	7	11
Monetary Sanctions Imposed	\$5,458,090	\$4,466,480
Offered/Returned to Investors Following Informal Division Intervention	\$23,192,298	\$4,884,200
Criminal Referrals	5	4
Referrals to Connecticut Attorney General	0	1
Other Agency Referrals	3	10

## **GOVERNMENT RELATIONS AND CONSUMER AFFAIRS**

The Government Relations and Consumer Affairs Division provides assistance to the public with inquiries and complaints regarding banking, mortgage lending and other consumer credit matters, and securities and business opportunity issues. The division also directs the agency's legislative program, manages media relations and coordinates financial and investor education outreach efforts.

### ***Consumer Assistance***

As a fundamental part of its mission, the department is committed to protecting Connecticut citizens in transactions with financial institutions, as directed by state law, and in assisting with consumer complaints and dispute resolution. In 2007, examiners in the department's Government Relations and Consumer Affairs Division handled approximately 15,138 telephone inquiries and 2860 written complaints from the public. As a result of their efforts, the department obtained approximately \$1,861,900 in adjustments and reimbursements on behalf of consumers during the period.

A foreclosure assistance hotline was established in August 2007, the result of a recommendation by the Governor's Sub-Prime Mortgage Task Force. Between August 24, 2007 and December 31, 2007, the toll-free hotline received a total of 1,941 calls.

### ***Outreach***

The Government Relations and Consumer Affairs Division continued to provide educational outreach to the public, and focused its efforts on increasing the visibility of the Department as a source of information to consumers and investors. As part of this marketing effort, the Consumer Education section of the Web site was reorganized to place greater emphasis on the outreach program and to promote the agency's availability to give free informative talks and presentations.

During 2007 the outreach program reached a variety of audiences, including seniors, veterans and the disabled. Agency staff gave informative talks and presentations on topics including banking scams and fraud, consumer credit, identity theft and investing.

On May 14, 2007, the department, along with AARP-Connecticut and the U.S. Securities and Exchange Commission, hosted a "Safe Investing Seminar" for seniors. This free event featured experts from the three agencies who explained different investment opportunities and gave tips on avoiding fraud and detecting scam artists. The conference drew nearly 150 attendees.

In cooperation with the Governor's Office, the department was part of the Identity Theft Information Team which conducted a series of identity theft prevention seminars throughout the state, in the wake of a Department of Revenue Services employee's stolen laptop.

## ***Legislation***

Each year the Department of Banking, with the coordination of the Government Relations and Consumer Affairs Division, conducts an active legislative program. During the 2007 legislative session, three department proposals concerning consumer credit, securities and other issues were enacted into law.

*Public Act 07-72, An Act Making Technical Revisions to Various Statutes Relative to the Banking and Securities Laws of Connecticut*, makes technical changes to the banking statutes.

*Public Act 07-91, An Act Concerning Mortgage, Small Loan and Money Transmitter Licensees, Mortgage Loans and Emergency Orders of the Banking Commissioner and Adopting the Uniform Prudent Management of Institutional Funds Act*, makes a number of changes to the commissioner's authority. The act authorizes the banking commissioner to, under certain circumstances, require a person to take or refrain from taking actions, in order to effectuate the purposes of the law. It also consolidates statutes concerning mortgage closings, requires loan proceeds to be paid at loan consummation or when the right of rescission terminates, if one exists, and extends certain requirements to second mortgages.

In addition, *Public Act 07-91* allows the commissioner to adopt regulations and make necessary findings for the conduct of small loan licensees in their association with other businesses and the conduct of those associated businesses, rather than doing so just for the licensee. The legislation makes a number of changes to the money transmitter laws to specify that certain provisions apply to monetary value, rather than just money and Connecticut payment instruments. The act changes the duties of the advisory panel established to oversee the program that uses the interest on lawyers' clients' funds accounts (IOLTA). The act also provides guidelines for the management, investment, and expenditure of institutional funds by establishing the Uniform Prudent Management of Institutional Funds Act.

*Public Act 07-156, An Act Allowing Participation in the National Mortgage Licensing System*, allows the banking commissioner to participate in the national mortgage licensing system. The act requires mortgage originators to be licensed rather than registered; allows the system to process mortgage lender, broker, and originator licenses in Connecticut and receive and maintain related records; and makes a number of conforming changes regarding confidentiality, criminal history record checks, and license fees. The act also requires the banking commissioner to submit to the Banks Committee three consecutive annual reports, including financial statements of the State Regulatory Registry, LLC, on the licensing system.