

# State of Connecticut Department of Banking

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1837 to 2008  
Supervising Connecticut  
Financial Institutions  
For 171 Years

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## Annual Report Of the Banking Commissioner

To Her Excellency  
M. Jodi Rell, Governor

For the Year Ending December 31, 2008  
Hartford, Connecticut



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

I have the honor to submit the annual report of this department for the year 2008 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 (1900-2008) .....                 | 4           |
| DEPUTY BANKING COMMISSIONERS (1900-2008) .....          | 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..... | 24          |

**BANKING COMMISSIONERS  
(1900-2008)**

| <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.<br/> * Served as Acting Banking Commissioner from December 31, 1981 to March 30, 1982.<br/> ** Served as Acting Banking Commissioner from September 13, 1985 to February 2, 1986.<br/> *** Served as Acting Banking Commissioner from October 1, 2006 to March 7, 2007.</i></p> |             |           |

**DEPUTY BANKING COMMISSIONERS  
(1900-2008)**

| <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 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 division also directs the agency's legislative program, manages media relations, coordinates financial and investor education outreach efforts and handles calls to the Foreclosure Assistance Hotline. Other

divisions that support the agency are 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. The agency also has a full-time employee available to answer questions on rental security deposits. In December 2008 the agency's Legal Division was reorganized and attorneys were assigned directly to each line division.

As of December 31, 2008 there were 121 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, 2008 were as follows:

**Receipts**

|  |                      |
|--|----------------------|
| Examination of banks etc. assessed in accordance<br>with Section 36a-65, as amended .....  | \$ 2,024,918         |
| Examination of credit unions, assessed in accordance<br>with Section 36a-65, as amended .....  | 114,248              |
| Other license and examination fees .....   | 240,131              |
| Registration, filing and transfer fees from<br>securities brokers, etc. ....   | 10,301,200           |
| Registration of securities and business opportunities .....  | 4,897,860            |
| License and registration fees: mortgage brokers, loan originators,<br>check cashers, money transmitters, sales finance companies,<br>debt adjusters, collection agencies ..... | 2,111,352            |
| Penalties .....  | 595,050              |
| Sales and miscellaneous receipts .....   | <u>15,845</u>        |
| Total Receipts .....   | \$ <u>20,300,604</u> |

**Expenditures**

|  |                      |
|--|----------------------|
| Personnel services .....                               | \$ 9,847,251         |
| Fringe benefits .....                                  | 5,350,845            |
| Travel expenses, including motor vehicle rentals ..... | 409,057              |
| Other expenses .....                                   | 1,585,068            |
| Indirect overhead and equipment .....                  | <u>289,742</u>       |
| Total Expenditures .....                               | \$ <u>17,481,963</u> |

## **CONSUMER CREDIT DIVISION**

The Consumer Credit Division is responsible for regulating the activities of 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.

### ***Licensing***

On July 1, 2008, the Department of Banking began participation in the National Mortgage Licensing System. This allows all Connecticut mortgage lenders to apply for licenses and renew existing licenses on a national database. During this time period, Connecticut changed from having separate licenses for first mortgage activity and secondary mortgage activity to a combined license for both first and secondary mortgage activity.

### ***Examination and Enforcement***

During 2008 the Consumer Credit Division continued to increase focus on enforcement. Department actions against licensees and related entities increased, with 266 actions taken against licensees or registrants totaling \$1,996,250 in civil penalties.

The Division conducted 393 examinations of licensees under their jurisdiction. The examinations included review of state statutes, with \$451,375.44 being refunded to consumers.

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

During 2008, the Consumer Credit Division conducted 304 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 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 47 small loan licenses in effect on December 31, 2007. As of December 31, 2008, 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>2007</b>   | <b>2008</b>   | <b>% Change</b> |
|------------------------------|---------------|---------------|-----------------|
| Loans Outstanding #          | 46,194        | 23,024        | (50.16)         |
| Loans Outstanding \$         | \$278,485,252 | \$133,433,658 | (52.09)         |

| <b>Closed – End Loans</b> | <b>2008<br/>Number of Transactions</b> | <b>2008<br/>Dollar Amount</b> |
|---------------------------|--|-------------------------------|
| Total                     | 40,575                                 | \$98,132,323                  |
| Secured                   | 27,336                                 | \$8,161,786                   |
| Unsecured                 | 13,239                                 | \$89,970,537                  |

| <b>Other Business<br/>Conducted on the Same<br/>Premises as the Licensee</b> | <b>2008<br/>Number of Transactions</b> | <b>2008<br/>Dollar Amount</b> |
|--|--|-------------------------------|
| First Mortgages  | 754                                    | \$97,804,272                  |
| Second Mortgages   | 2509                                   | \$90,972,428                  |

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

There were 216 sales finance company licenses in effect on December 31, 2007. As of December 31, 2008, there were 197 sales finance company licensees.

During 2008, 21 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 33 entities licensed to offer bona fide non-profit debt adjustment services on December 31, 2007. As of December 31, 2008, there were 32 licensed debt adjusters.

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

There were 893 consumer collection agency licenses in effect on December 31, 2007. As of December 31, 2008, 935 consumer collection agencies were licensed.

During 2008, 35 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.

There were 54 money transmitter licenses in effect on December 31, 2007. As of December 31, 2008, there were 57 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 2008, one money transmitter examination was 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.

There were 101 check casher licenses in effect on December 31, 2007. As of December 31, 2008, 112 check cashers were licensed to do business in Connecticut.

During 2008, 45 examinations were conducted reviewing compliance with both state and federal statutes and regulations.

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

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

There were 5,175 mortgage loan licensees on December 31, 2007. As of December 31, 2008, there were 2,175 licensees. The decrease in licensees was not only due to the closure of many companies, but the combining of first and secondary mortgage licensees into one single license.

During 2008, 272 first 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, 2008, there were 17 state-chartered commercial banks and 22 state-chartered savings banks. There were no state-chartered savings and loan associations operating in Connecticut as of December 31, 2008.

State-chartered commercial banks and state-chartered savings, collectively, reported total assets of \$28.0 billion as of December 31, 2008, a \$1.7 billion or 6.5% increase from the \$26.3 billion reported as of December 31, 2007. Aggregate deposits totaled \$19.0 billion as of December 31, 2008, a \$0.9 billion or 5.0% increase from the \$18.1 billion reported for the prior year-end; while aggregate equity capital declined by 2.0% year-over-year from \$3.45 billion to \$3.38 billion.

In the aggregate, state-chartered banks’ earnings performance for the year-ended December 31, 2008 declined from the prior year level, generating an average return on assets (ROA) and return on equity (ROE) of 0.38% and 2.97%, respectively, compared to the ROA of 0.56% and ROE of 4.24% for the year-ended December 31, 2007. The decline in earnings is primarily attributable to an increase in securities losses and provision expenses, which offset an increase in net interest income.

**Number of Connecticut-Chartered Banks & Credit Unions  
(As of December 31, 2007 & December 31, 2008)**

| <b>Institution Type</b>             | <b>Institutions 12/31/2007</b> | <b>De Novo Activity</b> | <b>Closed</b> | <b>Net Change</b> | <b>Institutions 12/31/2008</b> |
|-------------------------------------|--------------------------------|-------------------------|---------------|-------------------|--------------------------------|
| Connecticut-Chartered Commercial    | 15                             | 2                       |               | 2                 | 17                             |
| Connecticut-Chartered Savings       | 22                             |                         |               |                   | 22                             |
| Uninsured Banks                     | 1                              |                         |               |                   | 1                              |
| Connecticut-Chartered LPTC          | 2                              |                         |               |                   | 2                              |
| Connecticut-Chartered Credit Unions | 38                             |                         | -1            | -1                | 37                             |
| <b>Totals</b>                       | <b>78</b>                      | <b>2</b>                | <b>-1</b>     | <b>1</b>          | <b>79</b>                      |

***State-Chartered Commercial Banks***

There were 17 state-chartered commercial banks operating in the State as of December 31, 2008. Two de novo banks, The Bank of Fairfield and Quinnipiac Bank & Trust Company, were added in 2008. The 16 state-chartered commercial banks operating as of June 30, 2008 collectively operated 42 offices with aggregate deposits totaling \$1.7 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, 2008. There were no changes during 2008. The 22 state-chartered savings banks operating as of June 30, 2008 collectively operated 321 offices with aggregate deposits totaling \$16.5 billion.

***Uninsured Bank***

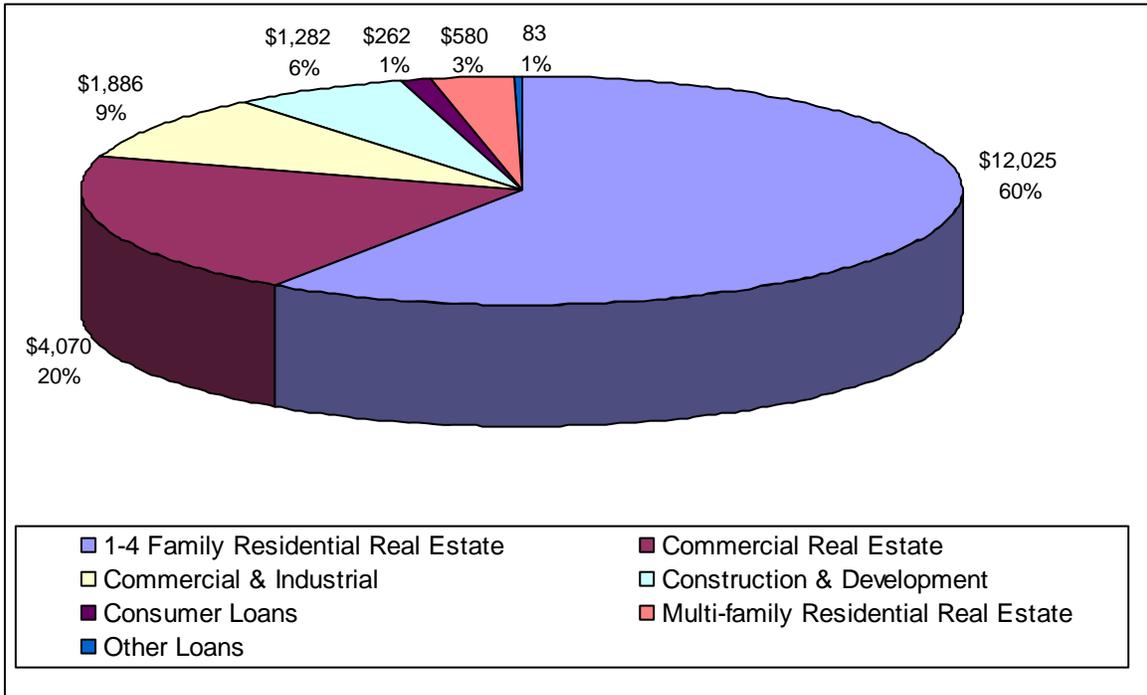
UPS Capital Business Credit (“UPSCBC”), a wholly-owned subsidiary of UPS Capital Corp., operates under an uninsured depository bank charter and does not accept retail deposits. UPSCBC focuses on originating, underwriting, and managing various small business and government guaranteed loan products.

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

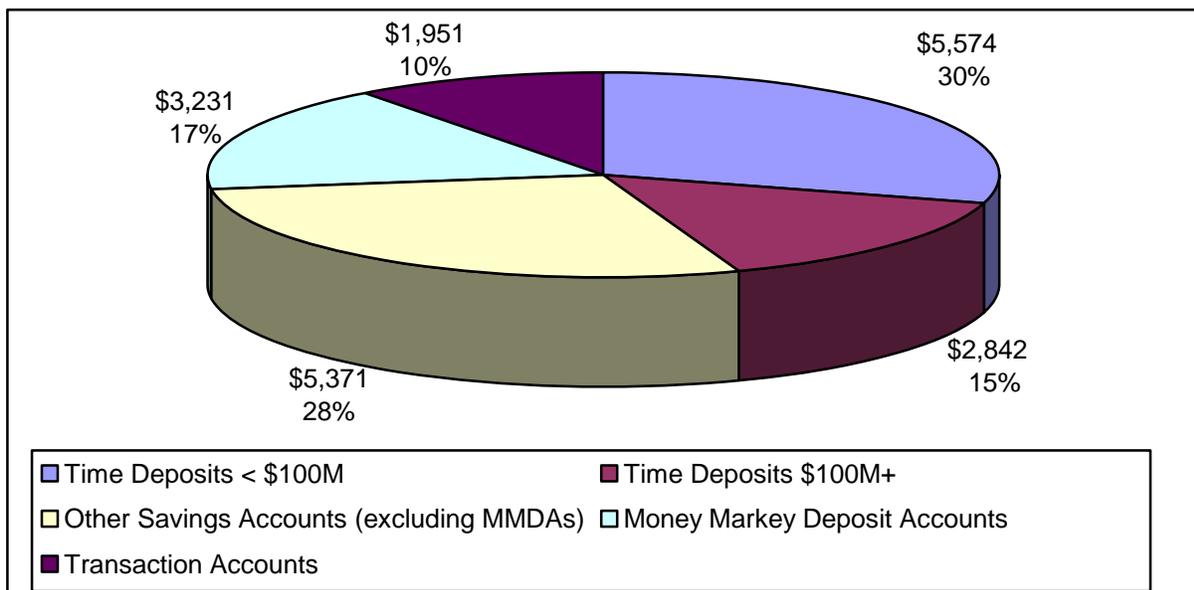
There were two Connecticut-chartered limited-purpose trust companies operating in the State as of December 31, 2008 with managed assets totaling \$15.9 billion.

*Bank Gross Loans and Leases and Deposits Composition*

**Gross Loans & Leases of Connecticut-chartered Banks  
December 31, 2008  
(in millions)**



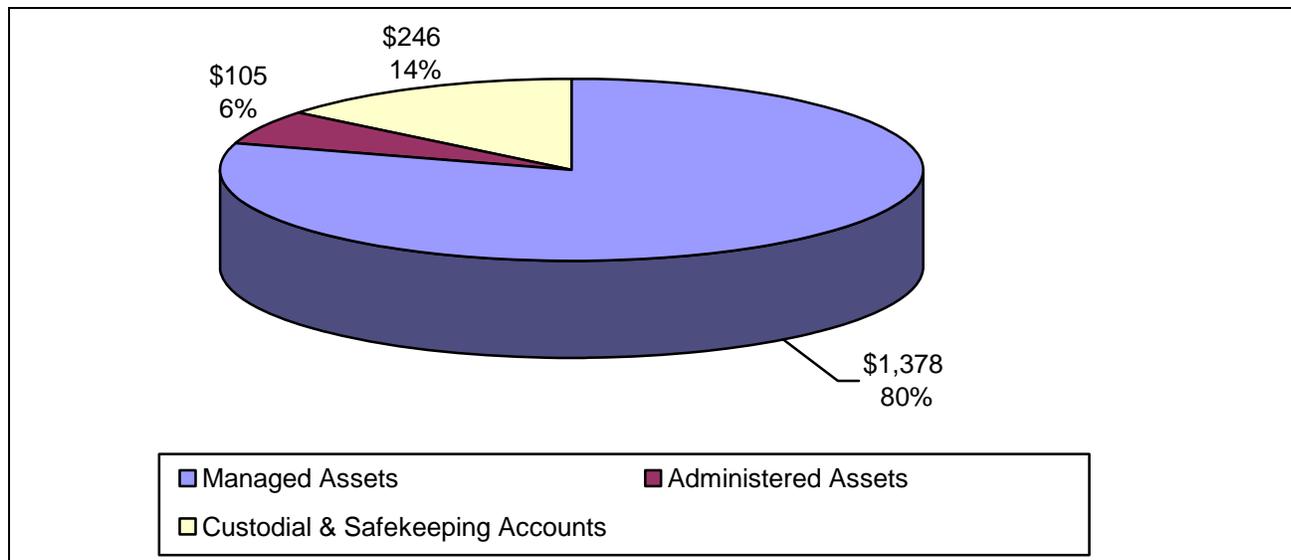
**Deposits of Connecticut-chartered Banks  
December 31, 2008  
(in millions)**



### *Trust Assets*

As of December 31, 2008, 9 state-chartered banks operated trust departments with aggregate managed assets totaling \$1.7 billion.

**Trust Assets of Connecticut-Chartered Banks  
December 31, 2008  
(in millions)**



### *State-Chartered Credit Unions*

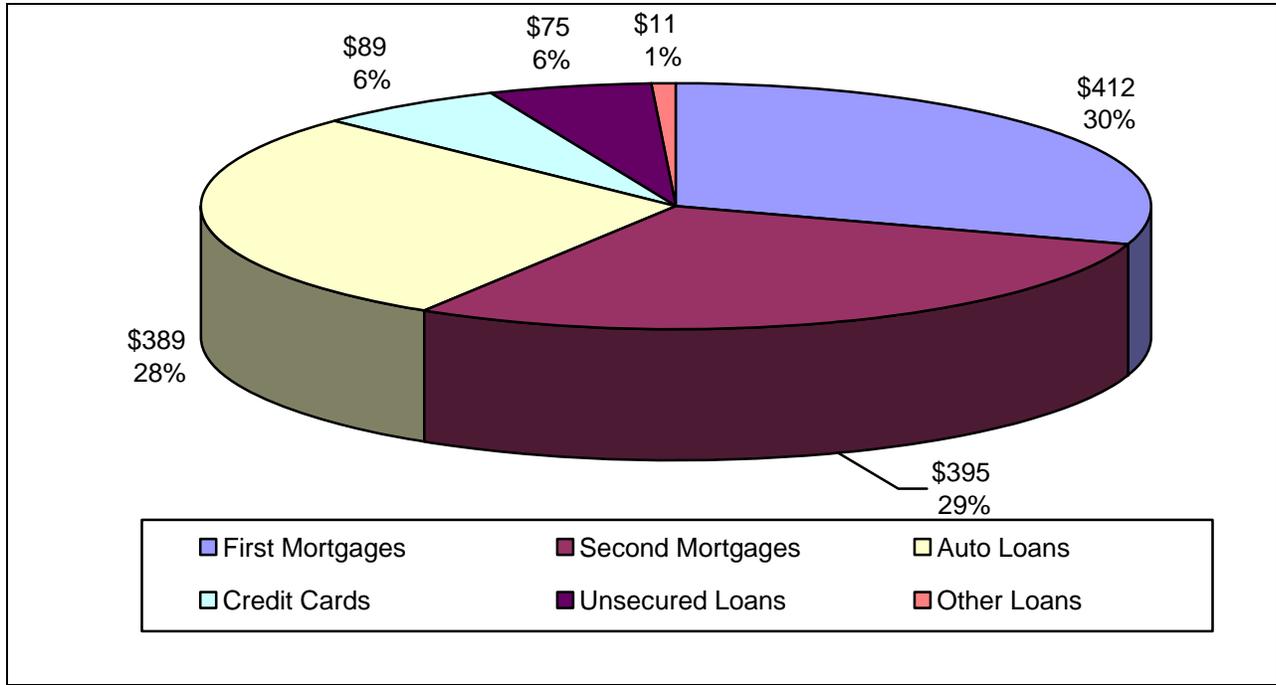
As of December 31, 2008, there were 37 Connecticut-chartered credit unions operating in the State. One credit union, West Hartford Credit Union, Inc., was placed into receivership with the National Credit Union Administration being appointed as temporary receiver, reducing the aggregate number of Connecticut-chartered credit unions from 38 as of the prior year-end.

State-chartered credit unions reported total assets of \$3.0 billion as of December 31, 2008, approximately a \$350 million or 13.2% increase from the \$2.7 billion reported as of the prior year-end. Aggregate shares and deposits totaled \$2.6 billion as of December 31, 2008, a \$258 million or 11.2% increase from the \$2.3 billion reported for the prior year-end. Net worth for state-chartered credit unions increased by \$12.3 million or 4.1% from year-end 2007 to year-end 2008.

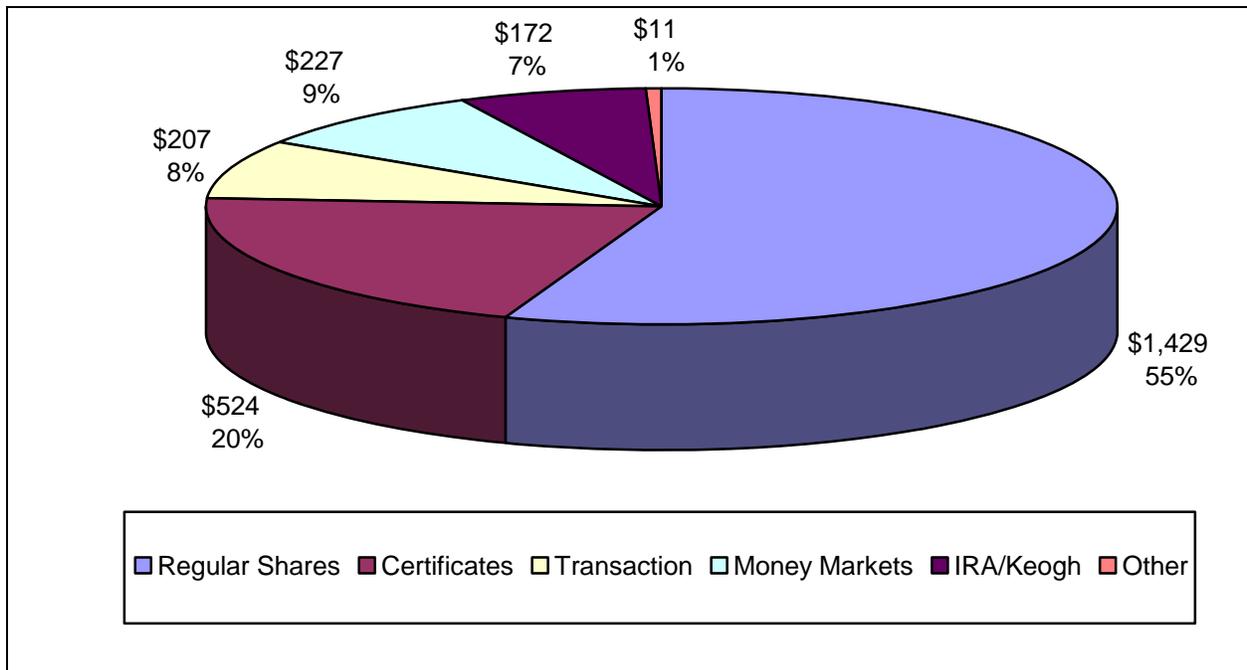
State-chartered credit unions' earnings performance for year-end December 31, 2008 declined slightly from the prior year level, generating an average return on assets (ROA) of 0.44% versus the ROA of 0.46% for year-end 2007. This decrease is attributed to a respective slight decline in the net interest margin from 2.55% to 2.52%.

*Credit Union Loans and Shares/Deposits Composition*

**Loans of Connecticut-Chartered Credit Unions  
December 31, 2008  
(in millions)**



**Share Deposits of Connecticut-Chartered Credit Unions  
December 31, 2008  
(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**

| <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        | 10                 | 12                  | 0                       | 0                                | 0                         |
| Connecticut-chartered Commercial Banks <sup>1</sup> | 17        | 0                  | 14                  | 0                       | 0                                | 2                         |
| Connecticut-chartered Credit Unions <sup>2</sup>    | 37        | 1                  | 9                   | 0                       | 0                                | 0                         |
| <b>Totals</b>                                       | <b>76</b> | <b>11</b>          | <b>35</b>           | <b>0</b>                | <b>0</b>                         | <b>2</b>                  |

<sup>1</sup> Bankers’ Bank, Northeast 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 December 31, 2008, ten state-chartered credit unions met these criteria.

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

In addition to the 39 Connecticut-chartered, insured depository institutions operating in the State as of December 31, 2008, there were 2 banks chartered by states other than Connecticut, 17 national banks regulated by the Office of the Comptroller of the Currency, and 16 federal savings associations regulated by the Office of Thrift Supervision

#### **Deposit Market Share by Charter Type As of June 30, 2008**

| <b>Institution Type</b>                | <b>No. of Institutions as of 6/30/08</b> | <b>Deposits as of 6/30/08 [millions]</b> | <b>No. of Offices as of 6/30/08</b> | <b>Market Share as of 6/30/08</b> |
|--|--|--|-------------------------------------|-----------------------------------|
| Connecticut-chartered Savings Banks    | 22                                       | 16,515                                   | 321                                 | 19.9%                             |
| Connecticut-chartered Commercial Banks | 16                                       | 1,688                                    | 42                                  | 2.0%                              |
| Other State-chartered                  | 2  | 108                                      | 5                                   | 0.1%                              |
| National Banks*                        | 17*                                      | 50,372                                   | 661                                 | 60.5%                             |
| Federal Savings Associations**         | 16**                                     | 14,519                                   | 276                                 | 17.5%                             |
| <b>Totals</b>                          |  |  |                                     | <b>100.0%</b>                     |

\* Eight National Banks are headquartered in Connecticut.

\*\* Ten Federal Savings Associations are headquartered in Connecticut.

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

In addition to the 37 Connecticut-chartered credit unions operating in the State as of December 31, 2008, there was one credit union chartered by a state other than Connecticut, 106 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, 2008, there were 4 branch offices of foreign banking organizations operating in the State. Additionally, foreign banking organizations operated 2 representative offices as of December 31, 2008.

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.

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

| <b>Institution Name</b>           | <b>Office Type</b> | <b>Location</b> | <b>Approval/<br/>License<br/>Date</b> | <b>Assets<br/>As of<br/>12/31/06</b> | <b>Assets<br/>As of<br/>12/31/07</b> | <b>Assets<br/>As of<br/>12/31/08</b> |
|-----------------------------------|--------------------|-----------------|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|                                   |                    |                 |                                       | (in millions)                        | (in millions)                        | (in millions)                        |
| Abbey Nat'l Treasury Services plc | Branch             | Stamford        | 09/17/01                              | \$13,482                             | \$12,516                             | \$9,942                              |
| Bank of Ireland                   | Branch             | Stamford        | 06/15/06                              | \$5,154                              | \$10,029                             | \$16,003                             |
| Lloyds TSB Offshore Limited       | Rep.               | Stamford        | 12/22/06                              | 0                                    | 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                                   | \$2*                                 | \$5*                                 |
| UBS AG                            | Branch             | Stamford        | 06/23/97                              | \$50,517                             | \$71,179                             | \$55,366                             |

\* 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 2008, Securities and Business Investments Division intervention resulted in restitution and rescission offers to the investing public totaling \$625,474. In addition, the division imposed \$7,465,100 in fines for violations of the state's securities and business opportunity laws, up approximately 37% from the preceding year.

Greater public interest in energy issues lead to a resurgence in oil and gas scams. In one case, the department imposed fines totaling \$6,675,000 against a Kansas issuer for fraudulently selling oil and gas interests to Connecticut residents. In imposing the fine, the Commissioner noted that the Respondents' conduct was egregious inasmuch as the investments were sold to inexperienced investors; no risks were disclosed; the sales agents received as much as 50% of the investment as a commission; and all of the investors lost money.

Supervisory and recordkeeping lapses related to frequent trading in investment company securities prompted the agency to levy a \$50,000 assessment against the issuer. In addition, the issuer agreed to contribute \$300,000 to the State of Connecticut Department of Education to promote financial literacy in Connecticut public middle schools.

Additional settlements involved licensing, securities registration and sales practice violations by brokerage firms and investment advisers. One such case, which included allegations of misleading sales scripts, resulted in the imposition of a \$50,000 fine against the affected brokerage firm, and a requirement that the firm pay \$50,000 to the National White Collar Crime Center for the purpose of training Connecticut regulatory and law enforcement personnel in prosecuting financial fraud perpetrated on Connecticut senior citizens.

The division also provided assistance to federal prosecutors in a matter involving a former Waterbury resident who pled guilty in Bridgeport federal court to one count of mail fraud related to a fraudulent investment scheme. The division also provided assistance to state prosecutors in a matter involving an Alabama man who, after pleading guilty to Larceny in the

First Degree, was sentenced in Norwalk Superior Court to six years in prison. The individual had previously been fined \$230,000 by the department for committing securities fraud.

In conjunction with the division's enforcement program, a total of 147 securities and business opportunity investigations were opened in 2008, 105 investigations were closed and 132 investigations were in progress as of December 31, 2008. Sixteen cease and desist orders were entered.

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. Thirteen consent orders and six stipulation and agreements were executed in calendar year 2008. Six matters involved activity restrictions or the barring of affected individuals from securities-related activity 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 2008, the division continued to monitor regulatory developments at the federal level, including filing proposals to restructure the regulation of the financial services industry.

In addition, the Securities and Business Investments Division streamlined the filing requirements for securities private placements in light of SEC Release No. 33-8891 which mandates electronic filing at the federal level by March 15, 2009. The Division communicated the new requirements to affected filers via the agency's website.

The Securities and Business Investments Division also 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 23, 2008, the Department held its 20<sup>th</sup> annual Securities Forum in Stamford, 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 six panel presentations and an opening general session on New Directions for the Financial Services Industry. Yale University Professor Robert Shiller, author of the book *Subprime Solution: How the Global Financial Crisis Happened and What to Do About It*, delivered the keynote address.

On September 24, 2008, the department and AARP Connecticut co-sponsored a "Safe Investing" Seminar for mature investors at the Four Points by Sheraton hotel in Meriden, Connecticut. The seminar featured tips on protecting investors from fraud and abusive sales practices. The Division also continued its investor outreach program through additional speaking engagements at senior centers and other venues throughout the state.

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 2008, Mr. Lambiase served on NASAA's Broker-dealer Section Committee.

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

|  | 2004    | 2005    | 2006    | 2007    | 2008    | 5 Year %<br>Change |
|--|---------|---------|---------|---------|---------|--------------------|
| Broker-dealer firms  | 2,553   | 2,617   | 2,607   | 2,586   | 2,566   | .50                |
| Broker-dealer agents                                       | 113,121 | 116,956 | 121,269 | 129,715 | 131,788 | 16.50              |
| Broker-dealer branch offices                               | 2,389   | 2,676   | 2,953   | 2,787   | 2,757   | 15.40              |
| Investment Adviser firms                                   | 431     | 447     | 429     | 441     | 448     | 3.94               |
| SEC Registered Investment<br>Advisory Firms Filing Notice* | 1,384   | 1,495   | 1,650   | 1,728   | 1,831   | 32.29              |
| Investment Adviser Agents                                  | 6,380   | 7,119   | 7,683   | 8,687   | 9,300   | 45.76              |

\* 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

|                                    | 2004  | 2005  | 2006  | 2007  | 2008  | 5 Year %<br>Change |
|------------------------------------|-------|-------|-------|-------|-------|--------------------|
| Offerings Reviewed                 | 236   | 272   | 248   | 190   | 174   | (26.27)            |
| Investment Company Notice Filings* | 7,703 | 7,459 | 8,016 | 8,380 | 8,597 | 11.60              |
| Exemptions and Exemptive Notices†  | 2,689 | 3,151 | 3,371 | 3,510 | 3,130 | 16.40              |

\*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**

|                     | 2008 | 2007 |
|---------------------|------|------|
| Broker-dealers      | 137  | 94   |
| Investment Advisers | 54   | 15   |

**Enforcement Activities  
Securities and Business Opportunities**

|  | 2008        | 2007        |
|--|-------------|-------------|
| Investigations Opened  | 147         | 141         |
| Investigations Closed  | 105         | 119         |
| Investigations in Progress   | 132         | 109         |
| Subpoenas Issued   | 47          | 40          |
| Administrative Actions   | 17          | 21          |
| Consent Orders   | 13          | 20          |
| Stipulation and Agreements   | 6           | 9           |
| Notices of Intent to Deny (Licensing)                                  | 0           | 2           |
| Notices of Intent to Revoke (Licensing)                                | 0           | 2           |
| Denial Orders (Licensing)  | 0           | 2           |
| Suspension Orders (Licensing)  | 0           | 1           |
| Revocation Orders (Licensing)  | 1           | 2           |
| Notices of Intent to Fine  | 8           | 11          |
| Orders Imposing Fine   | 7           | 7           |
| Cease and Desist Orders  | 16          | 22          |
| Activity Restrictions/Bars   | 6           | 7           |
| Monetary Sanctions Imposed   | \$7,465,100 | \$5,458,090 |
| Offered/Returned to Investors Following Informal Division Intervention | \$625,474   | \$4,884,200 |
| Criminal Referrals   | 7           | 4           |
| Referrals to Connecticut Attorney General                              | 1           | 1           |
| Other Agency Referrals   | 2           | 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 2008, examiners in the department's Government Relations and Consumer Affairs Division handled approximately 16,045 telephone inquiries and 3,041 written complaints from the public. As a result of their efforts, the department obtained approximately \$2,054,000 in adjustments or reimbursements on behalf of consumers during the period. In addition, the Division handled 4,828 calls to its Foreclosure Assistance Hotline in 2008.

### ***Outreach***

The Government Relations and Consumer Affairs Division increased its effort to educate the public through outreach. In 2008 agency employees conducted numerous talks and presentations throughout the state on issues including banking scams, identity theft and investor fraud and protection. The audiences included union groups, rotary clubs, veterans, seniors and professional organizations.

In the spring of 2008 department staff actively participated in a series of housing fairs organized by the Connecticut Housing Finance Authority for homeowners concerned about foreclosure. The fairs were held in Norwich, Waterbury, Hartford, Bridgeport and New Haven. In the fall of 2008 another round of housing fairs was held in Vernon, Bridgeport, East Hartford, Norwalk and Meriden.

The department continued to develop a strong working relationship with AARP-Connecticut. On June 24, 2008 the Department of Banking and AARP-Connecticut co-hosted a free event at the North End Senior Center in Hartford, entitled, "Safe Investor Seminar: Avoiding Investor and Consumer Fraud." This free event featured presentations by agency staff on protecting your nest egg, avoiding securities fraud and preventing identity theft.

Staff from the agency's Securities Division conducted a series of educational workshops at senior centers throughout Connecticut in the spring and summer of 2008. In coordination with AARP-Connecticut, these presentations were designed to help older consumers learn about common scams, make informed investment decisions and protect themselves from fraudulent practices.

On September 24, 2008, the Department of Banking and AARP-Connecticut co-hosted a "Safe Investing Seminar" at the Four Points by Sheraton in Meriden. Panelists included state and federal securities regulators and local law enforcement, in addition to experts from the Elder Services Bureau of the Office of the Chief State's Attorney and Connecticut TRIAD, the financial fraud and crime prevention program for seniors. Nearly 75 people attended this free conference, which was funded by a grant from the Investor Protection Trust.

In cooperation with the Governor's Office, the Department of Banking and the Connecticut Insurance Department collaborated in a series of "Financial Forums" to address residents' concerns over the safety of their investments, mortgages and bank accounts. Five presentations were held in October 2008 in North Haven, Hartford, Waterbury, Bridgeport and Norwalk.

### ***Legislation***

Each year the department, with the coordination of the Government Relations and Consumer Affairs Division, conducts an active legislative program. During the 2008 legislative session, one department proposal was enacted into law, *Public Act 08-119, An Act Concerning Bank and Credit Union Authority and Nondepository Licenses*.

*Public Act 08-119* allows the banking commissioner to, under certain circumstances, approve temporary offices or other facilities to provide banking and credit union services to the customers of certain state and foreign banks or credit unions affected by an emergency. The legislation also allows the commissioner to waive or suspend statutory or regulatory requirements for up to 90 days in order to further rapid restoration of services after an emergency if the laws might impede the recovery and restoration of financial services.

In addition, the department worked closely with the Governor's Office and the Banks Committee in seeking passage of *Public Act 08-176, An Act Concerning Responsible Lending and Economic Security*. This act specifically authorizes the Connecticut Housing Finance Authority (CHFA) to continue the CT FAMILIES refinancing program and implement mortgage refinancing and emergency mortgage assistance programs. It allows CHFA to develop and implement a program for it to purchase foreclosed Connecticut property and turn the property into supportive and affordable housing. The act requires WorkPlace, Inc., in conjunction with the other regional workforce development boards and the one-stop centers, to establish a mortgage crisis job training program. The act also requires the chief court administrator, by July 1, 2008, to establish a foreclosure mediation program in each judicial district. The program ends in 2010.

*Public Act 08-176* establishes a number of requirements for mortgage loans (mainly for nonprime loans) and for mortgage professionals making those loans. The act makes a number of additional regulatory changes for the Department of Banking, including increasing bond requirements for lenders and brokers. It also combines first and second mortgage professionals and makes a number of changes to the National Mortgage Licensing requirements adopted under *Public Act 07-156*.