

State of Connecticut Department of Banking

1837 to 2012
Supervising Connecticut
Financial Institutions
For 175 Years

Annual Report Of the Banking Commissioner

To His Excellency
Dannel P. Malloy, Governor

For the Year Ending December 31, 2012
Hartford, Connecticut



To His Excellency, Dannel P. Malloy, Governor

I have the honor to submit the annual report of this department for the year 2012 pursuant to the requirements of Section 36a-14 of the Connecticut General Statutes.

Respectfully yours,

Howard F. Pitkin
Banking Commissioner

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**BANKING COMMISSIONERS
(1900-2012)**

BANKING COMMISSIONERS	FROM	TO
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
(1900-2011)**

DEPUTY BANKING COMMISSIONERS	FROM	TO
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	2011

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, originators and loan processors/underwriters; consumer collection agencies; debt adjusters; debt negotiators; 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, rental security deposits 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.

As of December 31, 2012, there were 112 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, expenditures and adjustments relating to the fiscal year ending June 30, 2012 were as follows:

Receipts

Examination of banks etc. assessed in accordance with Section 36a-65, as amended	2,380,071
Examination of credit unions, assessed in accordance with Section 36a-65, as amended	170,658
Other license and examination fees	211,259
Registration, filing and transfer fees from securities brokers, etc.	20,168,715
Registration of securities and business opportunities	4,933,523
License and registration fees: mortgage brokers, loan originators, check cashers, money transmitters, sales finance companies, small loan companies, debt adjusters, debt negotiators, collection agencies	3,686,810
Penalties	1,920,016
Sales and miscellaneous receipts	<u>647</u>
Total Receipts	\$ 33,471,699

Expenditures

Personnel services	\$ 10,024,495
Fringe benefits	6,265,109
Travel expenses, including motor vehicle rentals	305,960
Other expenses	994,589
Indirect overhead and equipment	<u>859,534</u>
Total Expenditures	\$ 18,449,687

Fund Adjustments

Transferred to the General Fund (PA 12-104).....	\$ 1,178,551
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CONSUMER CREDIT DIVISION

Subject to the general supervision of the Banking Commissioner, the Consumer Credit Division is charged with administering Chapter 668 of the Connecticut General Statutes, Nondepository Financial Institutions, and Chapter 669 of the Connecticut General Statutes, Regulated Activities.

The Division is responsible for the licensing and examination of the following nondepository financial institutions: mortgage lenders, brokers and originators; sales finance companies; small loan lenders; check cashing services; payment instrument providers; money transmitters; debt adjusters; debt negotiators; and consumer collection agencies. The Division is also responsible for the enforcement of the state's banking laws related to these entities and for regulating certain activities regarding: collection practices of creditors; interest and finance charge rebates; consumer credit reporting; mortgage processing; mortgage servicing; mortgage insurance; Connecticut abusive home loan lending practices; other mortgage and loan practices; retail installment sales financing; and the Truth-in-Lending Act.

Activities

During 2012, the Consumer Credit Division continued to implement enhancements to the Nationwide Mortgage Licensing System and Registry (NMLS) by uploading the disciplinary actions taken against mortgage licensees since the effective date of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 ("S.A.F.E. Act"). Subsequently, NMLS Consumer Access now allows the public to view licensing information as well as over 186 related administrative actions taken by the Commissioner against mortgage related licensees. In addition, effective October 1, 2012, the Division began accepting licensing applications for Loan Processor/Underwriters and currently maintains 8 such licenses.

The Division remained focused on the debt negotiation industry, with the investigation of 122 entities. In addition to being unlicensed, a number of these companies charged consumers excessive fees with promises of debt settlement, loan modifications or the halting of foreclosure proceedings. Due to a number of complaints received involving law firms, the Division continued to work closely with the Office of Chief Disciplinary Counsel and the Office of the Attorney General. For all other entities and/or individuals subject to the Division's jurisdiction, the staff investigated 238 cases, resulting in \$649,349 being refunded to consumers.

The Division conducted 104 examinations of licensees under its jurisdiction and issued 277 administrative actions, resulting in the imposition and collection of \$527,000 in civil penalties. In addition, consumers received refunds in the amount of \$203,623.83, as a result of the examination findings of improper conduct and/or calculations.

**Enforcement Activities
Consumer Credit Division**

	2012
Investigations Opened *	242
Investigations Closed *	142
Investigations in Progress *	126
Subpoenas Issued	23
Consent Orders	43
Settlement Agreements	2
Notices of Intent to Refuse to Renew (Licensing)	25
Refusing to Renew Orders (Licensing)	26
Notices of Intent to Revoke (Licensing)	11
Denial Orders (Licensing)	12
Summary Suspension Orders (Licensing)	2
Automatic Suspension Orders (Licensing)	6
Revocation Orders (Licensing)	9
Notices of Intent to Impose Civil Penalty	24
Orders Imposing Civil Penalty	49
Notices of Intent to Issue Cease and Desist Orders	29
Temporary Cease and Desist Orders	18
Cease and Desist Orders	16
Findings of Fact Conclusions of Law and Order	3
Activity Restrictions/Bars	2
Repayment of Fees Ordered	\$16,331
Repayment of Fees Collected	\$3,229
Monetary Sanctions Imposed	\$1,580,500
Monetary Sanctions Collected	\$527,000
Offered/Returned to Consumers Following Informal Division Intervention	\$649,349
Criminal Referrals	3
Referrals to Connecticut Attorney General	4
Other Agency Referrals	16

* Does not include MLO application investigations, also does not include multiple complaints involving same entity

**Examinations / Investigations
Consumer Credit Division**

	Examinations 2012	Investigations 2012
Mortgage Brokers, Mortgage Lenders, Mortgage Correspondent Lenders and Mortgage Loan Originators	36	166
Money Transmitters	0	2
Check Cashers	5	10
Consumer Collection Agencies	31	36
Debt Adjusters	3	1
Debt Negotiators	0	122
Small Loan Companies	3	20
Sales Finance Companies	26	1
Other	0	2

**Consumer Credit Licensees
As of Year End**

	2012
Licensed Mortgage Companies	572
Mortgage Loan Originators	5,110
Money Transmitters	75
Check Cashers	153
Consumer Collection Agencies	970
Debt Adjusters	51
Debt Negotiators	8
Small Loan Companies	8
Sales Finance Companies	143
Loan Processor/Underwriter	8

FINANCIAL INSTITUTIONS DIVISION

The Financial Institutions Division (“Division”) is responsible for the supervision and regulation of Connecticut-chartered commercial banks, savings banks, savings and loan associations, limited-purpose trust companies and credit unions. The Division also regulates one Connecticut-chartered bankers’ bank, as well as one uninsured bank which does not accept retail deposits. In addition, the Division supervises the activities of state-licensed 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.

Connecticut-Chartered Banks’ Consolidated Financial Condition & Operating Results

As of December 31, 2012, there were 13 Connecticut-chartered commercial banks (including one bankers’ bank) and 21 Connecticut-chartered savings banks. There were no Connecticut-chartered savings & loan associations. All Connecticut-chartered commercial banks and savings institutions are insured by the Federal Deposit Insurance Corporation (“FDIC”).

Connecticut-chartered commercial banks and savings institutions, collectively, reported total assets of \$23.3 billion as of December 31, 2012, a 0.06% increase from December 31, 2011. Total loans and total deposits for year-end 2012 were \$16.8 billion and \$18.3 billion, respectively. The values represent a 0.27% increase in total loans and a 1.06% increase in total deposits from year-end 2011. Total equity capital was \$2.6 billion, a 0.80% increase from the prior year-end. Overall, Connecticut-chartered commercial banks and savings institutions, collectively, remained well capitalized with a combined Equity Capital to Total Assets Ratio of 11.18% as of December 31, 2012, compared to 11.10% as of December 31, 2011.

In the aggregate, Connecticut-chartered banks’ earnings performance for year-end 2012 slightly increased from the prior year level, generating a return on average assets (“ROA”) and a return on average equity (“ROE”) of 0.45% and 4.03%, respectively, compared to the ROA of 0.42% and ROE of 3.87% for the year ending December 31, 2011. The net interest margin (“NIM”) for Connecticut-chartered institutions was 3.41% for year-end 2012 versus 3.46% for year-end 2011. This slight decrease in NIM performance was attributable to a reduction in earning asset yields which outpaced overall lower funding costs within a low interest rate environment.

Overall, loan and deposit volume for Connecticut-chartered institutions, collectively, slightly increased despite the April 20, 2012 merger of Connecticut Bank & Trust Company, Hartford, CT, with and into Berkshire Bank, Pittsfield, MA, and the November 16, 2012 merger of New England Bank, Enfield, CT, with and into United Bank, West Springfield, MA.

**Number of Connecticut-Chartered Institutions
(As of December 31, 2011 & December 31, 2012)**

Institution Type	Institutions 12/31/2011	De Novo Opening	Closing	Merger/ Acquisition	Net Change	Institutions 12/31/2012
Commercial Banks	15			(2)		13
Savings Banks	21					21
Uninsured Banks	1					1
Limited Purpose Trust Cos.	2					2
Credit Unions	34			(4)		30
Totals	73	0	0	(6)	0	67

Connecticut-Chartered Commercial Banks

There were 13 Connecticut-chartered commercial banks operating in the State as of December 31, 2012, including one bankers' bank. Overall, there was a reduction of two in the number of commercial banks from year-end 2011 due to mergers. On April 20, 2012, Connecticut Bank & Trust Company, Hartford, CT, merged with and into Berkshire Bank, Pittsfield, MA, a Massachusetts savings bank. In addition, on November 16, 2012, New England Bank, Enfield, CT, merged with and into United Bank, West Springfield, MA, a federal savings bank.

As of June 30, 2012, the 14 Connecticut-chartered commercial banks collectively operated 48 offices with aggregate deposits of \$2.5 billion. Within the Connecticut market, this group of institutions operated 44 offices with aggregate deposits of \$2.4 billion.

Connecticut-Chartered Savings Banks

There were 21 Connecticut-chartered savings banks (14 mutual and seven capital stock institutions) operating in the State as of December 31, 2012. There was no change in the number of savings banks from the prior year-end.

As of June 30, 2012, the 21 Connecticut-chartered savings banks collectively operated 287 offices with aggregate deposits of \$15.9 billion. Within the Connecticut market, this group of institutions operated 286 offices with aggregate deposits of \$15.8 billion.

Connecticut-Chartered Uninsured Bank

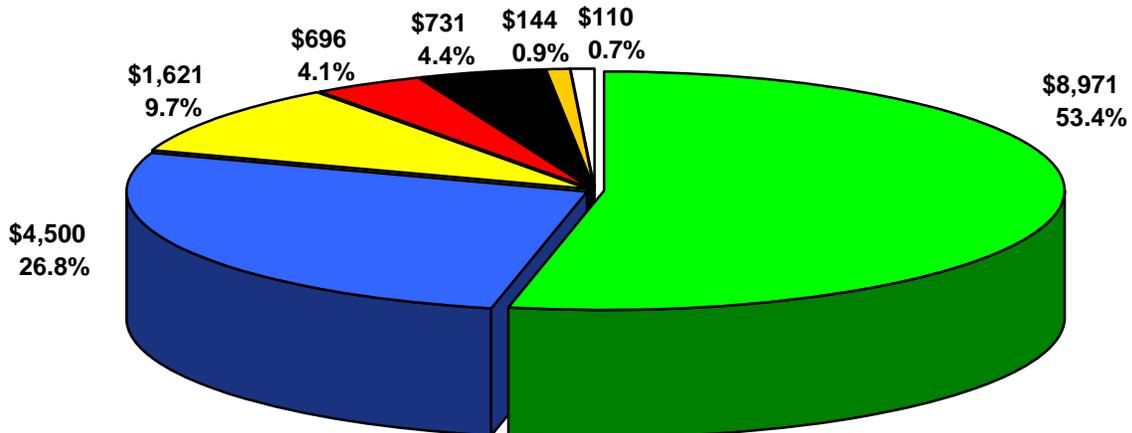
UPS Capital Business Credit ("UPSCBC"), a wholly-owned subsidiary of UPS Capital Corp., operates under an uninsured depository bank charter and does not accept retail deposits. UPSCBC focuses on originating, underwriting, and managing various small business and government guaranteed loan products.

Connecticut-Chartered Limited Purpose Trust Companies

There were two Connecticut-chartered limited purpose trust companies operating in the State as of December 31, 2012 with fiduciary and related trust assets of \$79.5 billion. This total consisted of \$38.1 billion in managed assets and \$41.4 billion in non-managed assets.

Connecticut-Chartered Banks' Gross Loans & Leases and Total Deposits Composition

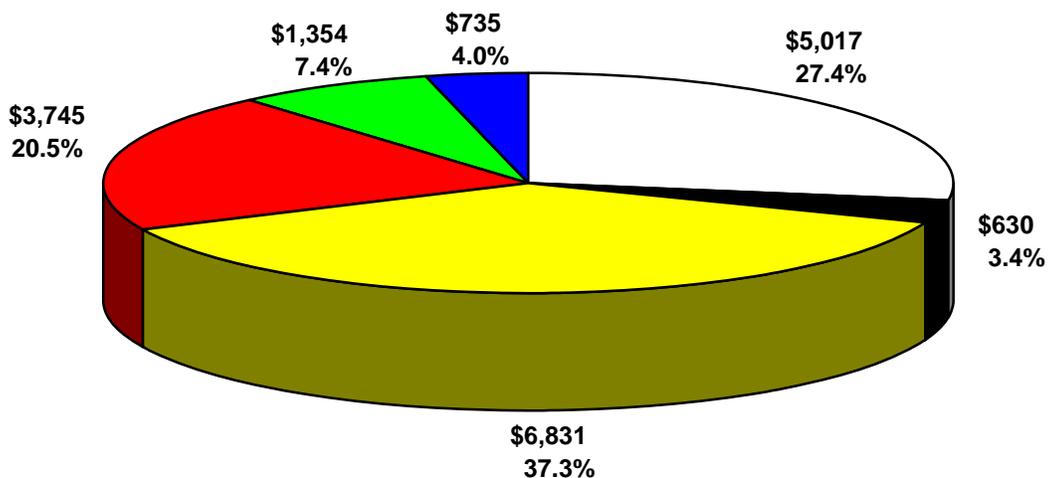
**Gross Loans & Leases of Connecticut-Chartered Banks
December 31, 2012
(millions & %)**



■ 1-4 Family Residential RE	■ Nonfarm Nonresidential Commercial RE
■ Commercial & Industrial	■ Construction & Land Development
■ Multi-Family (5+) Residential RE	■ Loans to Individuals
□ Other Loans & Leases	

The graph above does not include Farmland & Farm Loans totaling \$10.7 million or 0.06% of gross loans.

**Total Deposits of Connecticut-Chartered Banks
December 31, 2012
(millions & %)**

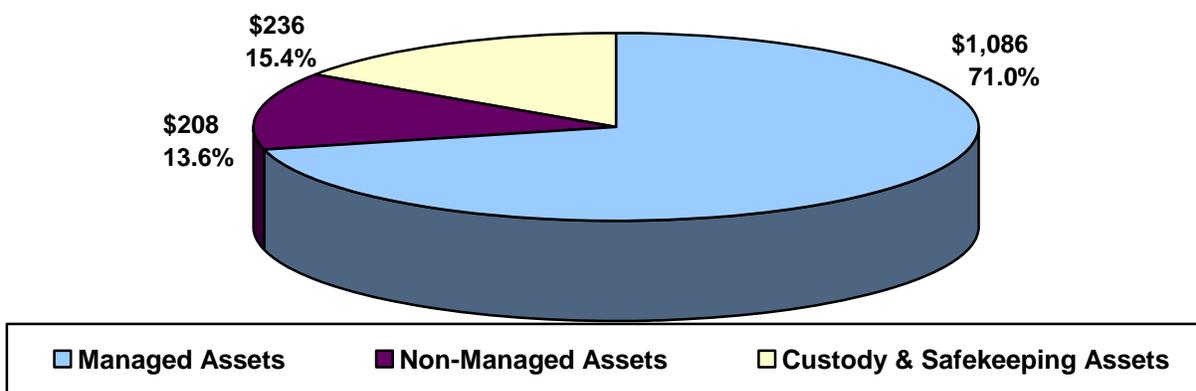


□ Time Deposits <= \$250M	■ Time Deposits > \$250M
■ Other Savings Accounts	■ Money Market Deposit Accounts
■ Demand Deposit Accounts (DDAs)	■ Transaction Accounts (excluding DDAs)

Connecticut-Chartered Banks' Fiduciary & Related Trust Assets

As of December 31, 2012, seven Connecticut-chartered banks operated trust departments with fiduciary and related trust assets of \$1.3 billion, consisting of \$1.1 billion in managed assets and \$208 million in non-managed assets, with an additional \$236 million in custody and safekeeping assets.

**Fiduciary & Related Trust Assets of Connecticut-Chartered Banks
December 31, 2012
(millions & %)**



Connecticut-Chartered Credit Unions

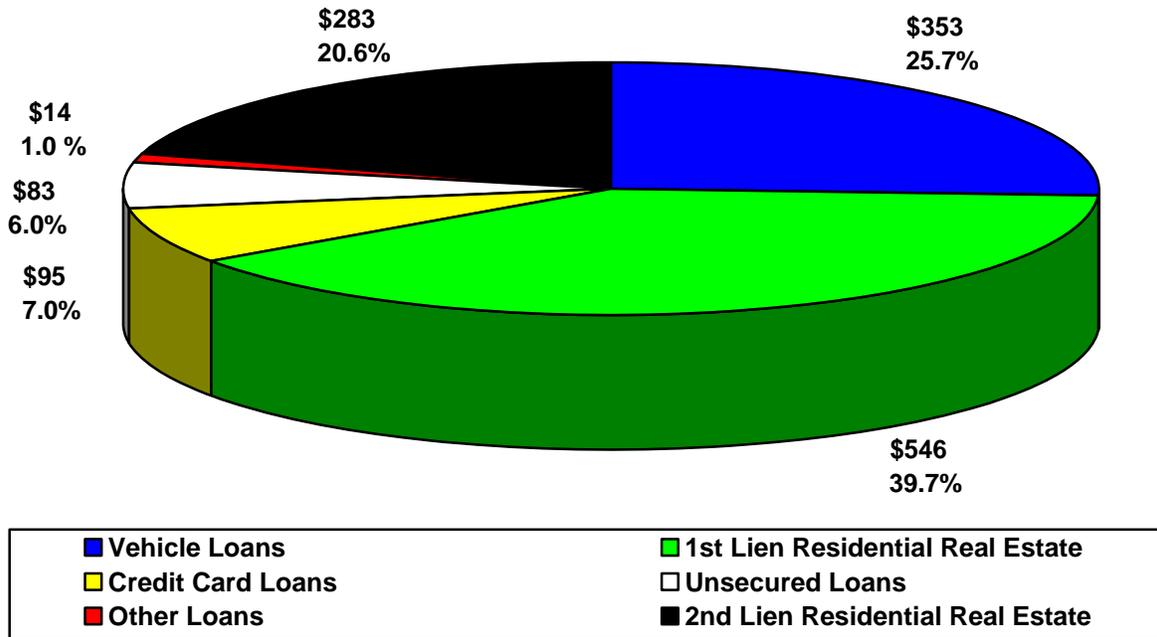
As of December 31, 2012, there were 30 Connecticut-chartered credit unions operating in the State. Overall, there was a reduction of four in the number of credit unions from year-end 2011 due to mergers. On January 31, 2012, Enbic Employees Credit Union, Inc., Simsbury, CT, merged with and into 360 Federal Credit Union, Windsor Locks, CT, a federally-chartered credit union. On May 1, 2012, Connecticut Energy Employees Credit Union, Bridgeport, CT, merged with and into Mutual Security Credit Union, Shelton, CT, a Connecticut-chartered credit union. On October 1, 2012, Hartford Postal Employees Credit Union, Wethersfield, CT, merged with and into American Eagle Federal Credit Union, East Hartford, CT, a federally-chartered credit union. Lastly, on December 31, 2012, The Greater Norwalk Area Credit Union, Norwalk, CT, merged with and into NEA Federal Credit Union, Bardonia, NY, a federally-chartered credit union.

Connecticut-Chartered Credit Unions' Consolidated Financial Condition & Operating Results

Connecticut-chartered credit unions reported total assets of \$3.6 billion as of December 31, 2012, a 4.0% increase from December 31, 2011. Aggregate shares and deposits totaled \$3.3 billion as of year-end 2012, a 2.8% increase from year-end 2011. Total loans were \$1.4 billion as of December 31, 2012, a 1.9% increase from December 31, 2011. Total equity capital for Connecticut-chartered credit unions was \$337.5 million for 2012, a 1.7% increase versus 2011. Connecticut-chartered credit unions' earnings performance for 2012 decreased slightly from the prior year level, generating a ROA of 0.30% versus 0.37% for 2011. There was also a slight decrease in the NIM between years from 2.27% to 2.03%. The primary reason for the decrease in earnings was lower interest income on loans which outpaced an overall reduction in dividends paid on shares and deposits within a low interest rate environment.

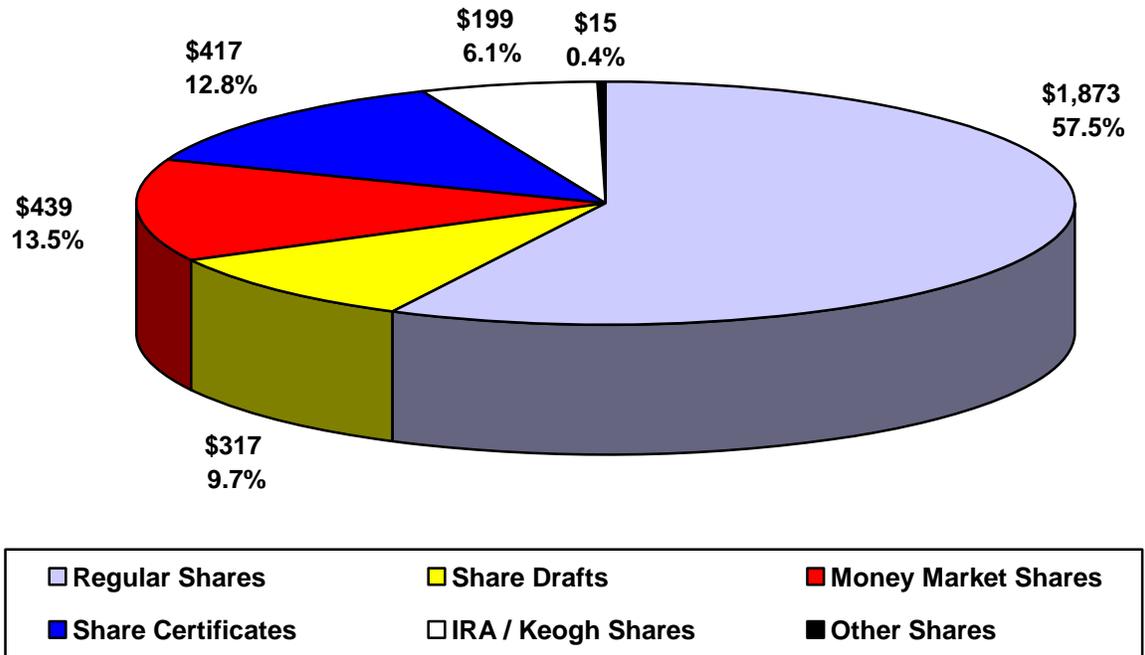
Connecticut-Chartered Credit Unions' Total Loans and Total Shares/Deposits Composition

**Total Loans of Connecticut-Chartered Credit Unions
December 31, 2012
(millions & %)**



The graph above does not include Loans Held For Sale totaling \$962 thousand or 0.07% of total loans.

**Total Shares/Deposits of Connecticut-Chartered Credit Unions
December 31, 2012
(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 December 31, 2012**

Institution Type	#	Outstanding	Satisfactory	Needs to Improve	Substantial Noncompliance	New Institution Not Rated
Connecticut-chartered Savings Banks	21	5	16	0	0	0
Connecticut-chartered Commercial Banks ¹	13	0	11	0	0	1
Connecticut-chartered Credit Unions ²	30	1	8	0	0	0
Totals	64	6	35	0	0	1

¹ Bankers’ Bank, Northeast is not rated for CRA purposes.
² CRA examinations are performed only for community credit unions with total assets over \$10 million. As of December 31, 2012, 9 Connecticut-chartered credit unions met this criteria.

Federal & Out-of-State Banks

In addition to the 34 Connecticut-chartered, insured depository institutions operating in the State as of December 31, 2012, there were four banks chartered by a state other than Connecticut, 20 national banks and 12 federal savings associations regulated by the Office of the Comptroller of the Currency. Of the 20 national banks, seven institutions are headquartered in Connecticut. Of the 12 federal savings banks, 10 institutions are headquartered in Connecticut.

**Connecticut Deposit Market Share by Charter Type
As of June 30, 2012**

Institution Type	Number of Institutions	Deposits in Market (\$000s)	Number of Offices in Market	Deposit Market Share %
Connecticut-chartered Savings Banks	21	15,844,620	286	15.4%
Connecticut-chartered Commercial Banks	14	2,393,461	44	2.3%
Other State-chartered Banks [1]	4	571,935	12	0.6%
National Banks [2]	20	68,784,584	723	67.0%
Federal Savings Associations [3]	12	15,056,605	228	14.7%
Totals	71	\$102,651,205	1,293	100.0%

[1] Excludes one institution chartered by a state other than Connecticut which operates three loan production offices in Connecticut and does not accept deposits.

[2] As of June 30, 2012, seven national banks were headquartered in Connecticut.

[3] As of June 30, 2012, 10 federal savings associations were headquartered in Connecticut, one of which operated as a trust company with one office.

Federal & Out-of-State Limited Purpose Trust Companies

In addition to the two Connecticut-chartered limited purpose trust companies operating in Connecticut as of December 31, 2012, there was one limited purpose trust company chartered by a state other than Connecticut; one federally-chartered savings bank operating exclusively as a limited purpose trust company and headquartered in Connecticut; and, one national bank operating as a limited purpose trust company and headquartered out-of-state.

Federal & Out-of-State Credit Unions

In addition to the 30 Connecticut-chartered credit unions operating in the State as of December 31, 2012, there were 95 federally-chartered credit unions headquartered in Connecticut, 10 federally-chartered credit unions headquartered out-of-state, and one credit union chartered by a state other than Connecticut. All credit unions operating in Connecticut are insured by the National Credit Union Administration.

Foreign Banking Organizations

As of December 31, 2012, there were four branch offices of foreign banking organizations operating in the State. Additionally, one foreign banking organization operated one representative office as of December 31, 2012.

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 United States, often soliciting business for the account of the head office.

Foreign Banking Organizations Operating In Connecticut

Institution Name	Office Type	CT Location	Approval/ License Date	Assets As of 12/31/2010 (\$ millions)	Assets As of 12/31/2011 (\$ millions)	Assets As of 12/31/2012 (\$ millions)
Abbey National Treasury Services plc	Branch	Stamford	9/17/2001	13,131	11,490	7,793
Bank of Ireland	Branch	Stamford	6/15/2006	2,998	1,409	1,006
Royal Bank of Scotland N.V.	Rep. Office	Stamford	11/4/2010	0	0	0
Royal Bank of Scotland plc	Branch	Stamford	5/3/2007	30,742	7,053	8,421
UBS AG	Branch	Stamford	6/23/1997	60,531	52,838	39,871

Business and Industrial Development Corporations

As of December 31, 2012, there was one business and industrial development corporation (“BIDCO”), Business Lenders, LLC, which was licensed by the Division and operating in the State.

Persons engaged in the business of a BIDCO as a participating lender under the loan guarantee programs of the federal Small Business Administration (“SBA”) in Connecticut must be licensed by the Banking Commissioner. Any person licensed by the SBA as a small business investment company or a small business lending company, banks or credit unions, and any person not approved or not seeking approval by the SBA as a participating lender under one or more of its loan guarantee programs is exempt from the provisions of the Connecticut Business and Industrial Development Corporation Act.

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 2012, the Division successfully transitioned a significant number of investment advisers from federal registration to state registration, resulting in an increase of approximately 25% in the state investment advisory registration base. The change was required by Title IV of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), Pub. L. No. 111-203, which became effective on July 21, 2011. Prior to Dodd-Frank, Congressional legislation dictated that the states could only register smaller investment advisers, i.e., those whose assets under management were \$25 million or less. Larger investment advisers were generally required to register with the federal Securities and Exchange Commission (the "SEC"). Dodd-Frank increased the ceiling for state investment adviser registration from \$25 million to \$100 million in assets under management, thus expanding state registration authority to a larger number of investment advisers.

The Division also monitored the progress of the Jumpstart Our Business Startups Act (the "JOBS Act"), federal legislation enacted in April 2012 to foster capital formation, and shared the agency's views with members of the Connecticut Bar Association during a presentation on April 12, 2012. Although the JOBS Act preempted state regulation of crowdfunding, the Division joined other states in voicing concerns over a possible increase in fraud if the provisions were not carefully implemented.

During calendar year 2012, Securities and Business Investments Division intervention resulted in restitution and rescission offers to the investing public totaling \$7,216,934. In addition, the Division imposed \$2,291,481 in fines for violations of the state's securities and business opportunity laws.

With the economic downturn, the Division also pursued a greater number of enforcement cases featuring promises of exorbitant investment returns and the misappropriation of investor funds. The Division also settled several matters involving licensing, securities registration and supervisory lapses by brokerage firms and investment advisers.

The Division continued to face special challenges in 2012 stemming from staff attrition; the need to reallocate staff based on an increased investment adviser regulation workload post-

Dodd-Frank; and an increase in the number of cases involving complex fact patterns or securities fraud.

In conjunction with the Division's enforcement program, a total of 79 securities and business opportunity investigations were opened in 2012, 74 investigations were closed and 86 investigations were in progress as of December 31, 2012. Eleven 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 2012. Five 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.

The Securities and Business Investments Division also continued online publication of its quarterly Securities Bulletin, now delivered via listserv, 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. The Division obtained critical input from Advisory Council members in formulating the Division's response to the Dodd-Frank legislation.

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

	2008	2009	2010	2011	2012	5 Year % Change
Broker-dealer firms	2,566	2,498	2,430	2,385	2,294	(10.60)
Broker-dealer agents	131,788	130,796	144,376	152,071	145,877	10.69
Broker-dealer branch offices	2,757	2,733	2,713	2,699	2,690	(2.43)
Investment Adviser firms	448	460	474	472	545	21.65
SEC Registered Investment Advisory Firms Filing Notice*	1,831	1,781	1,880	1,900	1,865	1.85
Investment Adviser Agents	9,300	9,666	10,332	10,835	10,863	16.80

* 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**

	2008	2009	2010	2011	2012	5 Year % Change
Offerings Reviewed	174	132	168	145	151	(13.21)
Investment Company Notice Filings*	8,597	7,811	8,749	8,769	8,879	3.28
Exemptions and Exemptive Notices†	3,130	2,500	2,548	2,813	2,703	(13.64)

*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**

	2012	2011
Broker-dealers	64	80
Investment Advisers	91	97

**Enforcement Activities
Securities and Business Opportunities**

	2012	2011
Investigations Opened	79	93
Investigations Closed	74	137
Investigations in Progress	86	133
Subpoenas Issued	43	74
Administrative Actions	19	21
Consent Orders	13	27
Stipulation and Agreements	6	3
Notices of Intent to Deny (Licensing)	0	1
Notices of Intent to Revoke (Licensing)	1	3
Denial Orders (Licensing)	0	1
Suspension Orders (Licensing)	1	0
Revocation Orders (Licensing)	3	2
Notices of Intent to Fine	9	10
Orders Imposing Fine	11	10
Cease and Desist Orders	11	11
Activity Restrictions/Bars	5	9
Monetary Sanctions Imposed	\$2,291,481	\$2,157,601
Offered/Returned to Investors Following Informal Division Intervention	\$7,216,934	\$20,048,874
Criminal Referrals	5	7
Referrals to Connecticut Attorney General	2	2
Other Agency Referrals	3	3

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, rental security deposits and securities and business opportunity issues. The Division 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 2012, examiners in the department's Government Relations and Consumer Affairs Division handled approximately 10,943 telephone inquiries and 2,891 written complaints from the public. As a result of their efforts, the department obtained \$2,001,356 in adjustments or reimbursements on behalf of consumers during the period. In addition, the Division handled 5,011 calls to its Foreclosure Assistance Hotline in 2012 and responded to 1,166 emailed inquiries. During 2012, the Division received approximately 168 complaints and 2,630 telephone inquiries related to rental security deposits and recovered \$74,431.60 for tenants.

Outreach

The primary focus of the agency's educational outreach program is to inform and educate Connecticut's consumers and investors to help them make informed financial decisions and avoid fraud and scams. Helping Connecticut homeowners prevent foreclosure remains a major component of the department's outreach initiatives.

The Government Relations and Consumer Affairs Division coordinates outreach efforts on behalf of the Department of Banking. In 2012, agency staff took part in approximately 50 events, including 41 speaking engagements, on topics ranging from debt management and credit repair to investment fraud and being an informed investor. To assist homeowners having mortgage problems, division personnel continued to participate in monthly foreclosure prevention clinics during the year, conducting presentations and providing one-on-one counseling to homeowners.

Following the success of the November 2011 *Homeowners Mortgage Assistance Event*, the Department of Banking joined with Governor Dannel P. Malloy and Attorney General George Jepsen to sponsor three more conferences in 2012. These events provided an opportunity for troubled borrowers to meet directly with their mortgage company or a housing counselor to discuss options and find appropriate workout solutions. The 2012 *Homeowner Mortgage Assistance Events* were held on March 29, 2012 at the Webster Bank Arena in Bridgeport; on July 10, 2012 at the University of Connecticut in Storrs; and on November 28, 2012 at the Conference Center at CoCo Key in Waterbury. Approximately 2,500 people attended these events in 2012.

In 2012, Division staff had the honor of giving presentations to military personnel. A presentation took place in February at the Groton Submarine Base to approximately 1,100 sailors on banking scams and fraud targeting the military. On November 18, 2012, Division staff represented the agency and addressed a group of soldiers preparing to deploy to Kuwait at the Connecticut National Guard's *Yellow Ribbon* event in Windsor Locks.

On May 4, 2012, the Department of Banking partnered with the Connecticut Area Health Education Center and the Connecticut Center for Primary Care to teach a Continuing Medical Education class as part of the Elder Investment Fraud and Financial Exploitation Prevention Program. The program, funded by a grant from the Investor Protection Trust, trains physicians, adult protective services professionals and other caregivers to identify and assist those individuals at risk of elder investment fraud. The course took place during Grand Rounds at the University of Connecticut Health Center in Farmington, and was "video conferenced" live to a class at St. Vincent Hospital in Bridgeport.

Connecticut libraries continue to seek speakers from the Department of Banking for their programs. In the spring and fall of 2012, agency staff gave four presentations at the Fairfield Public Library as part of the library's series, entitled *Reinvent Your Financial Future*. Agency staff led three informative sessions on choosing a financial planner and a program which provided an understanding of personal banking products as financial planning tools. Government Relations and Consumer Affairs staff conducted a 3-week series at the Southington Library, with presentations on avoiding foreclosure, debt management and reverse mortgages.

In partnership with the Western Area Agency on Aging, the Department of Banking sponsored two *Senior Financial Fraud Seminars*. In April 2012, a program was held at the Redding Community Center. A second event took place in May 2012 at Noble Horizons, a retirement community in Salisbury, Connecticut. Attendees learned important information about choosing an investment adviser, and common sense tips to help avoid investment fraud.

Legislation

Each year the Department, with the coordination of the Government Relations and Consumer Affairs Division, conducts an active legislative program. During the 2012 legislative session, three agency proposals were combined into one omnibus bill by the Banks Committee and enacted into law. *Public Act 12-96, An Act Concerning Revisions to the Banking Statutes*, broadens the Banking Commissioner's investigatory powers, and enables him to order restitution and disgorgement for banking law violations without seeking a court order. The act also makes several changes to mortgage licensing provisions.