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TO THE
HOUSE COMMITTEE ON
CONSUMER PROTECTION AND COMMERCE

THE TWENTY-SIXTH STATE LEGISLATURE
REGULAR SESSION OF 2012

Monday, March 12, 2012
2:10 p.m.

TESTIMONY ON S.B. NO. 2761, S.D. 2
RELATING TO FINANCIAL INSTITUTIONS

THE HONORABLE ROBERT N. HERKES, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department") in strong support of administration bill, Senate Bill No. 2761, S. D. 2.

The Division of Financial Institutions ("DFI") provides numerous services for Hawaii's financial institutions and the public. DFI provides regulatory oversight for Hawaii's financial institutions, including the review of financial institution applications for new applications, change in control, stock purchases, and new branch locations, all done without charging a fee. Currently, the fees for the regulation of financial institutions are

low, and have not been reviewed since the 1993 recodification of the financial institutions laws. The proposed new fee structure comports with the regulatory oversight by DFI as the federal and state laws and the financial institution company organizations become more complex to review and analyze.

DFI has met with the interested parties and we have arrived at a compromise fee structure which is embodied in the S.D. 2.

DFI would like request that due to an oversight, the amendment to section 412:2-105, Hawaii Revised Statutes, needs correction. The current examination fee of \$60 was inadvertently left out of the list of fees, assessments, and fines. We request that it be added as a new item (42) on page 11 as:

(42) \$60 per hour per examiner for the cost of the examination of all financial institutions examined by the commissioner or the commissioner's staff.

Overview of Division of Financial Institutions Budget

The Division of Financial Institutions ("DFI") bases its budget requests on the amount of revenue generated from programs plus the \$2.0 million from the franchise tax. For each year, we calculate the amount of revenues less the expenditures to determine the initial amount of the funds available. DFI will end FY2012 in a \$14,000 deficit and FY2013 and FY2014 in an \$800,000 deficit.

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In order to be self-sustaining, DFI must seek additional fees to attempt (1) to keep pace with costs to DFI, as the time spent on this licensee increased due to the increased regulatory oversight required by recent federal regulations (Dodd-Frank Act) and (2) to replace and expand the funding source should DFI not receive its share of the franchise tax.

Financial Institution Program Costs

All costs are based on staff time charged at \$60 an hour, which is a fraction of the actual costs for the staff time spent on reviewing applications from financial institutions. The increased review time has been steadily increasing since the implementation of the Dodd-Frank Act. DFI expects that the regulatory oversight and review of applications will continue to increase as we work with CFPB (Consumer Finance Protection Bureau).

For these reasons, the Division strongly supports administrative bill, Senate Bill No. 2761, S.D. 2, and respectfully asks that the measure be passed with the suggested amendment.

Thank you for the opportunity to testify. I would be pleased to respond to any questions you may have.

HAWAII FINANCIAL SERVICES ASSOCIATION

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March 12, 2012

Rep. Robert N. Herkes, Chair
and members of the House Committee on Consumer Protection & Commerce
Hawaii State Capitol
Honolulu, Hawaii 96813

Re: **Senate Bill 2761, SD 2 (Financial Institutions)**
Hearing Date/Time: Monday, March 12, 2012, 2:10 p.m.

I am Marvin Dang, the attorney for the **Hawaii Financial Services Association** ("HFSA"). The HFSA is a trade association for Hawaii's consumer credit industry. Its members include Hawaii financial services loan companies (which make mortgage loans and other loans, and which are regulated by the Hawaii Commissioner of Financial Institutions), mortgage lenders, and financial institutions.

The HFSA opposes this Bill as drafted.

The stated purpose of this Bill is to establish or amend certain regulatory fees charged by the Division of Financial Institutions for the review and analysis of financial institution requests.

However, under this Bill, the Division of Financial Institutions ("Division") will create new fees and increase other fees for financial institutions such as financial services loan companies.

Some of the 41 fees that are listed in Section 1 of this Bill (pages 1 through 11) are new fees (e.g. reviewing and approving the relocation of a principal office or branch). Others are increases of existing fees. These fee increases don't seem to take into account the type or size of the financial institution (e.g. a small non-depository financial services loan company rather than a larger financial institution).

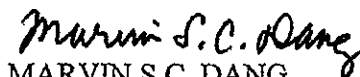
Another example is a 50% increase in the hourly rate for examinations (from \$40 to \$60 per hour). Because the number of hours that state examiners spend at a financial services loan company can vary, the exact dollar amount of this increase is difficult to estimate. However, it will definitely be at least 50% more than the thousands of dollars in fees that are presently being paid by a financial services loan company for each examination.

In Section 2 of this Bill (pages 13 through 14), the amount that some of the smaller non-depository financial services loan company will pay as an annual fee could increase from what is currently about \$600 - \$1,100 (depending on the size of the company and the number of its branches) to \$5,000. These are increases of about 350% to over 700%.

The fees as stated in this Bill will negatively impact and financially burden non-depository financial services loan companies and thereby hinder Hawaii's economic recovery.

If you are inclined to pass this Bill, we ask that you leave in the "defective" effective date in Section 23 to encourage further discussion between financial services loan companies and the Division.

Thank you for considering our opposition to this Bill as drafted.



MARVIN S.C. DANG

Attorney for Hawaii Financial Services Association